

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 3

Division/Agency: Agricultural Policy Division

Topic: RIRDC relocation costs

Proof Hansard page: 18

Senator CAMERON asked:

Senator CAMERON: Have you got documentation on the business case to stay as is?

Mr Burns: We provided the numbers on what it would cost to relocate.

Senator CAMERON: Could you provide that detail to the Senate?

Mr Burns: We were asked to provide them to the department, so I would suggest it is perhaps the department's call on that. I am not trying to avoid it.

Senator CAMERON: What is your view on that, Mr Quinlivan? Is it the department or Mr Burns? The Senate would like to see these documents.

Mr Quinlivan: I would have to take that on notice and consult the minister.

Answer:

As advised by Mr Burns Managing Director Rural Industries Research and Development Corporation (RIRDC) during the estimates hearing, the cost of the move to Wagga Wagga is approximately \$1.4 million (Hansard page 19, Tuesday 9 February 2016).

Please refer to the response provided for question on notice QoN 235.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 4

Division/Agency: Agricultural Policy Division

Topic: RIRDC relocation costs

Proof Hansard page: 20

Senator CAMERON asked:

Senator CAMERON: No. From the minister. The minister has said it is ideology. So, Mr Quinlivan, can you provide details of any correspondence you have had with the minister on this issue?

Mr Quinlivan: I think I would need to take that on notice and consult with the minister.

Answer:

The requested correspondence is not able to be provided as it contributes to the deliberative processes of government.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 5

Division/Agency: Agricultural Policy Division

Topic: Mr Hogan's Option Paper

Proof Hansard page: 25

Senator CAMERON asked:

Senator CAMERON: Could I ask you formally then to table the option paper?

Answer:

The document is attached.



The Hon Barnaby Joyce MP
Minister for Agriculture and Water Resources
Suite M1 21
Parliament House,
Canberra 2000

Dear *Barnaby* Minister

Thank you for the opportunity to work on the development of the White Paper's commitment to strengthen cooperatives in the Agricultural sector.

It is a model which has great potential benefits to the family farm sector given the competition they have from 'corporate farms'. I know this is an issue close to your heart.

There were a significant number of submissions from relevant stakeholders in this process.

After discussions with most of them and Agricultural Department officials, I have come to the opinion that the existing draft framework from the department has potential shortfalls.

They are: the framework's 'top down approach', training operators winning tenders who have 'no skin in the game', and a potential lack of legacy.

The issues

Top-down approach:

A number of submissions expressed concerns about the Draft Frameworks "top down approach" where RIDIC 'instructs' farmers of their need for a collaborative framework.

All research I have looked at suggests that co-ops can only prosper when there is a strong level of trust among its farmer members.

I believe a 'bottom up' approach would not only foster this necessary trust, but it would also mean that programmes are designed around real needs of farmers, not the perceived needs by a bureaucracy.

Training providers:

The proposal in the Draft Framework that a public tender be called to find brokers to work with co-ops and farmers is problematic.

As evidenced by the VET scheme, there are numerous opportunities for unethical behaviour and even rorting of the system.

This would open up the Government for political attack.

Caring and Delivering for our Community

kevin.hogan.mp@aph.gov.au

www.kevinhogan.com.au

toll free 1300 657 556

Grafton Electorate Office

Suite 1, 83a Prince Street, Grafton NSW 2460

ph 02 6643 3973 fax 02 6621 4255

Lismore Electorate Office

63 Molesworth Street, Lismore NSW 2480

ph 02 6621 4044 fax 02 6621 4255

KevinHoganMP

@KevinHoganMP





Legacy:

Given that the Government is funding this programme up to \$13.8 million, it is imperative that there is some legacy.

My concern is that if the Draft Framework is implemented as is, there will be no legacy and the \$13.8 million will effectively be lost.

I do not believe that employing brokers will create a lasting legacy after the two-year trial period as these brokers will simply move on to the next programme and leave little or no information/education for the co-op sector.

Recommendation:

I recommend that the Government adopts the model of a National, or Regional Centre for Cooperative Enterprise.

A key foundation of this would be one driven by farmers in existing and successful agricultural enterprises. It would be enabled through strong existing strategic partnerships including education providers. This would create an experience-based curriculum. A regional development agency should also be a partner.

This Cooperative Enterprise Centre would achieve national reach by leveraging off existing networks such as Regional Development Australia boards, Regional University Network and Peak Industry bodies, to name just a few.

This would ensure the people running the Centre would have 'skin in the game' and creating a strong legacy post the two year funding period.

Again, thank you for the opportunity of participating in this process and I look forward to discussing this with you further.

Kind regards

Kevin Hogan MP

Federal member for Page

Caring and Delivering for our Community

kevin.hogan.mp@aph.gov.au

www.kevinhogan.com.au

toll free 1300 657 556

Grafton Electorate Office
Suite 1, 83a Prince Street, Grafton NSW 2460
ph 02 6643 3973 fax 02 6621 4255

Lismore Electorate Office
63 Molesworth Street, Lismore NSW 2480
ph 02 6621 4044 fax 02 6621 4255

KevinHoganMP

@KevinHoganMP



Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 6

Division/Agency: Agricultural Policy Division

Topic: RIRDC programme

Proof Hansard page: 26

Senator CAMERON asked:

Senator CAMERON: Have you had any briefing as to why RIRDC would not carry the program forward and why it would be given to an individual MP?

Answer:

The minister sought thorough consultation on the design of the programme. The Rural Industries Research and Development Corporation's draft programme framework was tested by Mr Kevin Hogan MP in consultations with key stakeholders and organisations with expertise in cooperatives. This further consultation was important to ensure the programme is well targeted to achieve the objectives set by the Government. Further announcements will be made in relation to delivery of this programme.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 7

Division/Agency: Agricultural Policy Division

Topic: Details of support provided to Mr Hogan

Proof Hansard page: 26

Senator CAMERON asked:

Senator CAMERON: Did you provide support to Mr Hogan? Can you provide details of the support that you provided Mr Hogan, how many officers were involved and the costs of that support program?

Answer:

The department has not provided any funding to support the work undertaken by Mr Kevin Hogan MP. Two departmental staff attended three meetings in Canberra with Mr Hogan.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 8

Division/Agency: Agricultural Policy Division

Topic: Deviation from recommendations of White Paper & Cost benefits to the industry by removing the responsibility for this from RIRDC

Proof Hansard page: 26

Senator CAMERON asked:

Senator CAMERON: The white paper says, 'We will establish'—this is government—a \$13.8 million, two-year training programme commencing in 2016. This will be delivered through the Rural Industries Research and Development Corporation'. That is the difference. It has gone to one of your backbenchers and I am interested to know why you are not now following the recommendation of the white paper on that issue.

Is the department aware of any cost benefits to the industry by removing the responsibility for this from RIRDC to an individual backbencher?

Answer:

This question is in error as the programme will not be delivered by an individual Member of Parliament.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 9

Division/Agency: Agricultural Policy Division

Topic: Deviation from recommendations of White Paper

Proof Hansard page: 27

Senator CAMERON asked:

Senator CAMERON: Were you working on the basis that there would be a \$13.8 million, two-year training program that you would have an involvement with?

Can you just explain again to me why there was this deviation from the white paper to where we are now?

Answer:

The Agricultural Competitiveness White Paper identifies a commitment of \$13.8 million towards a two-year pilot programme to provide farmers with knowledge and materials on co-operatives, collective bargaining and innovative business models. There is no plan to deviate from this policy intent.

The Government has quite reasonably considered how best to deliver this programme to achieve the benefits envisaged in the Agricultural Competitiveness White Paper. On 14 April 2016, the Acting Prime Minister and Minister for Agriculture and Water Resources, the Hon. Barnaby Joyce MP, announced that Southern Cross University will deliver the co-operatives pilot programme.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 10

Division/Agency: Agricultural Policy Division

Topic: Mr Hogan has consulted with as part of the support mechanism

Proof Hansard page: 28-29

Senator CAMERON asked:

Senator CAMERON: Is the department aware of who Mr Hogan has consulted with as part of that support mechanism?

Answer:

The department is aware that, in the course of his consultations, Mr Kevin Hogan MP met with two officers from the department and an officer from the Rural Industries Research and Development Corporation. He received response letters from at least eight people/organisations.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 11

Division/Agency: Agricultural Policy Division

Topic: Mr Hogan's consultation

Proof Hansard page: 29

Senator CAMERON asked:

Senator CAMERON: I just ask the minister to see whether she could contact the minister's office and find out whether we can be provided with some details about the expenditure of funds—government funds—by Mr Hogan on this consultation that he has undertaken and whether the minister is prepared to release the outcome of those consultations so that we can assess them at these estimates today?

Answer:

The department has not provided any funding to Mr Kevin Hogan MP.

The response to QoN 05 refers to Mr Hogan's consultation process.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 12

Division/Agency: Agricultural Policy Division

Topic: Copy of Food Price Determination in the Australian food industry Report

Proof Hansard page: 31

Senator CANAVAN asked:

Senator CANAVAN: Just on a different topic, there is some work you are doing, I think, on food price determination in the Australian food industry.

Mr Burns: That is completed.

Senator CANAVAN: Can I ask on notice for a copy of that report?

Mr Burns: Again, that is one of those reports where the department was the major funder for that. It was \$120,000 report and the department actually asked us to undertake that work and provided \$70,000 of that \$120,000. Under the funding deed, whilst the IP around the report remains with RIRDC, if you like, the ownership and when it gets released is the prerogative of the department—actually, the funding deed says the Commonwealth.

Senator CANAVAN: I will ask the department if they could take that on notice. If you have a public interest reason for not releasing it to the committee, I would be interested to hear that. But otherwise can we request a copy of that report on notice?

Mr Morris: Yes. We received the copy of the report from RIRDC on 3 February, so we have only just received it. We are just reviewing the report at the moment and we will get back to you on the provision of it.

Answer:

The report, *From farm to retail – how food prices are determined in Australia* is attached.



Australian Government
Rural Industries Research and
Development Corporation



RURAL
INDUSTRIES
Research & Development
Corporation

From farm to retail – how food prices are determined in Australia

Final report

February 2016

RIRDC Project No. PRJ-009688

From farm to retail – how food prices are determined in Australia

Project No. PRJ-009688

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Researcher Contact Details

Name: Steve Spencer

Address: Unit 2.04 17-19 Yarra Street Abbotsford Vic 3067

Phone: 03 84140904

Mobile: 0417 969873

Email: steve@freshagenda.com.au

In submitting this report, the researcher has agreed to RIRDC publishing this material in its edited form.

RIRDC Contact Details

Rural Industries Research and Development Corporation

Level 2, 15 National Circuit

BARTON ACT 2600

PO Box 4776

KINGSTON ACT 2604

Phone: 02 6271 4100

Fax: 02 6271 4199

Email: rirdc@rirdc.gov.au

Web: <http://www.rirdc.gov.au>

Print-on-demand by Union Offset Printing, Canberra at www.rirdc.gov.au or phone 1300 634 313

Foreword

The Australian food system is complex and dynamic – a matrix of sectors, products, markets, and value-chains that make up Australia’s agrifood industry. Further dimensions are added with the diversity of quality of produce, the extent to which foods are processed and the variety of end-uses within single product categories.

Understanding the major determinants of food prices along value-chains is of critical importance to the future of policy-making by Governments and industry bodies.

The aim of the paper is to convey a better understanding of the main factors that determine prices (and costs) in value-chains for Australian agricultural food products, involving primary producers, manufacturers, wholesalers, and retailers.

This study has been done as an update to a 2004 report into Food Price Determination for the (then) Australian Department of Agriculture published in 2004 by the same author.

Much has happened in the intervening 11 years to change the landscape. Since that earlier report there have been significant changes to the influence of trade – import and export on most industry sectors – as well as the nature and intensity of competition in the domestic retail market. The ongoing effects of price-based competition for retail market share continue to alter the food industry landscape, and will do so for some time. Alongside this, there have been many successful cases where food producers have captured higher unit value in meeting a more diverse set of consumer wants.

The study takes a whole-of-chain perspective of each sector of the agri-food industry, considering the differing transformations of farm-gate commodities into food products, where value is captured and how participants perform over time. The study looks into the quality of intelligence that is available to food producers on market conditions that affect their decisions; where major gaps exist and where improvements may be possible.

The results are expected to be valuable for informing Australian agricultural and food policies and of interest to a broad range of stakeholders concerned about Australia’s food future.

This project was jointly funded by RIRDC and the Australian Government Department of Agriculture and Water Resources.

This report is an addition to RIRDC’s diverse range of over 2000 research publications and it forms part of our National Rural Issues R&D program, which aims to inform and improve policy debate by government and industry on national and global issues relevant to agricultural and rural policy in Australia by targeting current and emerging rural issues, and produce quality work that will inform policy in the long term.

Craig Burns

Managing Director

Rural Industries Research and Development Corporation

Acknowledgements

The author wishes to acknowledge the assistance of the numerous members of the primary production, food processing and retail sectors that contributed information and valuable insights to help inform this report.

The contributions of Dairy Australia, the Meat and Livestock Association, Horticulture Innovation Australia Limited and the Australian Bureau of Agricultural and Resource Economics and Sciences in reviewing the data and analyses are also gratefully acknowledged.

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Glossary

| Term | Meaning/explanation |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ABARES | Australian Bureau of Agricultural and Resource Economics and Sciences |
| ABS | Australian Bureau of Statistics |
| Channel | Distribution and retail sales path from processor/wholesaler through to end consumer |
| CODB | Cost of Doing Business, which is a key performance indicator for grocery retailers referring to the full cost of maintaining and servicing a retail store chain and supporting logistics activities |
| Co-products | Secondary saleable products that are derived from a manufacturing process |
| cwt | Carcass weight |
| EBIT | Earnings before interest and tax |
| EBITDA | Earnings before interest, tax, depreciation and amortisation |
| FCOJ | Frozen Concentrated Orange Juice |
| FOB | Free on Board – export pricing |
| MLA | Meat and Livestock Australia |
| NLRS | National Livestock Reporting Service, a market reporting service operated by MLA for the meat industry |
| OTH | Over The Hooks, which is a means of selling a livestock carcass based on dressed weight |
| Private label | Retail food products that are branded in supermarket brands – otherwise known as “no-name” or “generic” labels |
| Proprietary brand | Retail food products that are branded in food company brands |
| QSR | Quick Service Restaurants, which designates fast food outlets including McDonalds, Hungry Jacks, Pizza Hut |
| ROA | Return on assets |
| ROE | Return on equity capital employed |
| Route trade | The grocery food distribution channel that services independent and convenience stores |
| SKU | Stock Keeping Unit |

| Food terminology | |
|-------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Food sector | A major component of the food industry – used at a high level such as dairy, beef, fruit and vegetables, and grains. |
| Food category or sub-category | <p>A group of food products with similar characteristics based on their nature or end-use, either within a sector, or which might span products derived from more than one sector.</p> <p>In the case of the dairy sector, cheese, packaged milk, fresh dairy, and spreads are categories. In retail, the meat category comprises beef, pork and lamb. Spreads include butter, blended products or vegetable oil products.</p> <p>A sub-category refers to a lower-level grouping with distinctive product features – flavoured milk, butter, fresh tomatoes, yoghurt.</p> |
| Food product | An individual product line or SKU as defined on the left. |
| Food commodity | Tradable products usually referred to in bulk, generic or raw form. It generally refers to categories of product traded internationally or along major domestic supply chains. |

1. FINDINGS AND CONCLUSIONS

Executive summary

Purpose

- The aim of this report is to provide a better understanding of the determinants of prices in key food value chains, addressing several objectives:
 - a) Provide an **analysis of movements over time** in prices paid by consumers in comparison to that received at the farm level;
 - b) Identify the **costs and value-adding factors** which are determining food prices over time;
 - c) **Review the high-level performance of and trends** impacting food processing/manufacturing businesses and retailers in Australia and other countries in the context of pricing along the value chain from farmgate to retail;
 - d) Provide an **analysis of the profitability and returns** over time for participants along key food supply chains in Australia; and
 - e) **Examine options for improving price transparency** along food value chains and impacts on their effective and efficient operation.
- This report aims to provide a comprehensive but high-level analysis of the factors driving food pricing along value chains in Australia over time.
- This report is intended for a wide audience as a resource and reference for policymakers, researchers, food industry participants and advisers.
- The scope of and approach to this study is outlined in section 2, including the primary aims and limitations of this work.

This update

- This report provides a substantive update of the 2004 Food Price Determination Report produced by Whitehall & Associates, a predecessor firm to Freshagenda.
- There are a number of major differences in the content and analysis in this update, more than 10 years after that initial study. These include:
 - A deeper analysis of consumer preferences and drivers of choices, and how these are reflected in the range of prices being achieved in retail prices to consumers;
 - Changes in the structure of and competitive forces in retail markets;
 - Practices adopted by grocery retailers;
 - The influence of international trade on food value chains;
 - Performance of food categories broadly including products that comprise categories; and
 - An analysis of the relative transparency of pricing information along food value chains.
- This report has attempted to look more widely at the influences on pricing within food production and processing sectors, rather than a focus on the influences of the retail market and the pricing applied by grocery chains, which was a large focus in the previous study.
- While the work has looked at influences on prices over time, limits on the availability of data – especially at retail – means that the time periods of comparison provided are relatively short - up to 5½ years in some cases from early 2009 to mid-2014, but in several cases shorter recent periods in this range.

The food market context

A more volatile world

- A comparison of prices in the context of relative incomes indicates that Australian food is generally more affordable than similar foods in other developed markets. Food prices to consumers have risen more slowly in Australia than most other categories of consumer spending in the 7 years to 2014.
- While food production costs have been volatile and rising over this time, recurring global food shortages have affected most commodity markets since 2007.
- Farmers generally have experienced these pricing cycles in food commodities exposed to global market cycles, like dairy, meat and grains, although the relationships between export and farmgate prices varies across food categories.

Consumers protected

- The Australian consumer meanwhile has felt few of these pressures. Weak consumer sentiment in recent years has led to cautionary consumer spending on discretionary food items purchased for meals at home and reduced spending on dining out, despite food gradually reducing as a share of overall household spending.
- In response to food shopper sentiment, there has been increased price competition between major grocery chains over that period to be seen as providing best value prices on food and groceries.
- The work finds that prices to consumers for the main selling lines in the categories examined have been relatively flat, with a few exceptions where export markets create competitive tension and potential shortages.
- The story of the food retail market isn't only about higher consumer spending on cheaper items. Consumer preferences have become more complex in recent years as lifestyle demands calls for more convenience and interest in a range of ethical primary production and processing values has grown. Consumers pay considerably more for food products when acting on these preferences.

Retail sector changes

- The financial performance of grocery retailers in Australia is not materially out of line with profitability being achieved in other comparable developed retail food markets.
- There have been significant changes in the competitive tension in the grocery retail market with the revitalised financial performance of Coles and the rapid expansion of the Aldi discount chain.
- The cautious consumer spending behaviour and effective promotion of value by grocery retailers has seen a tangible shift towards more meals being consumed at home, giving volume growth to the grocery sector.

Pressure in the middle of the chain

- With rising operating, ingredient and labour costs, the static retail pricing environment for staple food lines has created significant cost pressure along many food value chains, most significantly on the performance of food manufacturers and marketers.
- There are limited locally owned public food companies to observe. Surveys of the sector have reflected a trend of declining profitability in the sector, although with a wide range of outcomes being achieved.

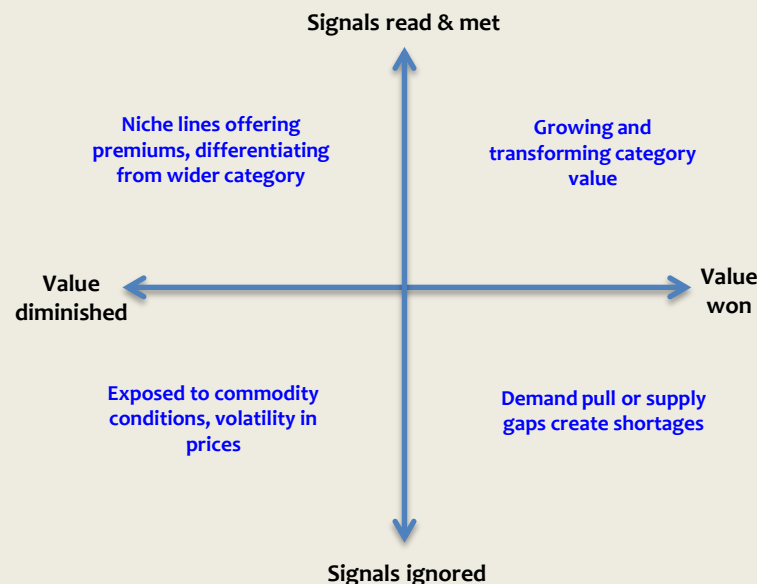
Executive summary

Price comparisons

- The complexity of issues across food industry sectors, the varying degrees of integration and product transformation and the intensity of competition within the food retail and foodservice markets means simplistic explanations for the relationships between farmgate and retail prices are often not relevant or misleading.
- Any analysis of pricing through food value chains should be undertaken with a case-by-case understanding of the structure and dynamics of the categories in question, when assessing the influences on pricing and relationships between prices achieved by participants.
- While it is a key requirement of this study, there are dangers in a narrow focus and simplistic comparisons of farmgate to retail prices for individual products.
- For this analysis to be useful, there is a need to consider:
 - the composition of products within categories; and
 - the extent to which market signals are being read and met by participants in value chains and – as a consequence – where value is being added (or not).
- Focus on a single line item within a category will miss these wider issues and distort reality.
- This study has sought to provide a summary of those settings in each case. Where possible, credible data sources have been used to illustrate pricing over time and at a point in time as relevant to the requirements of this study.
- Australia's geography and urban demographics, relatively small consumer market and slow population growth present food marketers and retailers with significant challenges in offering sustainable growth in value and volume.
- There are however many examples where significant growth in categories is being achieved and value being added and captured by participants in the value chain.

A framework to enhance understanding

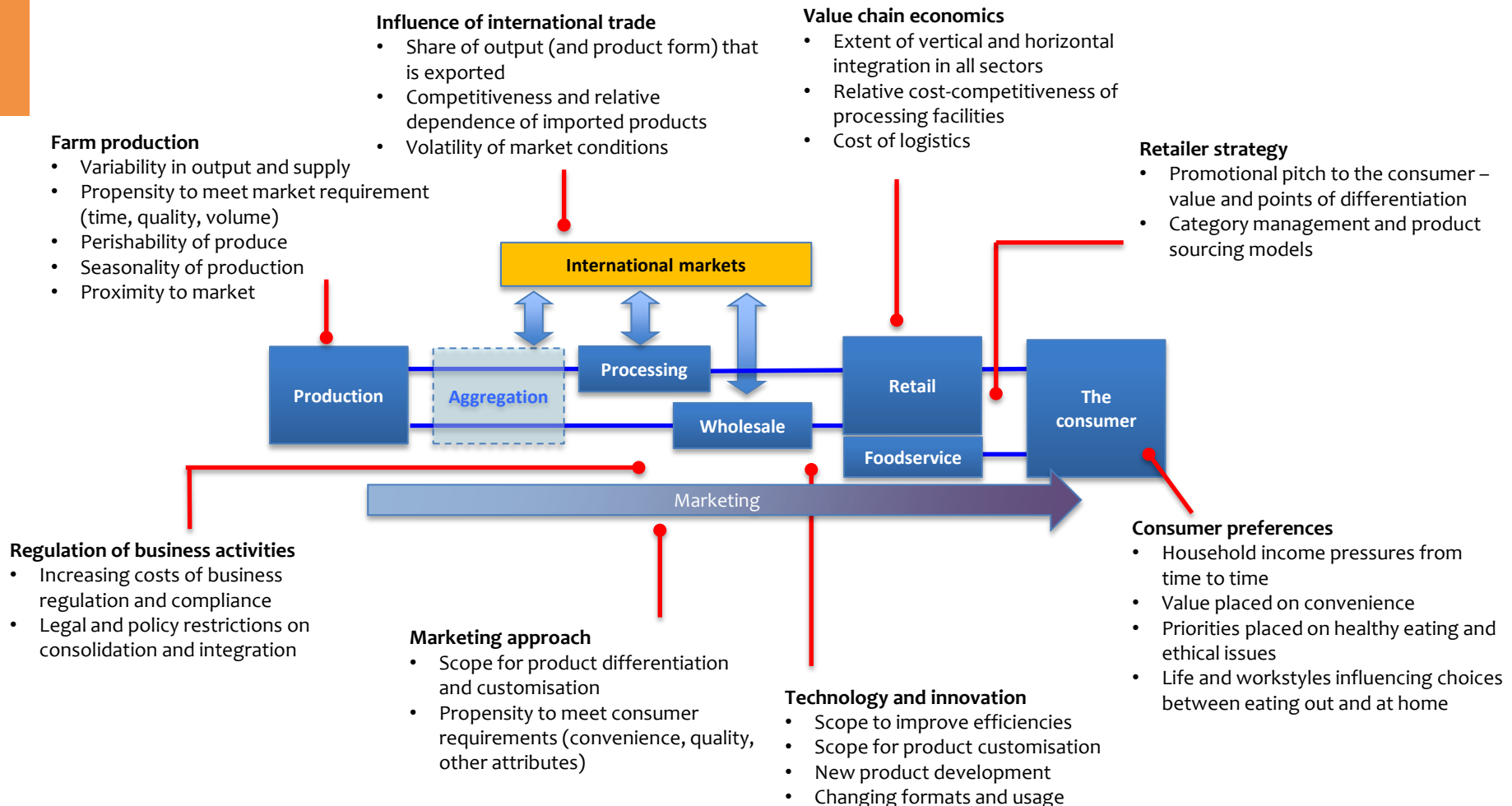
- Throughout this analysis we have applied a consistent framework to help assess the relative performance of food categories over time.
- This is a framework to understand how category value is impacted over time by its dynamics which include the nature of the product offering, how value is created and captured, the competitive conditions faced and supply chain structures.
- In this report, we have applied this across a number of complex categories and sub-categories to provide a qualitative context to the determinants of pricing over time – beyond the numbers for value and volume.
- The criteria used and the interpretation of this framework are explained in further detail in the report.



Key findings

The general determinants of pricing

This chart provides a high-level summary of the common factors seen across food categories. These factors are examined at a sector and category level in further detail.

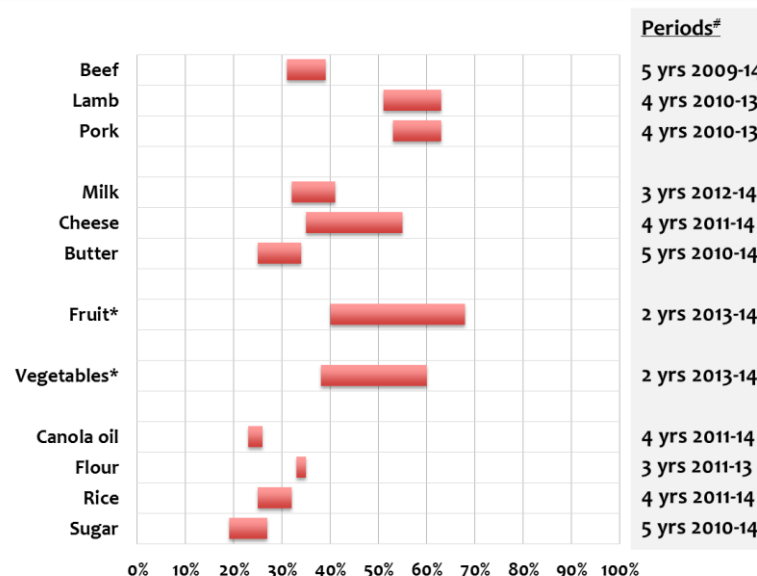


Executive summary

Pricing relationships

- The relationships between farmgate and retail prices vary greatly across the food categories that have been analysed in this study.
- In many food categories there is a complete disconnect between the retail price achieved in the Australian food market and farmer returns, while in others there is a stronger relationship – usually, however, farmgate or wholesale prices are shown to influence prices through to the retail selling price to the consumer rather than vice-versa.
- Where comparison is possible - through credible data availability - and valid, in terms of appropriate like-for-like products, the portion of the retail price in a category has been derived in this work across one or more years.
- The chart on the right provides a summary of the indicative range of farmgate shares of retail prices at a category level. This is based on assumptions and the sources outlined in the document, and summarised on page 41.
- The approach to estimating farmgate share takes account of appropriate comparisons – for example, rather than taking the erroneous and simplistic approach of comparing the price of a cut of steak with the price of cattle, the retail proceeds of the entire carcass are compared to the saleable product in raw form.
- Given the limited information available in many sectors, there is a challenge in providing a consistent approach across all food value chains and channels.
- Ranges are provided due to the variability of retail prices that can be achieved, and in the case of fruit and vegetables, the wide range of farmgate shares achieved in key products across a number of the sub-categories examined in this study.
- The analysis takes account of yields in the processing of livestock and other raw materials into saleable food products. Where relevant co-products have been taken into account to ensure an appropriate like-for-like comparison. In all cases it is assumed that retail values are derived from grocery price data which has been obtained for this study.

Figure 1.0 – Farmer's share of retail value



Determinants at a sector level

- The study addresses price and cost determinants against a background environment of the Australian food sector, which takes account of:
 - Both global and domestic economic and commodity market climates affecting prices for goods traded internationally;
 - The influence of relative currency values on export returns to producers, as well as the landed prices of imported goods;
 - The complexity of consumer preferences within the Australian market, and their influence on the value placed on products;
 - The composition of sales through retail channels using available data on mix of product forms and selling prices;
 - The structure of the markets in each food category and the relative importance of the respective channels to the consumer – the role various foods play in meals eaten at home versus those eaten out of home;
 - The demonstrated consumer preferences for value, convenience and ethical values in their choices of products.
- Pages 11 and 12 summarise the forces that have the most influence on prices for each major category analysed in this report.
- This study examines the extent of the relationship between farmgate and retail prices – specifically the extent to which retail prices affect farmgate outcomes.
- Page 13 provides a summary of the extent and nature of these relationships, which vary across categories. In most cases, there is either no or a weak influence of movements in retail prices and farmgate outcomes.

Performance of participants

- The report compares available data on the performance of participants in the farm sector, food processing and food retail, measured in terms of profit margins and returns on assets.
- Typically the available data shows the farm sector generates a wide range of margin profitability across sectors, heavily influenced by seasonal variation, but this translates to low rates of return on asset values over time.
- Downstream participants generate higher returns on asset investments, but business models vary in their employment of capital, especially in the retail sector, making comparisons between sectors misleading.
- The analysis indicates however that while retailers have performed at or better than their international peers, Australian food processors (in the cases where data is available) have tended to generate returns weaker than overseas counterparts, although the performance range varies widely across sectors.

Key findings

Primary determinants of pricing

- This table summarises the factors that primarily set prices along supply chains in each major food sector or category.

| Sector | Farmgate | Processing/Wholesale | Retail |
|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Beef | <ul style="list-style-type: none"> Supply and demand for cattle, affected by weather and feedlot input costs, abattoir demand and the demand from cattle re-stockers into feedlot and pasture finishing operations. Demand for live export cattle in the northern supply chain. | <ul style="list-style-type: none"> Competitive pricing against other white and red meat categories, with differentiation according to eating quality. Integration of supply chains with retailers reduces price volatility and stabilises returns to suppliers. Export demand for processed meat. | <ul style="list-style-type: none"> Competitive retail pricing to position cuts in the category against other white and red meat lines based on meal occasion and preparation methods. Significant differentiation through different grades of eating quality, packaging, product branding, and service. |
| Lamb | <ul style="list-style-type: none"> Largely influenced by export returns, affected by customer demand and currency. | <ul style="list-style-type: none"> Carcass and portion value: Largely influenced by export returns affected by customer demand and currency. Integration of supply chains with retailers reduces price volatility and stabilises returns to growers. Export demand for processed meat. | <ul style="list-style-type: none"> Competitive retail pricing to position cuts in the category against other white and red meat lines. Differentiation through different cuts, eating quality, and packaging. Movements over time correlate with export and carcass returns. |
| Pork | <ul style="list-style-type: none"> Prevailing carcass value based on mix of export and domestic market returns. Strong influence of significant volumes of pork into lower end of processed meat market. | <ul style="list-style-type: none"> Imported volumes of cured pork portions for use in bacon, ham and other smallgoods Use of pork cuts and its retail positioning. The needs of the domestic markets in terms of carcass size and quality. | <ul style="list-style-type: none"> Competitive retail pricing of meat protein cuts in the category against other white and red meat lines based on meal occasion and preparation methods. |
| Poultry | <ul style="list-style-type: none"> Not applicable – there is no significant stand-alone “farm” sector in the industry as bird-rearing is integrated into processor activities. | <ul style="list-style-type: none"> Competitive pricing against other white and red meat categories. | <ul style="list-style-type: none"> Competitive pricing of meat protein cuts in the category against other white and red meat lines based on meal occasion and preparation methods. |
| Dairy-Milk | <ul style="list-style-type: none"> Milk used in fresh milk: Varies by production region - In southern regions influenced by competing uses of milk in manufactured products; In fresh milk production regions, balanced between prices to sustain stable year-round supplies, costs of alternate sources and processor returns from the milk category. | <ul style="list-style-type: none"> Balancing retailer and processor margins on products within the category – differing between brand and private label lines and product types. | <ul style="list-style-type: none"> Average target margin over cost while remaining competitive with alternate retail channels. Retail prices on private label value lines constrained by aggressive retail competition between major chains, independents and discount grocers. Pricing of alternative non-dairy and UHT products. |
| Dairy-Cheese | <ul style="list-style-type: none"> Milk used in manufactured products: Average returns to major production regions from the mix of domestic and export sales, underpinned by the prices affordable by the major co-operative. | <ul style="list-style-type: none"> Import parity or world prices for major cheese varieties. Grocery and food service supply contracts offer smoothed pricing but reflect export values over time. | <ul style="list-style-type: none"> Target margin over cost, balanced across the cheese category between bulk and specialist products. Regular discounting sustains turnover volumes between competing brands and imported lines. |

Key findings

Primary determinants of pricing (continued)

- This table summarises the factors that primarily set prices along supply chains in each major food sector or category.

| Sector | Farmgate | Processing/Wholesale | Retail |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Fresh fruit and vegetables | <ul style="list-style-type: none"> Prevailing balance of seasonal supply and demand of fresh produce at the time of marketing/supply. Returns variable dependent on use of direct supply to major purchasers or wholesale markets. Climatic events and regional seasonality. | <ul style="list-style-type: none"> Prevailing balance of seasonal supply and demand at the time of marketing, enhanced by ineffective transparency at certain stages (including packing and wholesaling). Integrated supply chains with retailers reduces some price uncertainty and generally delivers a higher gross return to suppliers based on specifications. | <ul style="list-style-type: none"> Prices set to provide target margin over full costs of produce category. Strong influence of perceived price-sensitive points to consumers, with periodic fluctuation according to fruit availability and quality. Short-term pricing subject to local competitive pressure between grocery chains and specialists. Competitive price points of frozen/preserved product. |
| Oilseed products | <ul style="list-style-type: none"> Prevailing world commodity prices for oilseeds and grain commodities used in feedgrains. | <ul style="list-style-type: none"> Oils: Suitable crushing margin over cost, balanced against import parity prices for competing cooking and industrial oils. | <ul style="list-style-type: none"> Oils: Pricing sensitive to changing consumer tastes, and foodservice cost pressures. Influenced by pricing of competing oils (including imported lines) and spreads. |
| Grains products | <ul style="list-style-type: none"> Prevailing world market balance of demand and supply – mostly supply-driven – and commodity prices for food wheat varieties. | <ul style="list-style-type: none"> Flour: Suitable margin over processing costs, subject to end-use requirement and specification. | <ul style="list-style-type: none"> Flour products: Target margin over cost with retail prices constrained by competition between major grocery chains and discounters. |
| Rice | <ul style="list-style-type: none"> Average returns from export markets, affected by performance of the major co-operative from its diversified overall activities. | <ul style="list-style-type: none"> Suitable margin over cost, influenced by import parity price for finished goods. | <ul style="list-style-type: none"> Target margin over costs over time, influenced by pricing of imported products and pricing offered by discounters. |
| Sugar | <ul style="list-style-type: none"> Prevailing world price for sugar affected by stability of global supply for food uses from major producers. | <ul style="list-style-type: none"> Export (and import parity) prices for raw and processed sugars. Some stability offered to large industrial users through pool-referenced contracts to smooth pricing. | <ul style="list-style-type: none"> Target margin over costs – little direct product competition, but prices restrained by competition between major grocers and discounters. |
| Eggs | <ul style="list-style-type: none"> Based on affordable price to packer/marketer Influenced by prevailing balance of supply and demand of eggs at the time of marketing. | <ul style="list-style-type: none"> Prevailing balance of supply and demand of eggs at the time of marketing, strongly influenced by price competition in non-grocery channels such as through independent specialist fresh food retailers. | <ul style="list-style-type: none"> Target margin over costs, influenced by competitive pricing against independent retail outlets. Alternative ethical sourced/farmed eggs. |

Key findings

Farmgate and retail prices

- This table provides a summary of the nature of relationships between farm and retail prices.

| Sector | Farm price | Retail products | Relationship | Explanation | Pages |
|-----------------------|---------------------|-----------------------------------------|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Beef | Cattle prices | Beef cuts | Minimal | Cattle prices move independently of the movements of prices at retail, which have been relatively stable in recent years. Retail prices tend to move with limited lagged effect to the changes in domestic cattle input prices. | 45-51 |
| Lamb | Lamb carcass prices | Lamb cuts | Moderate | Both prices influenced by export returns. Retail prices move in response to changes in export prices. | 53-55 |
| Pork | Carcass prices | Fresh pork cuts, ham and bacon products | Weak | Higher carcass prices may pass to retail prices if shortages of fresh pork arise. | 57-59 |
| Milk | Farmgate milk | Packaged milk | Weak and variable | Movements in retail prices – through changing sales mix over time – have constrained movements in farmgate prices in fresh milk regions. In other regions, there is no relationship over time. | 64, 66-69 |
| Cheese | Farmgate milk | Packaged cheese | Minimal | Price movements in milk do not get reflected in retail cheese prices. | 65, 70-71 |
| Fresh fruit & veg | Raw fresh produce | Fresh produce lines | Strong | Retail prices move in response to changes in supply availability which varies seasonally for many fresh produce categories. | 81-95 |
| Processed fruit & veg | Raw fresh produce | Frozen and tinned products | Weak | Farm prices more directly affected by wholesale prices of competing imported produce. | 97-102 |
| Oilseed products | Crop price | Cooking oils and margarine | Weak | Retail markets use a small portion of overall crop output. Farm prices driven by global forces and crop sizes, which may influence traded oil prices. | 104-105 |
| Grains products | Wheat price | Flour and bread | None | Grain prices move independently of flour and bread prices. Bread prices are not materially affected by movements in the cost of grain which is a small component of overall costs. | 107-108 |
| Rice | Paddy rice payment | Packaged rice | Minimal | Farm prices move independently of retail prices. | 110-111 |
| Sugar | Cane price | Packaged sugar | Minimal | Cane prices move independently of retail product prices. Grocery has very small share of total sugar use. | 113-114 |
| Eggs | Raw eggs | Packaged eggs | Moderate | Mix of retail prices achieved from brand and product type will affect returns available to egg producers. | 116-117 |

Transparency

- There are varying levels of pricing transparency and understanding of supply and market conditions across food sector value chains.
- Farmgate pricing information is typically not shared between growers. While average farmgate and retail transaction data is readily available, wholesale prices are a key information gap in supply chains.
- While in theory it would seem greater transparency would be beneficial to all supply chain players, allowing for more efficient market operation, there are a number of barriers to price transparency.
- Business costs and pricing are commercially confidential. Supply chain players also have a vested interest and legal limitation in sharing financial information. Market knowledge and intelligence can overcome some of these gaps and help those with the expertise to negotiate in their favour.
- The cost-benefit equation of information collection whether through regulation or commercial service provision is also high and there are substantial legal risks and sanctions which severely limit the ability of businesses to share or discuss such information.
- Industry efforts at improving transparency are highly dependent on the capabilities of organisations and the willingness of participants to collaborate in the sharing of data that will aid decision-making.
- Our analysis suggests that improving price transparency will not necessarily deal with all the issues that challenge participants in supply chains – especially producers. However improved market signals whether through price or other mechanisms would facilitate improved decision making and could point to opportunities for extracting greater value. Our report looks into several examples of the scope for added value achieved at a category level, using an assessment method (outlined earlier and on page 40) which may be useful in understanding opportunities. Improving understanding of how markets function and future demand drivers, and fostering closer supply relationships with improved signals are vital to such efforts for suppliers.
- Looking to overseas examples, markets with the greatest transparency across the supply chain tend to be highly regulated. Mandatory price reporting - a feature of US agriculture - does not appear to have reduced volatility over time or improved market efficiency for primary producers.

What does “fair” mean?

- Many of the calls for increased price transparency have been predicated on a need for greater fairness across the supply chain, particularly in respect of primary producers. However defining what is “fair” in terms of prices is not simple.
- An economic definition of “fair pricing” refers to the situation where market demand and supply result in prices that provide the ability for participants in a sector to achieve a normal rate of return over time.
- However there are a wide array of enterprise types and owner expectations in agriculture. Some calls for fair prices suggest farmers should receive a certain share of retail prices, or production costs should be covered in a way that is monitored and enforced by regulation.
- These questions are complex, as are the markets themselves. Our analysis indicates a more targeted approach to transparency and fairness is required to improve rather than detract from effective market operation.
- Policy interventions in the form of price regulation run the risk of producing other market distortions, as they have in the past, in Australia and overseas. These distortions generally lead to higher prices for consumers, misallocation of resources and can reduce incentives for innovation.
- The question of whether there is a role for policy makers in enshrining “fairness” in pricing is beyond the scope of this study, nevertheless this issue will inevitably be associated with discussions about competition and price determination within the food industry.

Recommendations for increasing transparency

- The report contains a number of recommendations and considerations for improving transparency. Foremost is an objective identification of the target audience, the outcomes that are sought and the likely cost and benefit.

SECTION 2: INTRODUCTION

2.1 Terms of reference

Terms of reference

The objective of this study is to build on the 2004 *Price Determination in the Australian Food Industry* report, detailing current agrifood supply chain dynamics, including profit allocation and price formation along the supply chain for a given list of food products, both minimally and significantly transformed.

1. Provide an analysis of movements over time in retail prices paid by consumers in comparison to those received at the farm level.

This analysis should consider, explore and detail supply and demand factors and the impact of these on price movements and prices received by farmers and value-chain intermediaries. The time period should be of sufficient scope to ensure that a reasonable and reliable assessment is established.

Consideration should also be given to other factors that may influence price movements, such as innovation and structural change, etc.

This analysis may include economic modelling and associated economic analysis and explanation of factors impacting price allocation and profits along the value-chain.

2. Identify the key costs and value-adding factors which are determining food prices over time

This analysis should use qualitative and quantitative information and data in respect of key commodity and product lines in domestic and export markets, and in domestic markets in a selection of comparable countries to Australia.

It should isolate key components affecting the final price and associated trends and drivers.

3. Review, broadly, the performance of and trends impacting food processing/manufacturing businesses and retailers in Australia and other countries over the past decade in the context of pricing along the value chain from farmgate to retail.
4. Provide an analysis of the profit margins and return on equity for participants—farmers, wholesalers, retailers—along key selected food supply chains in Australia.

The analysis should consider how the bargaining power of participants affects their profit margins and return on equity relative to others in the supply chain, and the extent to which major supermarkets are price setters in these markets.

5. Examine options for improving price transparency along food value chains and impacts on their effective and efficient operation

The analysis should consider Australian value chains and models in comparable countries that encourage dissemination and improve availability of pricing information. The analysis should also consider the counter-argument for commercial confidentiality.

Food products

The products selected for analysis in this work are within the following categories:

- Dairy products (milk, cheese, butter and spreads, yoghurt)
- Meat (pork, beef, lamb)
- Fresh horticulture (various fruit and vegetable product lines)
- Processed fruit and vegetables (selected lines)
- Seafood
- Rice
- Eggs
- Flour and bread
- Vegetable oil
- Sugar

2.2 Scope

General approach

We have undertaken the following major steps in compiling this report:

Accessed data and intelligence on prices, costs and margins

- We have mapped the value chains and undertaken a data scan for a list of product groups/items. This included a range of products to ensure the analysis has adequate coverage of relevant categories.
- We identified available data and intelligence from food industry sources, including industry statistics, existing research studies and through consultation with organisations and participants.

Mapped and analysed product value chains

- We collated available and relevant insights and trends on factors affecting retail food markets
- We collated available insights on factors affecting major food value chains identified in the project.
- We collated and analysed pricing data and relevant pricing dynamics for the product groups.
- We assessed available public information on corporate profitability, and any linkages between product pricing and the outcomes achieved by food manufacturers and retailers.

Undertook analysis and reporting

- We documented insights, findings and conclusions from the sector and category-level analysis.
- We developed criteria relevant to the assessment of transparency in each sector.

Coverage

The study draws on information as to pricing and cost influences and outcomes over time from a number of sources which are outlined on page 20 and throughout each section on the respective food sectors.

Our assessment of the visibility and transparency of food commodity and category prices along chains is reflective of the limited availability of representative and consistent prices in many circumstances. This study has necessarily focused in areas where pricing data is available - mostly changes in farmgate prices across most sectors over time, and on wholesale and retail prices in grocery channels.

This means certain retail and foodservice channels are not covered by the analysis, as the scope of this study prevents more detailed work which would be required in such cases.

Competition

The study is however **not a study into the extent of competition** that exists in the retail food market, nor should it be relied upon for that purpose.

Such a study would require examination of a far wider set of conditions along food supply chains affecting entry and exit barriers; commercial terms and negotiation processes; transparency of volumes and prices at each point of the value chain; and the numbers of participants (suppliers and buyers) in each case.

It however looks at the evidence from pricing outcomes over time for selected food products, as to the apparent influences on prices, of which the nature of competition between retail participants is but one factor.

2.3 Pricing concepts

What is price?

- The chart below provides a summary of the key price concepts that apply through food value chains as relevant in this analysis. The use of different terminologies and the points at which prices are struck and for which data is available varies across different categories.

Export price

The price paid by an export customer to an Australian supplier when title changes to that buyer – which is generally at an Australian port (as an FOB price).

Farmgate price

Net price paid to the primary producer after the deduction of costs to get produce to market.

Factory gate price

In some cases, the gross price paid to the primary producer or an agent is based on the delivered value to the buyer at the processing or market location.

Imported price

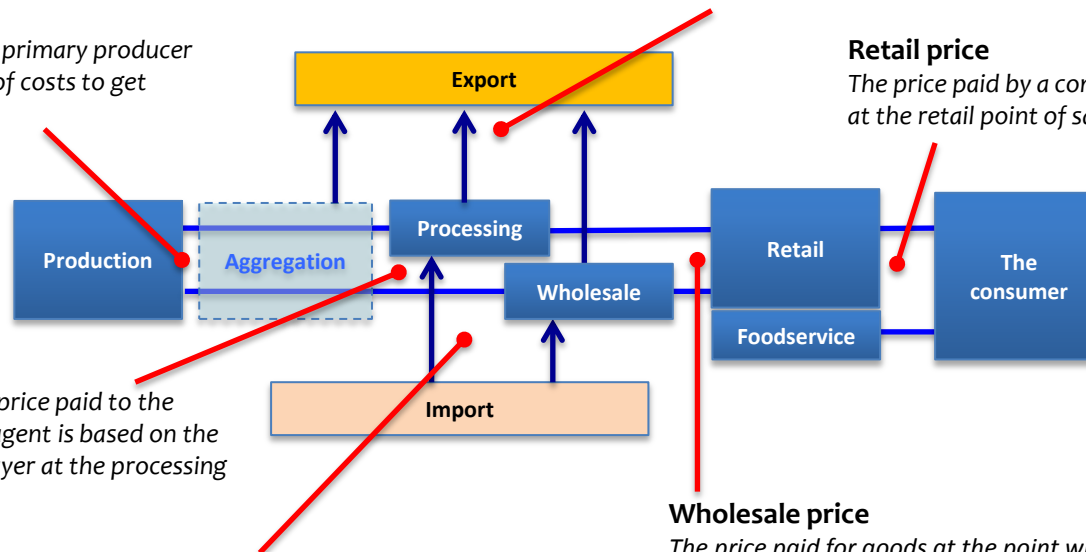
The price paid by an Australian buyer for products which land at a point of sale and enter the domestic supply chain.

Wholesale price

The price paid for goods at the point where they enter the retail or food service distribution sector.

Retail price

The price paid by a consumer for an item at the retail point of sale.



2.4 Differences in 2014 from 10 years ago

This update

This report is a substantive update of the Food Price Determination Report produced by Whitehall & Associates in 2004. There have been a number of major changes in the global and Australian food markets since that earlier report:

Global markets

1. World food commodity markets have become more volatile, since the “food crisis” of 2007 when acute shortages of supply in major commodities caused price spikes. Since that time, price cycles for major commodities have become more extreme and compressed, as shown on page 34.
2. Climate change impacts add further pressure in balancing supply and demand markets in areas as diverse as cereals, dairy, protein and certain fruit and vegetables.
3. China has a more significant influence on trade in a number of commodity groups as its burgeoning consumer demand has outgrown local supply capacity
4. The Global Financial Crisis (GFC) and its flow-on effects has left the global economy in a more fragile state.
3. Our analysis over recent years has indicated that the turnaround in performance of Coles has intensified the parent-brand competition on price and other values between major grocery chains, and between those chains and discounters, independents and specialty good retailers for shares of consumer spending on meals.
4. Consumer segments have become more diverse and complex, with stronger preferences for convenience and a range of ethical values, which have included certain production systems and food origin.
5. These ethical issues stem from greater community attention to aspects of agricultural production systems with perceived impacts on animal welfare and the environment.
6. The relative strength of the Australian economy through the aftermath of the GFC, assisted by strength of commodity metal prices, lifted the value of the \$A against major other currencies, making imported food more affordable.
7. The higher value of the \$A, rising labour costs, and energy have further weakened Australia’s competitiveness as a food processor.
8. There have been more frequent major weather events having widespread impact on food production regions, including major droughts, cyclones and regional floods, which have impacted farmgate and retail prices for fresh produce.

Australia

1. In developed economies including Australia, households have sought opportunities to save to protect their wealth. The resulting greater consumer demand for “value” lines in food purchases (including in takeaway and dining out) has become a much bigger influence on overall retail prices.
2. Retail competition in Australia has become more complex, with the expanded store network of German discounter Aldi, expansion of larger-scale Supa IGA stores, and the arrival of club US discount retailer Costco.

This update has been able to take advantage of better data availability compared with the earlier work, including improved industry sources.

2.5 Sources of data and insights

Process

- Freshagenda works exclusively in the food industry in the analysis of market and supply chain conditions, with clients that stretch from providers of inputs to the farm sector, through to retailers.
- The information contained in this section of the report has been compiled and analysed by Freshagenda, based on its own investigations, recently undertaken engagements for clients in various industry sectors; consultation with a number of industry organisations and commercial participants, as well as a review of available published material and industry data sources.
- The analysis draws on our insights as to how value chains operate in key food categories and the nature of the commercial relationships between supply chain participants.

Pricing and volume data

- Pricing data has been sourced from a variety of providers and industry sources, as summarised in the table on the right. The earliest retail data available to us for this analysis is from early 2009 onwards.

Farmers share of retail

- Where appropriate, a like-for-like comparison of farmgate and retail prices has been provided. These take account of relevant product yields (from raw material through to retail product form), existence of co-products and other adjustments. No reliable data has been aggregated for spoilage and wastage through the value chains examined by us.
- For such factors, we have drawn on industry data and discussions with industry bodies, specialist analysts and processors to ensure treatment is consistent with the requirements of the brief.

References

- Our data sources have been identified in each figure throughout the document. We have relied on a number of primary sources which are listed in references in the Appendix.

| Price point | Sources |
|------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Retail data | <ul style="list-style-type: none">• (all categories) Retail sales summaries at a product or SKU level provided on a confidential basis by a major grocery chain from 2009 to 2014, providing unit selling prices and sales volumes on a quarterly basis.• Where necessary these have been aggregated and averaged on a volume-weighted basis for products and categories, depending on the level of analysis chosen.• (selected categories as identified) Retailworld summary data. |
| Wholesale prices | <ul style="list-style-type: none">• (for categories covered in this analysis excluding meat) Grocery wholesale or buying prices provided on a confidential basis by a major grocery chain. This information is generally limited to a 2-year period, as such data is not retained for longer periods by the provider.• (for fresh produce) Wholesale fresh produce prices supplied by central market reporting agencies. |
| Farmgate prices | <ul style="list-style-type: none">• Relevant industry-collated data sourced as referenced.• (for fresh produce) The relevant farmgate price for producers on average is calculated by reference to wholesale prices, less a deduction for logistics, ripening and other relevant charges, to reflect the reality of their market access. |

2.5 Sources of data and insights

Limitations on data availability

- One of the significant challenges in undertaking an exercise of this nature is accessing reliable and accurate data.
- In general, the study found that food sectors generally make a low level of collective investment in industry-wide data.
- As the food industry becomes more concentrated and integrated, it has generally been observed that the strong influence of commercial interests generally ensures there is less transparency of information and more limited availability of market intelligence.
- There is varying availability and quality of pricing data across different sectors in the food industry. This study has drawn on data where available, which has included some commercial participants which have supplied information subject to confidentiality undertakings which have governed how it can be disclosed in such a report.
- This report also compares and contrasts the transparency across sectors in section 6.
- There is limited transparency in prices along certain value chains and channels to the consumer. It is not possible to gain any aggregated retail sales data (volumes and prices) for independent grocery stores and for fresh food specialists (such as green grocers, butchers, delicatessens)
- Wholesale prices are available in certain sectors where organized markets exist in a number of categories (fresh produce, limited segments of the meat market, certain seafood markets).
- Sales into food service channels remain largely uncharted across the food industry.

SECTION 3: OVERVIEW OF THE FOOD MARKET

3.1 Structure of the food market

3.1.1 The big picture

This table provides an overview of the relative value, trade exposures, and market mix of the major Agrifood categories.

Figure 3.1.1.1 – Summary of food sectors

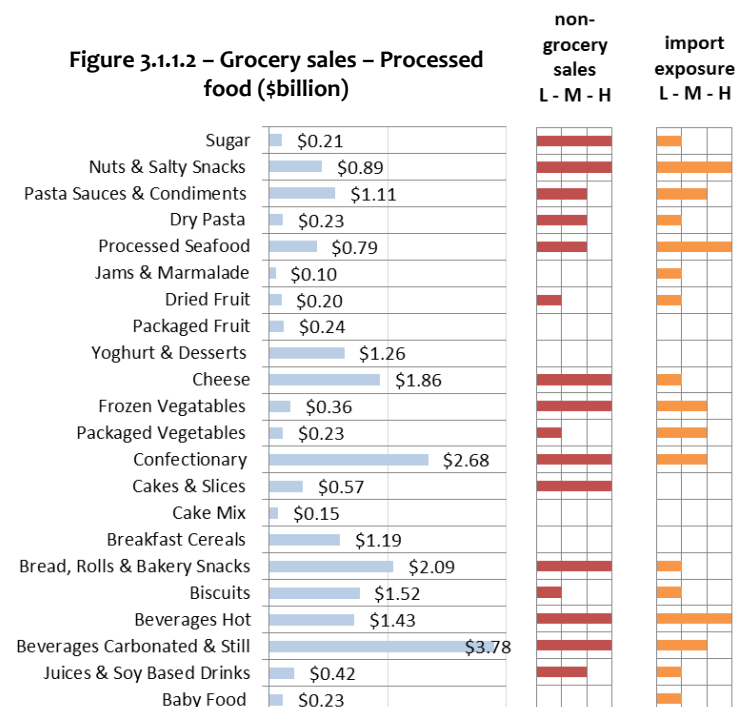
| | Farmgate value \$bn (2013/14) | % exported | Australian market | | |
|---------------------|-------------------------------|------------|-------------------|---------------------------|------------------------------|
| | | | % sourced locally | Volumes consumed ('000 t) | Grocery share % ¹ |
| Beef | 7.7 | 67% | 99.6% | 439 | 57% |
| Lamb & mutton | 2.8 | 65% | 100% | 180 | 51% |
| Pork and smallgoods | 1.1 | 23% | 50% | 290 | 46% |
| Chicken | N/A | 5% | 99% | 623 | 44% |
| Seafood | 2.5 | 38% | 29% | 307 | 27% |
| Milk (litres) | 4.7 | 1% | 100% | 2,100 | 63% |
| Dairy products | | 43% | 79% | 306 | 52% |
| Eggs (mil. Dozen) | 0.7 | - | 100% | 240 | 34% |
| Fruit | 3.8 | 18% | 96% | 1,215 | 60% |
| Vegetables | 3.7 | 7% | 99% | 2,095 | 60% |
| Wheat flour | 9.0 | - | 99% | 1,462 | 5% |
| Rice | 0.3 | 63% | 44% | 230 | 32% |
| Sugar | 1.1 | 72% | 99% | 1,196 | 10% |

Notes:

1 – Share of product available in the Australian market (ie. excluding the share of output that is exported) which is sold through the grocery channel (that is excluding specialist retailers and food service channels).

Source: Freshagenda analysis

Figure 3.1.1.2 – Grocery sales – Processed food (\$billion)



Source: Retailworld 2013, Freshagenda analysis

3.1 Structure of the food market

3.1.2 Share of channels to consumers

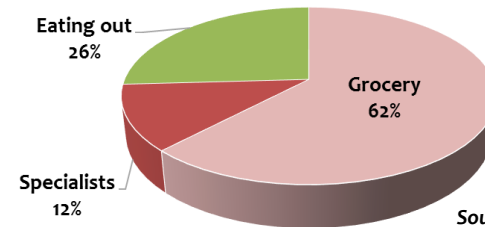
Importance of channels

- Overall consumer spending on food and beverages is split between a number of retail and food service channels.
- The FOODmap project published in 2012 provided a measure of the relative size of those channels to consumers in terms of overall volumes as well as total consumer spending.
- The grocery channel dominates most agrifood categories in terms of sales into the domestic market, but this varies depending on the relative importance of certain categories in food service channels and volumes sold into export markets.
- Year to year changes in the output of certain sectors – such as grains, oilseeds, dairy and beef – affects the proportion of output which is available to export markets. In some cases export buyers compete with domestic buyers for farm produce – such as in beef and lamb and grains, and in the sourcing of milk.

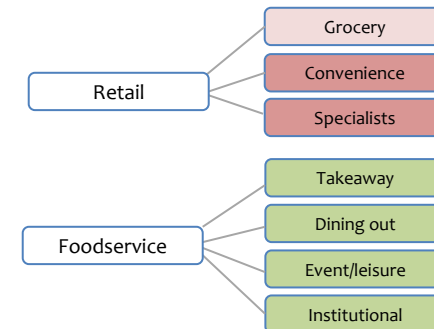
Channel shares of spending

- The volumes sold into the channels do not closely align with the overall relative proportions of household spending on eating meals at home or out of the home.
- The retail value of food products reflect a higher mark-up or value-add on wholesale costs in the food service sector, as food is sold wholesale into the food service channel as an ingredient with added costs of labour in meal preparation, service and delivery.

Figure 3.1.2.1 – Share of channels by category



Source: Freshagenda analysis



3.1 Structure of the food market

3.1.3 Distribution to consumers

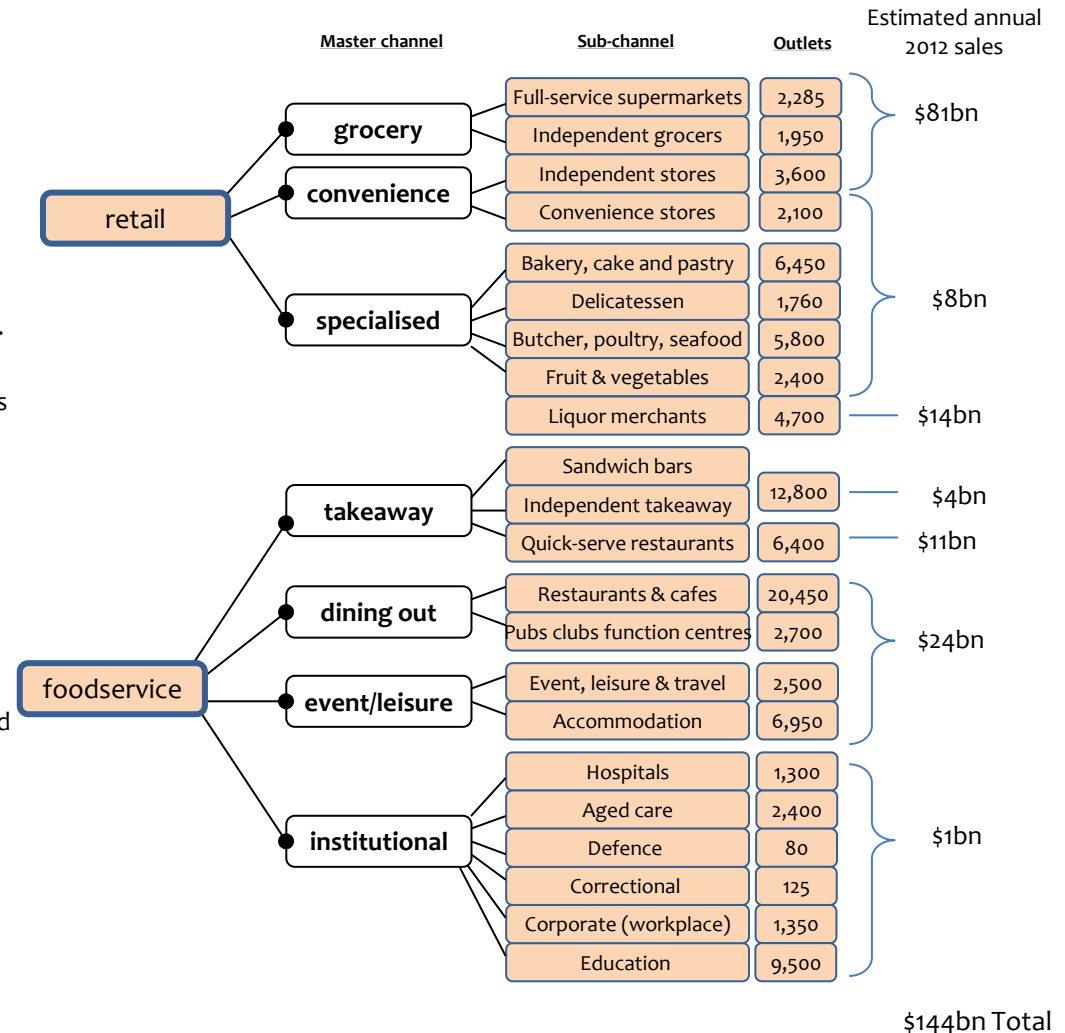
Overall size of channels

- The chart on the right shows the mix of estimated total spending through the various channels to the consumer. This draws on the analysis conducted in the FOODmap study in 2012.
- The numbers of outlets in the chart were assessed in June 2011 as part of preparation for this report. They have been established based on a variety of sources, including data from industry groups, databases of food establishments, and information from specific retail and foodservice chains.
- This shows the significant influence of the grocery channel on overall spending on food with a high percentage of sales through a relatively small number of outlets.
- While a large influencer of the value available at wholesale, grocery is one of the many determinants of value in the broader food market.
- Retail does, however, provide the greatest visibility of the value of food products – everyone is a shopper and the pricing information is public, and often available online.
- There is some potential minor double-counting in this analysis, as some of the smaller independent retail and food service outlets buy food and other groceries through grocery chains and specialist food stores (such as bakeries and butcher shops).

Complexity of foodservice

- The foodservice sector and the distribution channels that service food outlets are complex.
- The most concentrated segments of this market are Quick Serve Restaurants which have a major share of takeaway food sales and buy in similar fashion to grocery chains.

Figure 3.1.3.1 – Size of channels and distribution to consumers



Source: Freshagenda analysis

3.2 Food market trends

3.2.1 Trends in consumer spending

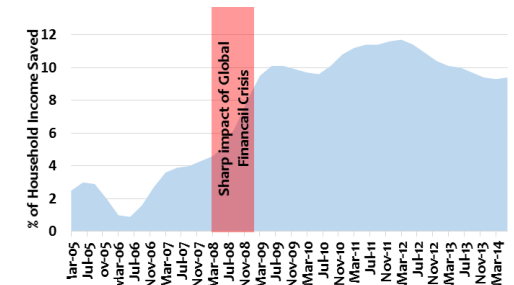
Trends in spending

- Since the onset of relatively sluggish economic activity since the global financial crisis was precipitated in 2007, with the impact felt in 2008, households have exhibited ongoing concern about maintaining living standards and have sought to protect their financial positions through greater savings, limiting discretionary outlays.
- Figure 3.2.1.2 shows the curbing on household outlays, and the extent to which savings have been built and at times used to affect overall spending.
- The general levels of consumer sentiment per Figure 3.2.1.3 – highly influenced by the perceived threats to employment and/or housing values – have remained subdued over the past three years.
- While spending on food has represented a declining portion of household outlays (see next page), discretionary spending – especially on meals eaten out of the home – has been adversely affected by this consumer caution.
- Shoppers have actively sought opportunities over the past five years to take advantage of savings where available, in food and other areas of spending. “Value” has been a priority for an increased number of people, and hence become a strong focus for grocery and food service retailers, despite improvement in discretionary spending in 2014.

Changing household structures

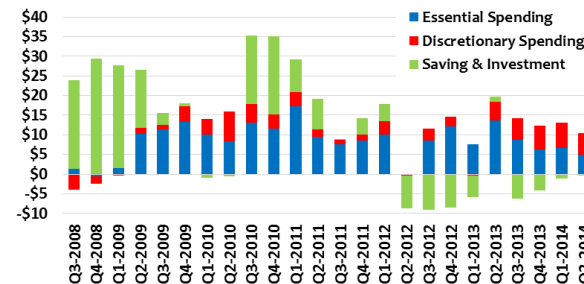
- Over time per Figure 3.2.1.4 there have been gradual changes in the structure of households that has added further dimensions to the growing complexity of the consumer segments.
- These changes affect the lifestyle choices being made and the role that meals and shopping play in those lifestyles, in turn affecting propensity to spend, on attributes such as convenience and other values.

Figure 3.2.1.1 – Australian household saving ratio



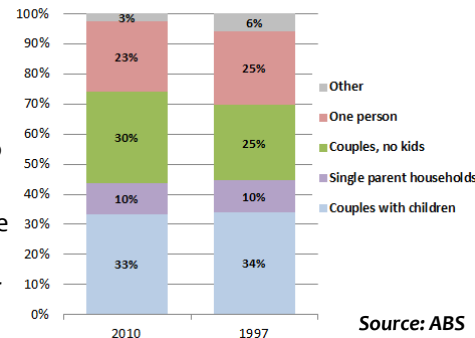
Source: ABS

Figure 3.2.1.2 – Changes in quarterly household spending (\$/week)



Source: Derived from ABS

Figure 3.2.1.4 – Household types (% of total per ABS Cat. 4442)



Source: ABS

Figure 3.2.1.3 – Australian consumer sentiment v interest rates



Source: Reserve Bank/Westpac

3.2 Food market trends

3.2.1 Trends in consumer spending

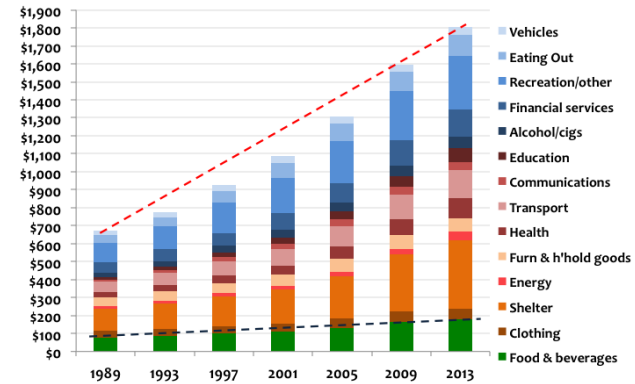
Trends in spending

- Spending on food by Australian households has over time represented a gradually diminishing portion of total household expenditures according to a long-term data series maintained by ABS.
- While incomes have risen much faster than the cost of living, a greater share of spending has shifted toward meeting rising living costs and discretionary non-food items.
- Within this overview, retail food prices have also risen more slowly than other costs of living in the five years to 2014, despite the general rise in the prices of global food commodities (see page 30).

Rising costs of business inputs

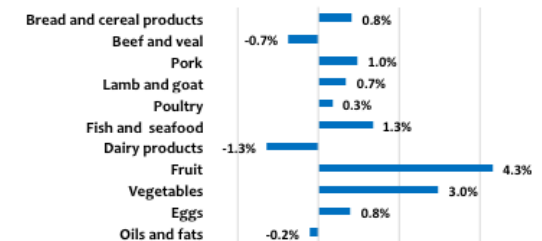
- Across food categories, those more prone to seasonal variation in supply – fruit and vegetables – have shown the highest overall price increases over that five year period.
- The cost increases reflected in CPI for other goods and services have not only contributed to higher outlays for households, but also reflect the rising costs to businesses engaged in food processing, logistics and retailing.

Figure 3.2.1.5 – Food spending as a portion of household outlays



Source: Derived from ABS

Fig 3.2.1.6 – Average annual inflation – 2009 to 2014



Source: Derived from ABS

Fig 3.2.1.7 – Average annual inflation – 2009 to 2014



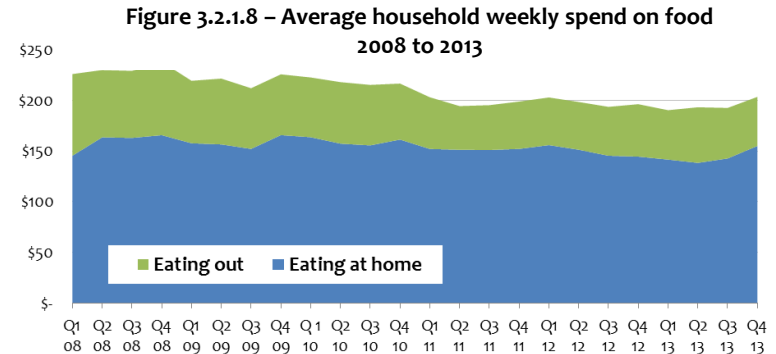
Source: Derived from ABS

3.2 Food market trends

3.2.1 Trends in consumer spending

Take home v eating out

- Food spending has proven it is not immune from economic pressures. Since late 2009, the total amount of money spent on food by households has steadily declined.
- Declining consumer sentiment has curbed discretionary spending on food and thereby affected the composition of spending in a number of ways:
 - There have generally been more meals eaten per week in the home
 - There has been “trading-down” in spending for meals at home – affecting the products selected and the choice of retail outlet
 - There has also been “trading-down” to cheaper dining-out options.
- The share of spending on take home food has increased marginally overall in recent quarters, but the movements and shares vary per socio-economic segment, with lower eating out percentages for those with more sensitivity to household savings risks – generally in lower income segments.
- The volume share of food spending won by supermarkets has gradually increased over the five-year period. This has been reflected in both increased shopper “traffic” numbers, as well as the capture of a higher share of the spending on fresh produce, meat and bakery lines, where previously shoppers spent a higher portion of their weekly outlays in specialist stores driven by value and quality.
- Specialist stores - retailers of fresh food (such as fruiterers, butchers, bakers, and delis) have consequently lost share of the total household food spend.
- The average weekly food expenditure on eating out has fallen, with a higher share generally won by fast food outlets. Page 33 outlines our analysis of trends across different segments of those food service channels based on our analysis of spending over past years.



Source: Freshagenda analysis of multiple panel data sources, adjusted for ABS survey data

3.2 Food market trends

3.2.2 Consumer preferences affecting pricing

We have identified three major forces that combine to explain some observable trends in shopping and consumer spending in recent years. These forces often intersect and shoppers trade off to save money, effort and time and/or pursue ethical values they feel strongly about.

Eating at home to save

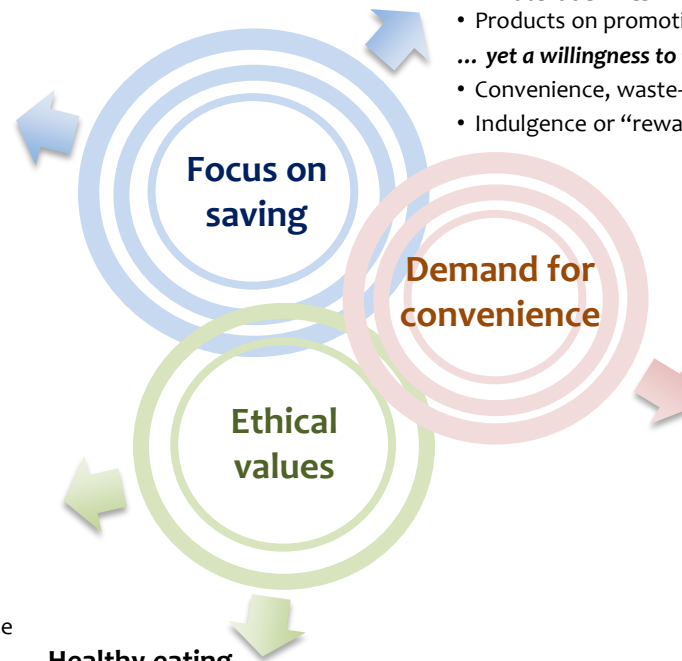
Higher spending on meal occasions taking share away from casual meals out. This has impacted:

- Breakfast ingredients
- In-store fresh bread
- Replacement of impulse purchases – energy drinks, flavoured milks, multi-pack ice-creams
- Entertainment lines
- Ingredients for ethnic cuisines (Asian/Indian)

Cut-through ethical propositions

Consumers continue to support ethical values in some categories which are generating growth in the sales of:

- Free range products in systems that resonate - chicken, eggs and pork
- Greater interest in “local” and in the story of the product
- Animal welfare propositions
- Environment through organic “natural” products and the like



Healthy-eating

Supporting foods with perceived health advantages and claims. This has underpinned sales growth in:

- “Traditional” bread lines
- Preference for ‘natural’
- Products that assist portion control
- Improvement in butter v margarine
- Emotional product propositions (eg A2 milk)

Entrenched preference for “saving”...

Including “value” lines in their shopping baskets, observed in sales growth of:

- Bulk or value pack lines
- Private label lines in undifferentiated staples
- Products on promotion

... yet a willingness to trade off costs to spend more on

- Convenience, waste-free or portion-sized products at higher per-kg prices
- Indulgence or “reward” lines

Time-saving and bundling features

There are growing preferences for convenience to cut meal preparation time:

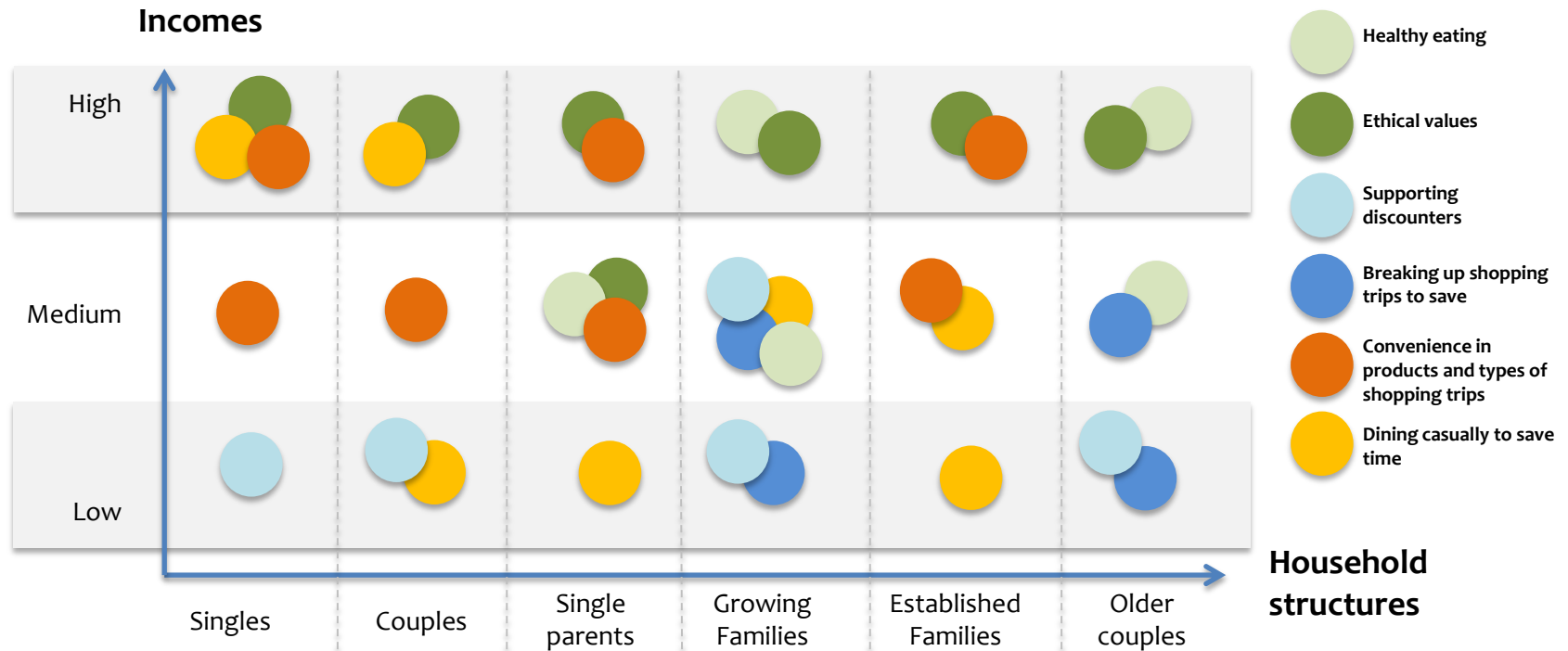
- Pre-packed, portion-based serves
- Convenience meals
- Pre-mixed ingredients
- Mobile snacks or grazing lines
- Semi-prepared meat dishes
- Lunch box fillers and kids snacks
- Meal-base products to cut preparation time

Note: The circles for each of these major preference areas are illustrative only and not meant to be representative of relative size.

3.2 Food market trends

3.2.2 Consumer preferences affecting pricing

Segments of the consumer market can be viewed in a matrix of income levels and household structures. Our analysis of the results of a number of consumer panels, in which our firm and a predecessor firm have invested, shows a general set of spending patterns across these segments. There will always be exceptions to these observations, but the illustrations below have typified behaviour.



This conceptual framework draws on Freshagenda's consumer insights, underpinned by two consumer survey platforms. **Ipsos Food-Health Report 2013** – used a sample of N=3000 people aged 18+ who are recruited at random from the I-View consumer panel N=150,000+ representative of Australian population. Data is reweighted by age and sex. Low income = less than 40k; middle = 40-100k; and high = greater than 100k per annum. **Mealpulse** – a long-term consistent tracking of consumer spending 2007 to 2013 using a nationally representative sample, capturing all household segments based on socio-economic and economic variables, allowing segment-specific insights.

3.3 The competitive landscape

3.3.1 Retail competition

Intense rivalry

- There is apparent intense price-based competition in the grocery retail market for consumer spending on food, between the major grocery chains themselves, and Supa IGA grocers, discounter Aldi, and independent or franchised specialty food stores.
- Since 2008, the major theme underpinning the positioning of the major chains has been based on delivering value to shoppers, responding to the tight economic conditions and the cautionary sentiment of households.
- The intensity of retail price competition has been given impetus by two major corporate developments – the improvement in performance of Coles, and the expansion in Aldi's store network.
- Coles sales momentum has been leveraging off improved fresh produce performance and aggressive marketing of everyday value. Investments have been made in lowering supply chain costs, improving sales productivity and specialist skills in store operations, while also lowering group overhead costs which had risen under previous managements.
- The expansion of Aldi, with a smaller store footprint and a focus on a limited number of low-priced lines, has sustained the focus on value pricing of major selling lines.
- Over this period, while Woolworths has remained a significantly larger retail chain, Coles has led in underlying store sales growth.

Outlet numbers

- Figure 3.3.1.1 on the right indicates the relative size of store networks across major grocery chains at the end of 2014. Costco and Aldi are growing discount store networks using radically different models.
- There are a large number of small independently bannered stores supported by wholesale distributors of which Metcash is the dominant supplier and equity holder in key Supa IGA networks.

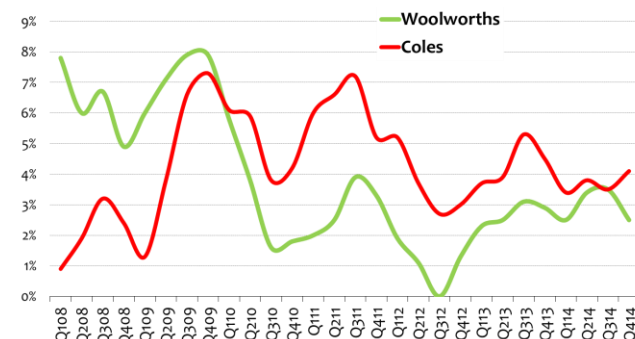
Figure 3.3.1.1 – Retailers' outlet numbers and growth since 2010

| | Stores As at Oct/Nov 2014 | Growth in store numbers since 2010 |
|---------------------|------------------------------------|------------------------------------------|
| Large format | | |
| Woolworths | 931 | 13% |
| Coles | 762 | - |
| Supa IGA | 387 | 16% |
| Aldi Stores | 354 | 41% |
| Small format | | |
| IGA group | 1417 | 6% |
| Foodworks | 575 | (12%) |
| SPAR | 215 | (1%) |

Source: Retailworld 2014, Annual reports

Note: Combined supermarket sales of groceries by Woolworths (\$34.5bn) and Coles (\$26.4bn) were \$60.9bn in 2013/14, making up 65% of the sales through supermarkets and grocery stores according to ABS for the same period of \$93.0bn. Retail sales by other retailers above are not publicly disclosed.

Figure 3.3.1.2 – Retailer “same store” sales growth (year on year) 2007 to 2014



Source: Annual reports

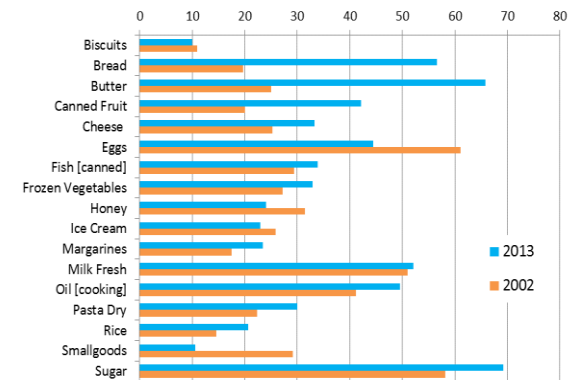
3.3 The competitive landscape

3.3.2 Retail strategy

Perception of value

- The major grocery brands compete to influence shopper perceptions about the quality and value of the products and services they each offer. The retail grocery contest focuses on the “best place to shop to save money” within the choice and convenience of their store offers.
- Grocery promotional activity – through printed catalogues and media channels - provide the highest volume of marketing messages that reach most households and consumers.
- They convey the value of products available and strongly influence consumer buying patterns between similar products. It is an integral part of any new product launch and stimulates trialling by consumers. The tactics used in promotional activities have changed over time, closely tracking and feeding greater sensitivity to value.
- Since the economy started to tighten in 2008, the value themes on promotion have strengthened. The promotion of “value” gained momentum in 2011 with the advent of deep-discount programs on key staple lines offering “everyday savings” across categories which have been sustained to the time of writing.
- The expansion of Aldi as a competitor in low-price groceries has served to ensure the two major chains sustain the focus on value.
- The perception of saving shoppers money on their food spending is taken through to regular corporate reporting of the underlying food inflation – or deflation as it has been since 2011 – that is being achieved. These have consistently tracked below the overall reported ABS all food CPI since that time.
- This can be explained by the ABS methodology which tracks the same basket of products over time – which included branded items and consistent fruit and vegetable products. The methodology does not allow for shopper behaviours such as switching to private label or promoted items or avoiding out of season produce in an effort to save.

Fig 3.3.2.1 – Private label share of grocery categories



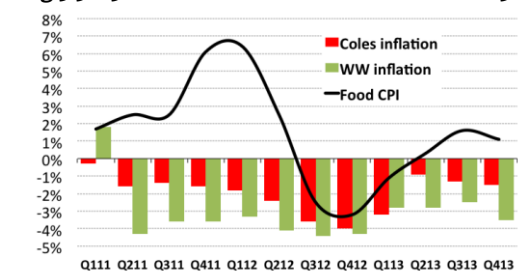
Source: Retailworld 2013, 2002

Fig 3.3.2.2 - Grocery promotion themes 2010 to 2014



Source: Freshagenda analysis

Fig 3.3.2.3 – Retailer deflation v ABS 2011 to 2013



Source: Annual reports

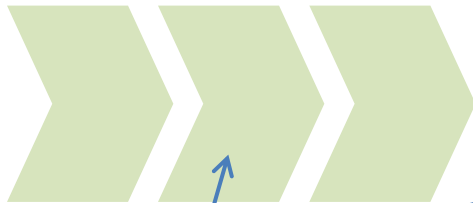
3.3 The competitive landscape

3.3.3 The food service market trends

A summary of the pressure points in various segments of the foodservice market that are influencing prices achieved by suppliers is summarised below by reference to the different price points offered by outlets:

Those providing 'experience' can excel - High-end innovators in food experience and format, maintaining high throughput and demand.

Undifferentiated middle ground failures - The large segment has had the greatest exposure to households and business curbing costs. Those without a compelling point of difference in experience, location, variety and quality have failed.



Cutting 'back of house' risks - Many in the lower-cost end of the market are risk-managing back-of-house costs by outsourcing to specialist caterers – cutting waste and kitchen labour.

Channel blurring - Takeaway options for agile cafes and restaurants are more common-place to increase scope for capture of home convenience meals. Increasing prevalence of ready meals in grocery and specialist food stores will be seen in future.

High meal prices



Low meal prices



Name alone is not enough - Big names are not enough. Reputations matter little at the fine dining end. Failures have included 'name' chefs. The celebrity chef name is not sufficient to ensure queues.

Diverse influence of choice – greater consumer desire for peer opinion, coupled with digital media that is a major vehicle for 'word of mouth' ensures higher importance of customer rather than professional critics' opinions.



Addressing diner health - Healthy options are key differentiators – demanding more information on ingredients, greater variety in options, and more use of 'sharing' meals.

QSR winners - Bundling variety, value, and convenience. Many new variants of Quick Service Restaurants (QSR) have emerged based on cuisine specialisation.

Emerging alternate channels – small but expanding share being won by home convenience meal providers, including those catering to business and home 'entertainers'.

3.4 Global comparisons

3.4.1 Trends in food prices

Global trends

- International food commodity prices have generally increased more sharply and become more volatile in the past decade compared to previous periods.
- The charts (Figures 3.4.1.1 and 3.4.1.2) show a number of commodity price indices tracked by the International Monetary Fund (IMF) and the Food and Agriculture Organisation of the United Nations (FAO).
- Major volatility was precipitated by food shortages in 2007, caused by the convergence of strengthening demand from developing countries and shortages of supply caused by droughts in several regions.
- At this time, the global financial crisis also changed the perception of risk associated with food commodities.
- The volatility in prices has remained a strong feature of commodity markets since – particularly affecting cereals, dairy, vegetable oils, and sugar.
- These movements in price have generally been reflected in farmgate prices across the Australian industries, as tracked over time by ABARES. Each of these are explored in section 4 of this report.
- While international prices for food commodities have risen strongly, these increases have not been fully passed onto consumers in developed world economies, as consumer spending has been dampened by slow economic growth and ongoing uncertainty regarding employment and household wealth.
- In most cases prices have been held below rises in average incomes, as shown in the charts on page 36.

Fig 3.4.1.1 – Global commodity price indices (2005=100)

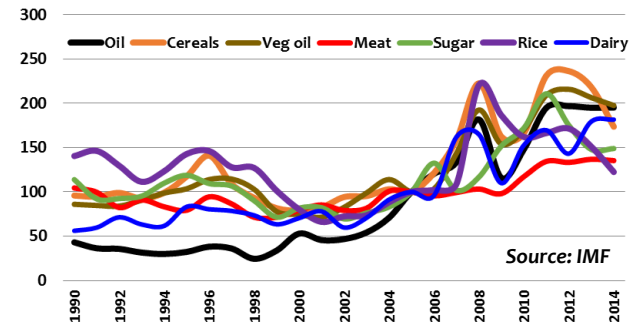
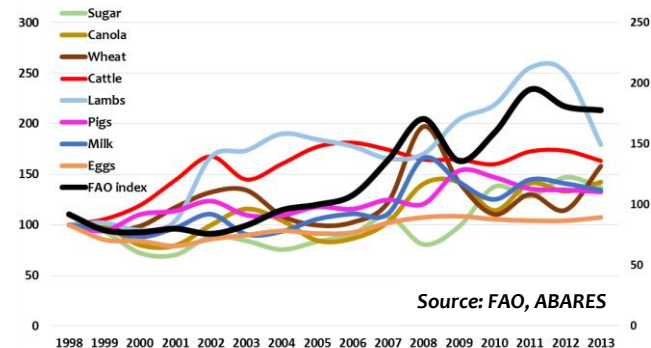


Fig 3.4.1.2 – FAO food index v trends in Australian farmgate prices



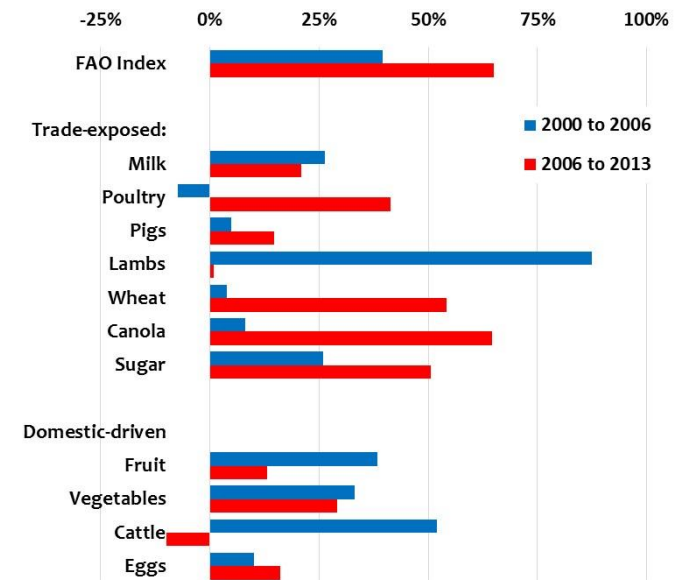
3.4 Global comparisons

3.4.1 Trends in food prices

Australian farmgate prices

- The historical changes in farmgate prices paid in Australia varies considerably depending on the relative influence of international trade and domestic weather events.
- The chart on the right compares changes over historical time periods in average farmgate prices for each of a number of commodity groups (from ABARES data) with changes in the FAO food index over the same periods.
- Movements in traded commodities such as grains (which has in turn influenced poultry), oilseeds, dairy and sugar have been more pronounced in the past 7 years, in line with global commodity trends.
- Domestically-driven farmgate values have been mostly affected by local supply conditions including weather events. Beef is included in this list in the chart on the right, as the farmgate prices over time are assessed as being more directly affected over time by domestic cattle supply and processor throughput demand, rather than the value of beef in export markets. This is explained in section 4.1.

Fig 3.4.1.3 – FAO index v changes in Australian farmgate prices



Source: ABARES

3.4 Global comparisons

3.4.2 Is our food more expensive?

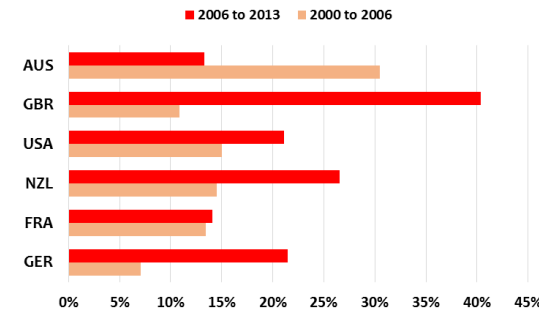
Relevant countries

- One of the key issues analysed in this report is whether prices paid by Australian consumers are higher than those faced by consumers in relevant other countries.
- Which countries are appropriate in such a comparison? Our work has considered a number of factors in ensuring comparisons are valid, including:
 - Average household income levels
 - The portions of household incomes spent on food
 - The nature of food retail channels (including the prevalence of supermarkets).
- Australians spend a similar proportion of their income on food eaten at home compared to other developed countries, according to the Organisation for Economic Co-operation and Development (OECD) analysis, as illustrated in the comparison on the right.

Changes in prices

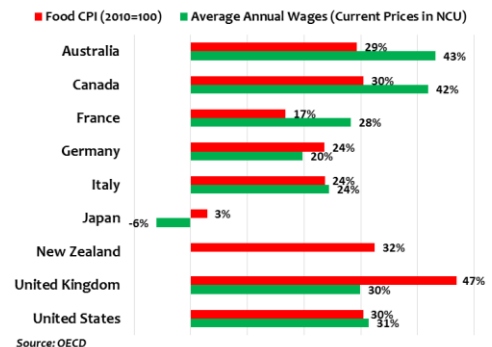
- After rising more quickly in the period since 1990, food prices in Australia would appear to have risen more slowly in the past five years compared to a number of similar countries.
- The higher prices in other countries have reflected the inability of the processing and distribution to prevent higher commodity food costs being passed through to consumers in the absence of alternate sources.
- In the case of the EU and US to a lesser extent, the gradual removal and reduction in the support provided to farmers through subsidies and other protections has seen a greater exposure for their consumers to world market forces and relatively higher growth in the cost of food products.

Fig 3.4.2.1 – Growth in Consumer Food Prices (2010=100)



Source: OECD

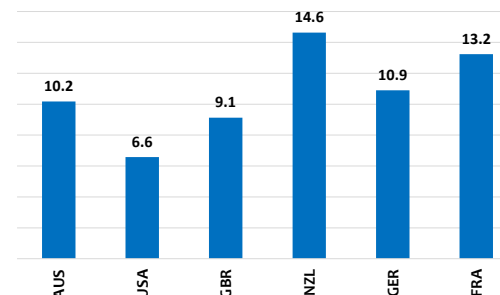
Fig 3.4.2.2 – Food CPI v earnings growth – 2003 to 2013



Source: OECD

Source: OECD

Fig 3.4.2.3 – Percent of consumer expenditures spent on food consumed at home (2012)



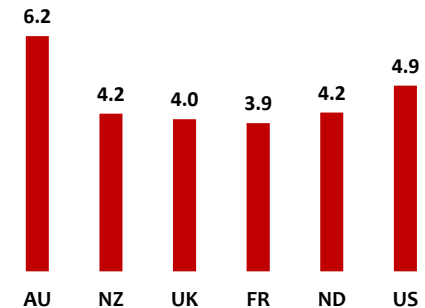
Source: Euromonitor International

3.4 Global comparisons

3.4.3 Cost of the food basket

- We have developed a comparison of the relative cost of a comprehensive food basket across countries.
- This has been assembled using a consistent basket of products which have been priced using prevailing grocery prices in a number of retail outlets across the countries. This has, where possible, excluded the effect of “specials” and promotions.
- To ensure consistency and eliminate the effect of different currencies, this comparison has been expressed in terms of the number of times average household incomes cover the costs of that food basket.
- There are a number of challenges with international comparisons of prices:
 - **People don't buy the same products** in all places – a representative basket in Australia may not necessarily be representative of what households typically purchase and consume in other countries;
 - The **sources** for these price comparisons are supermarkets with online facilities. The ranges offered through online facilities vary between countries as does the overall role of supermarkets as a consumer channel;
 - **Products are not the same** – there are often different specifications and pack sizes across countries; and
 - **Seasonal influences on prices will be different** at a point in time – Australian and NZ fresh produce prices in spring 2014 will be affected by different factors to those affecting prices in autumn months in Europe and the US.
- **Note:** At a category level, through this document, we illustrate some of the comparisons in that basket and in other observations of pricing in these other countries. In all cases, these should be read with due regard to the above caveats.

Fig 3.4.3.1 – Number of times that the average food basket can be purchased using the average weekly household disposable income



Source: Freshagenda analysis, OECD IDD, retailer online unit prices

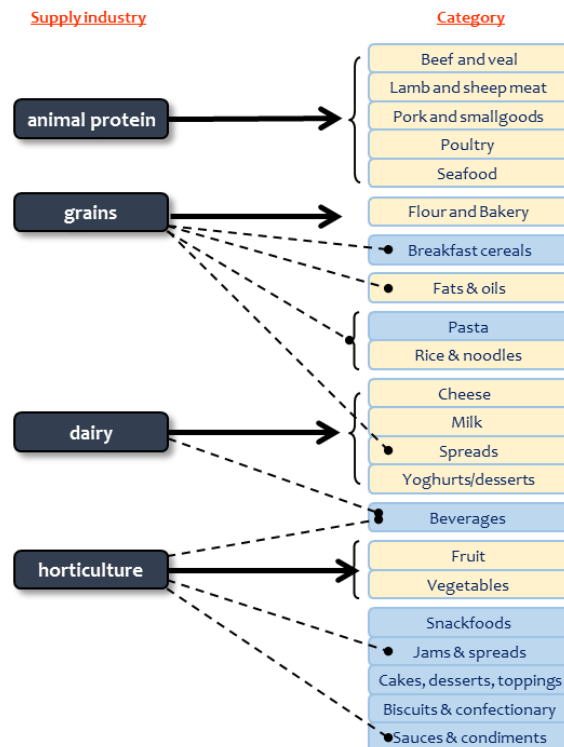
SECTION 4: ANALYSIS OF VALUE CHAINS

4.0 Introduction to this section

4.0.1 Coverage

Introduction

- This section provides analysis of the influences on prices through food value chains across a number of categories that encompass the products identified in the project brief.
- The table on the right shows the coverage that has been achieved in terms of the identification of pricing at points where title passes from one sector or participant to another.



| Category | Pricing analyses undertaken | | | | Page |
|-------------------------|-----------------------------|-----------|--------|---------------------|------|
| | Farmgate | Wholesale | Retail | Category evaluation | |
| Beef | ✓ | ✓ | ✓ | ✓ | 45 |
| Lamb | ✓ | ✓ | ✓ | ✓ | 52 |
| Pork | ✓ | ✓ | ✓ | ✓ | 56 |
| Poultry | XX | NA | ✓ | ✓ | 60 |
| Seafood | L | NA | ✓ | ✓ | 75 |
| Milk | | | ✓ | ✓ | 66 |
| Cheese | ✓ | ✓ | ✓ | | 70 |
| Spreads | | ✓ | ✓ | | 72 |
| Fruit | L | ✓ | ✓ | ✓ | 80 |
| Vegetables | L | ✓ | ✓ | ✓ | 90 |
| Processed fruit and veg | NA | NA | ✓ | ✓ | 96 |
| Oilseeds | ✓ | NA | ✓ | | 103 |
| Grains | ✓ | NA | ✓ | | 106 |
| Rice | ✓ | NA | ✓ | ✓ | 109 |
| Sugar | ✓ | NA | ✓ | | 112 |
| Eggs | NA | L | ✓ | | 115 |

Guide to symbols

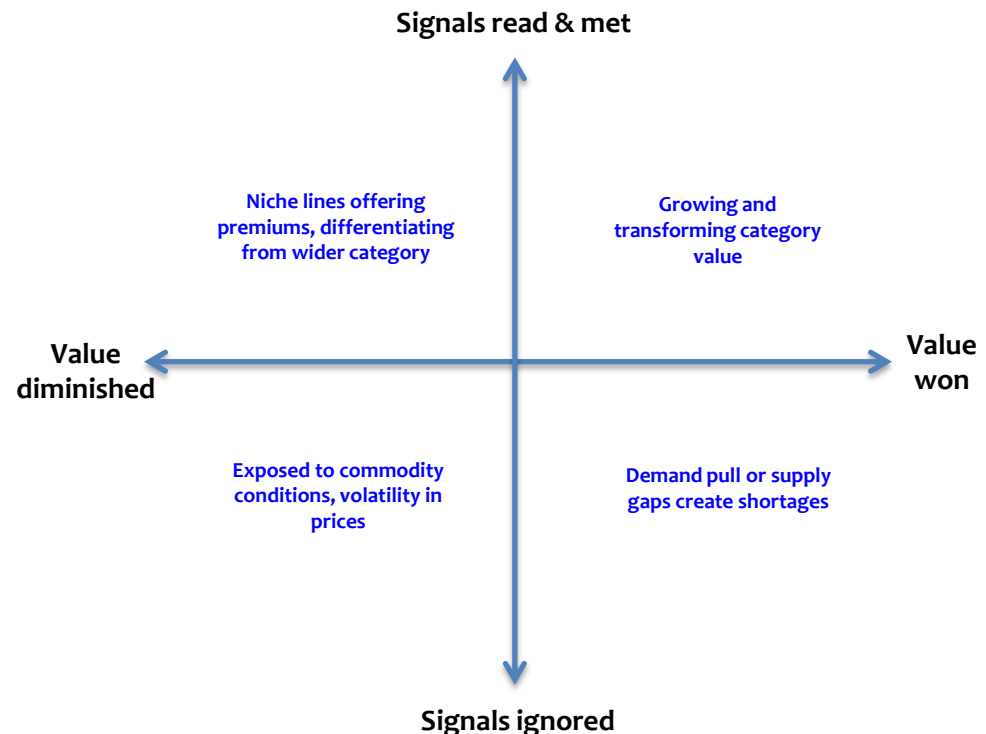
L = limited; NA = no data available; AD = awaiting data at time of draft; XX = not applicable (no separate farm sector)

4.0 Introduction to this section

4.0.2 Products within categories

Relative product performance

- In assessing prices within and across food categories it is critical to respect the diversity of roles played by individual food products within their categories. Many products have demonstrated the ability to capture higher value for both retailers and suppliers, while others either offer niche opportunities, or are exposed to commodity conditions and volatility.
- The terms of reference asked for a comparison of prices through the supply chain for a range of products. There is danger in simply focusing on a single line within fresh produce and other categories, without a full picture of the entire category and an appreciation of the experience within those categories of reading and meeting market signals and capturing opportunities for category growth and higher value.
- Retail prices in fresh produce and in some meat categories tend to reflect movements in wholesale market prices – short-run trends in retail prices for products that are exposed to commodity conditions reflect “cost-plus” behaviour.
- There are however an increasing number of products that have demonstrated their ability to defy these commodity conditions, where suppliers have read and acted on preferences being expressed by shoppers - extracting higher unit value for the produce, and altering the dynamics of the category in total.
- Any assessment of pricing along supply chains must in our view take account of these factors to accurately convey the value relationships.
- We have applied a criteria as summarised on the right across selected product categories to illustrate these features over time, which have been observed in unit pricing trends, the composition of category and sub-category sales and the changes in volume over time.



The criteria applied in scoring specific products:

Signal reception

- Growth in volume is being achieved over time for the overall category
- Extent of product differentiation is strong
- There is a greater breadth of end-use solution or application being provided

Value creation

- The extent of exposure in unit value over time to seasonality and/or competitors – low exposure ensures more consistent value capture
- Relativity of unit value over time compared to wider category

4.0 Introduction to this section

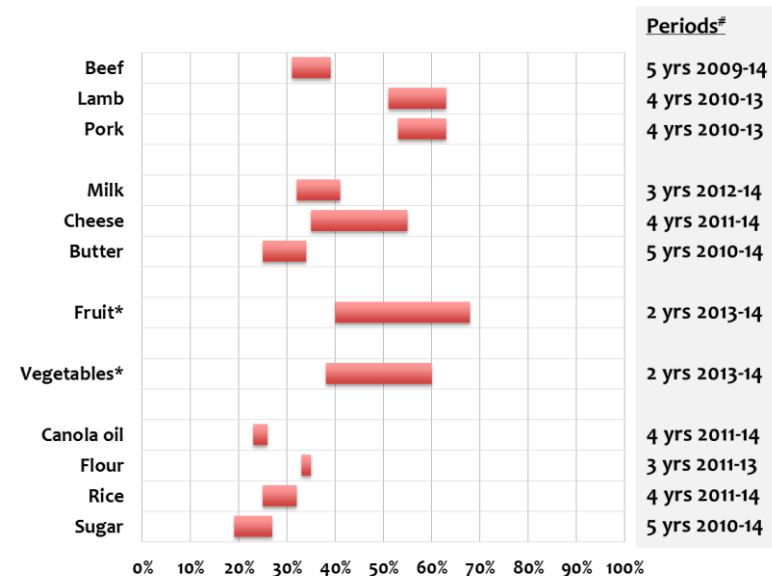
4.0.3 Farmers' share of retail

Approach and findings

- A key component in the terms of reference for this study is an estimation of the farmgate share of retail prices.
- Our approach has been to ascribe a range to the shares, due to the fact that prices change over time, and within categories there are a wide range of prices dependant on quality and seasonality.
- Where possible, we have developed a like-for-like comparison of prices, taking account of relevant supply chain relationships and product yields.

| Sector | Approach & key assumptions | Pages |
|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Beef, lamb and pork | <ul style="list-style-type: none"> • Beef based on retailer supply chain model. • Each takes account of typical saleable meat yields from carcasses and average retail category values. | 49-50, 55, 59 |
| Dairy | <ul style="list-style-type: none"> • Milk is based on the range of farmgate prices paid for supply to fresh milk processors, and average milk category prices. • Prices for dairy products refers to typical yields from milk. | 69, 71, 72 |
| Fresh produce | <ul style="list-style-type: none"> • Based on produce supplied direct to retailers, across a number of categories examined. Individual lines occur within these ranges. | 82-95 |
| Oilseeds | <ul style="list-style-type: none"> • Assumes typical refined oil yields from canola, and average category prices across product range. | 105 |
| Flour | <ul style="list-style-type: none"> • Assumes flour yield from wheat and average retail value for packaged flour. | 108 |
| Rice | <ul style="list-style-type: none"> • Assumes milling yield from paddy rice and medium grain retail prices. | 111 |
| Sugar | <ul style="list-style-type: none"> • Assumes sugar yield from cane ice and average retail prices for packaged sugar. | 114 |

Figure 4.0.3.1 – Farmer's share of retail value



Source: Freshagenda analysis

[#] This refers to financial year ends ending June in each year.

*This analysis has been based on farmgate shares of sales through **grocery channels**. In the case of fresh produce lines, the farmgate prices are based on estimates of direct supply prices in 2013/14 and earlier where available that have been provided on a confidential basis, which are adjusted for logistics and packaging.

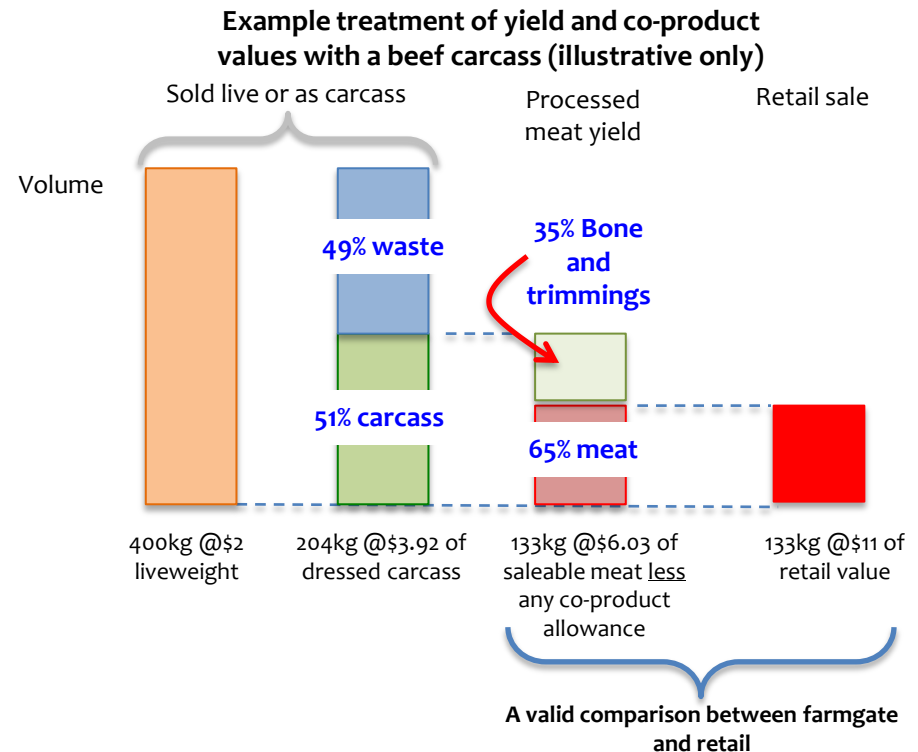
For fresh produce lines, this has not taken account of prices achieved by producers who supply wholesale markets, which have been evidenced as being (on average) below prices achieved for direct supply to grocery. This produce is typically then sold through independent grocery and specialist greengrocers, the prices for which could not be gathered on any representative basis for this project, given the scope provided.

4.0 Introduction to this section

4.0.3 Farmers' share of retail

The importance of yield

- Simplistic comparison of farmgate and retail prices often neglect the critical conversion factors associated with product transformation and yield, and the roles of any significant co-products.
- In the case of livestock, for example, it is not valid to draw direct comparisons between individual retail cuts of meat and the value of the carcass at farmgate, due to the loss of unsaleable weight, processing waste and the diverse array of products and co-products that are produced from each animal.
- Taking account of carcass dressing and yields of saleable meat and other products is critical in these analyses. This also applies in dairy and oilseeds products, where waste streams have been commercialised to achieve processing efficiencies.
- The roles played by co-products varies considerably across these sectors, depending on processing economics and the determinants of farmgate prices over time.
- Our approach has been to consistently align the relationship between a retail product and the farmgate equivalent of the saleable yield in product.
- The example on the right illustrates a simplistic case of a beef carcass, which is sold into the value chain either as live or as a carcass, yet carries a certain saleable meat yield. The producer gets paid for an overall carcass value which is converted to saleable meat equivalent. In our workings, the value of offal and other nominal co-products are assigned as a portion of the farmgate value in this case, and hence the cost of the animal to the processor is adjusted.
- The issues associated with the influence of co-products on farmgate values and the calculation methods in each case have been detailed in each relevant page of this section.



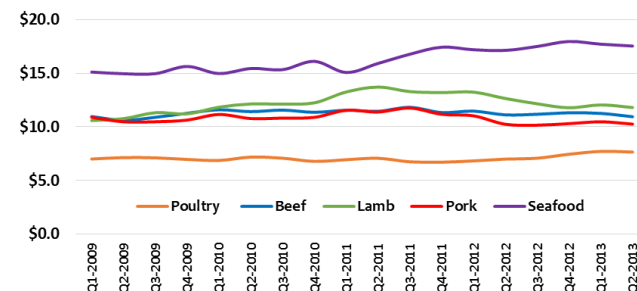
4.1 Meat

4.1.0 Major meat proteins

Introduction

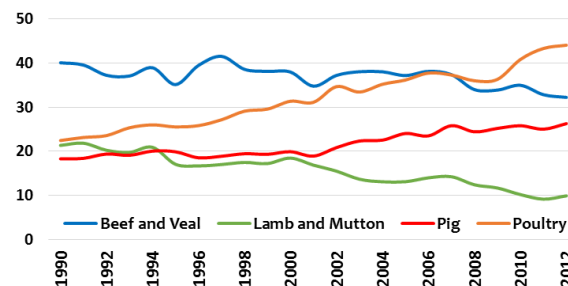
- The major meat protein sectors are each fundamentally different in their size, the nature of farm and processing enterprises, integration, and market structures.
- Pricing through the value chains in most cases, with the exception of poultry, is strongly influenced by the returns from international trade. Closer to the domestic consumer, the prices achieved for the competing proteins are affected by their suitability and relative ease of use in meal occasions and preparation methods.
- The meat industry has focused its promotion and market development activities at improving the information and choices available to the consumer in the form of cuts and eating quality, which major retailers have been best-placed to communicate through product branding, portion sizes and packaging.
- The overall consistency, versatility (in home-prepared meals as well as across food service products) and price competitiveness of chicken has ensured steady growth in per-capita consumption over time.
- Beef on the other hand has suffered somewhat through negative health perceptions and some price sensitivity for higher-value cuts.
- Lamb consumption has also meanwhile declined due to the relative higher price of cuts, affected by the strong export value of the meat (as seen in this section).

Figure 4.1.0.1 – Average retail prices achieved by each overall meat category



Source: Freshagenda analysis

Figure 4.1.0.2 – Apparent kg consumption per capita



Source: ABARES

4.1 Meat

4.1.0 Major meat proteins

Category overview

- There is a large amount of diversity in the retail range of meat products across the major protein categories, which compete on a range of attributes, including health, convenience of preparation, consistency of flavour and versatility.
- The matrix on the right attempts to illustrate the relative performance of some key products that offer this differentiation, compared to commodity or generic lines.
- The differentiation in placement of individual products in this matrix is based on their role and performance within their respective meats, with regard to the overall impact on sales, the pricing achieved and the respective growth achieved.

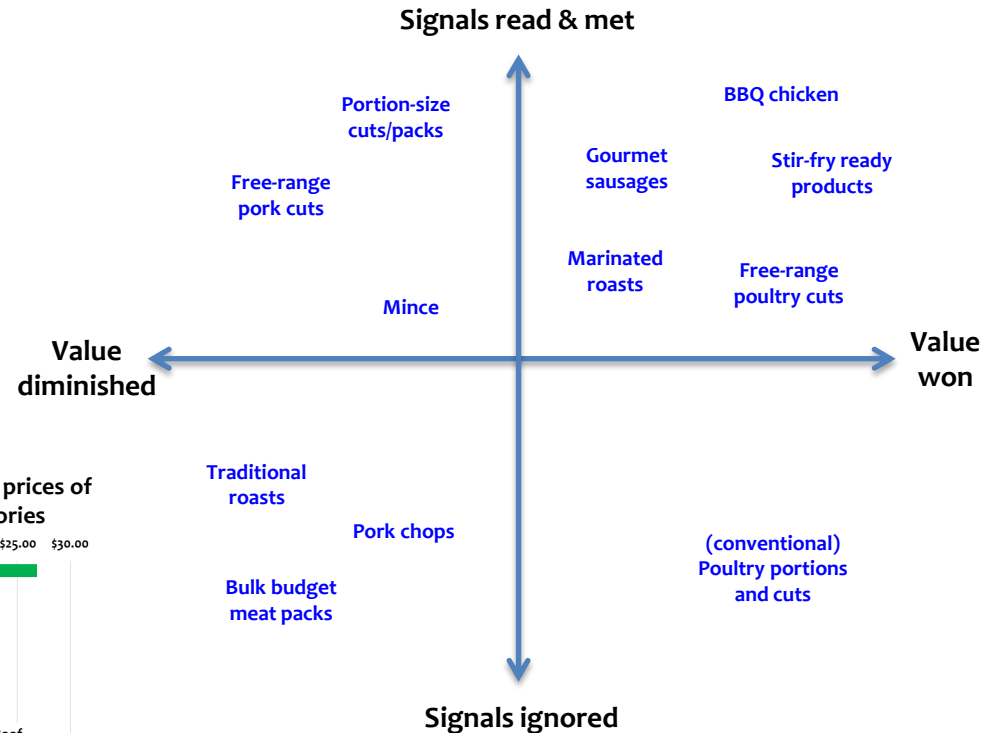
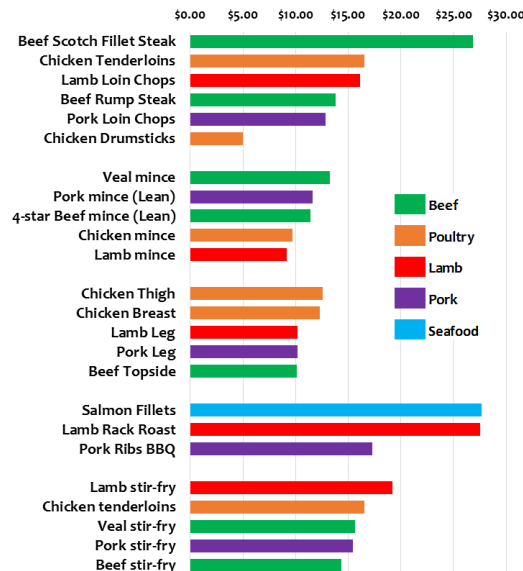


Figure 4.1.0.3 – Average per kg retail prices of selected meat cuts across categories



Source: Freshagenda analysis of retail price data

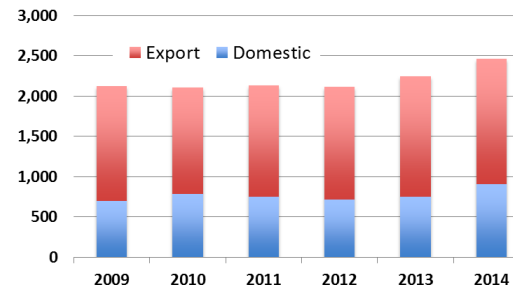
4.1 Beef

4.1.1 Beef sector overview

Introduction

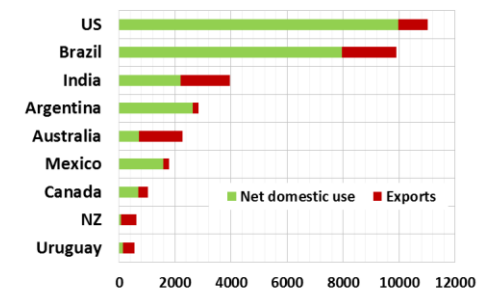
- The Australian beef industry is dominated by large volume supply chains through finishing and abattoir facilities in Queensland, which have developed to service export markets. In other respects the industry is a diverse food sector with a large number of production enterprises of varying size and specialisation and a range of supply chain models through to both export and domestic consumers.
- Most of annual beef production is from grass-based farms, but about 30% of animals are finished in feedlots.
- Australia is a leading exporter of beef onto world markets, but is unlike most exporters (with the exception of New Zealand) which consume most of their output in their home markets.
- **About 67% of beef production is exported** (in terms of carcass weight equivalent) to a variety of export markets. Export shipments are dominated by low-value primals and portions sold into developing markets, alongside the supply of manufacturing beef to the US. About 10% of total cattle numbers turned off each year are exported live into a number of overseas markets.
- **Major supermarkets** (with about 57% of the domestic market for beef) have to some extent developed dedicated supply chain models to provide scope for stability in supply and prices of beef over time in an effort to mitigate volatility in seasonal conditions and export returns.
- Specialist retailers (butchers) retain a significant share (16%) of the domestic market despite strong price competition from grocery chains. Foodservice volume share (27%) is dominated by the volume sold through major QSR chains which typically contract their supply direct with processors.
- There are increased instances of integration featuring wholesalers and specialty retailers aiming to improve points of difference and returns to counter the intensely price-competitive grocery sector.

Figure 4.1.1.1 – Australian beef market mix 2009 to 2014 ('000t cwt)



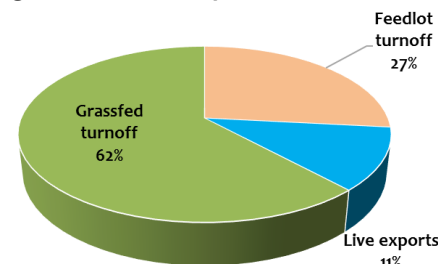
Source: MLA

Figure 4.1.1.2 – Major beef producers 2014 ('000t cwt)



Source: USDA

Figure 4.1.1.3 – Cattle production 2013/14



Source: ABS, ALFA/MLA, Freshagenda analysis

4.1 Beef

4.1.2 Factors affecting supply chain pricing

The beef value chain has two distinct markets – one for cattle and another for meat. These are affected by different dynamics and there is limited overall correlation between these markets over time that affect pricing.

Cattle values are set by the supply of and demand for animals into feedlots and abattoirs.

Meat values set at wholesale (including buying to address the requirements of retail mix) by export returns from various markets.

Livestock price volatility affected by supply and demand at each point in the chain - including seasonal conditions, feedlot margins and live market access.

Customer & competitor dynamics - export returns mostly affected by \$A values, changing export mix (countries and carcass portions); economic conditions in Japan/Korea; and supply/demand conditions in US markets.

Protein competition - strong competition between meat proteins on value, health and convenience factors.

Feedlot activity – volumes on feed driven entirely by short-term cash margins – affected by feeder cattle supply, prices and feed grain costs.

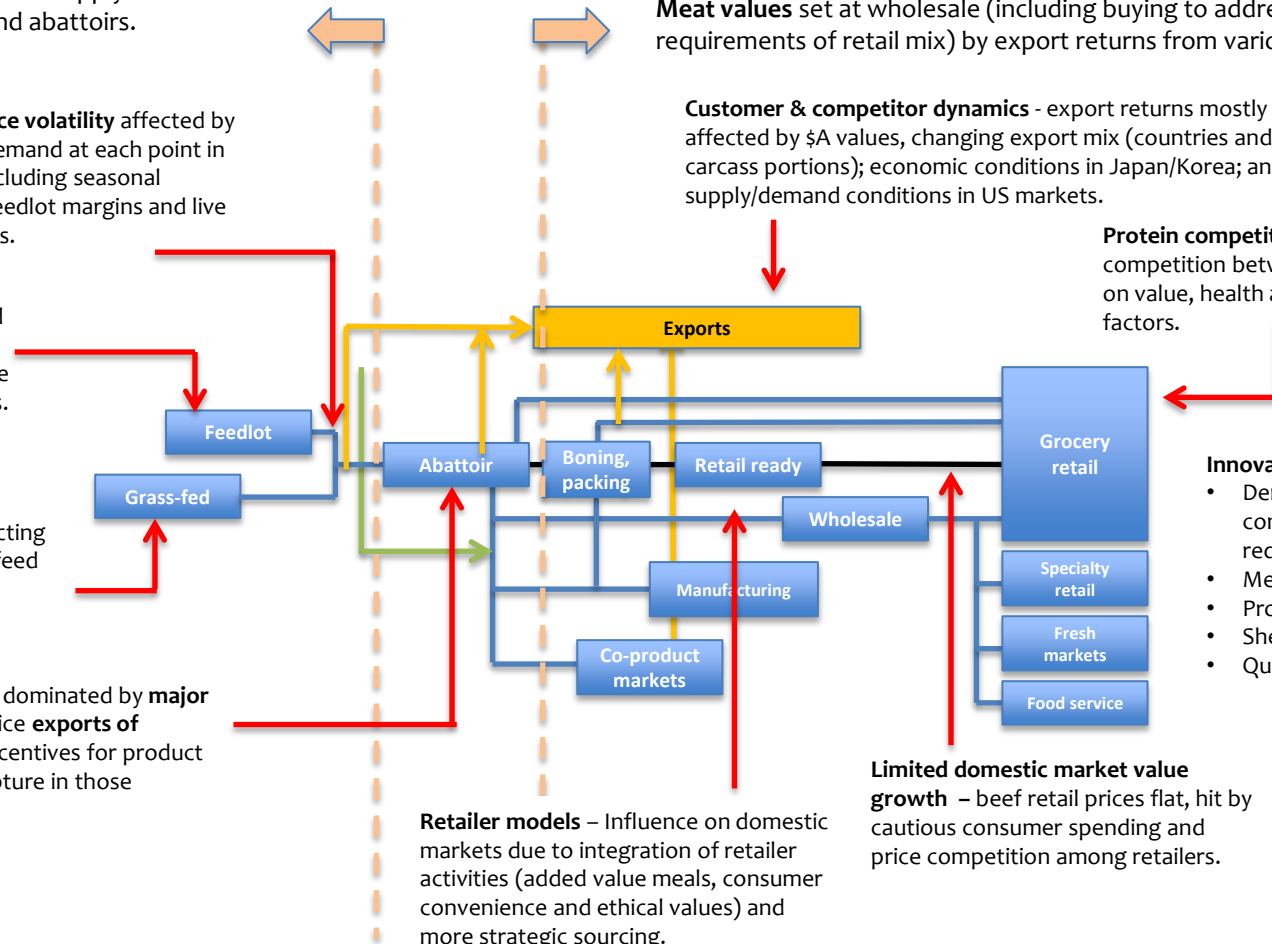
Climatic variability - affecting production capacity and feed costs.

Concentration - processing dominated by **major facilities** developed to service **exports of chilled product**, creating incentives for product development and value capture in those markets.

- Innovation drivers** –
- Demand for portion control (diet/waste reduction)
 - Meal-ready convenience
 - Provenance
 - Shelf-life extension
 - Quality/value ranges.

Limited domestic market value growth – beef retail prices flat, hit by cautious consumer spending and price competition among retailers.

Retailer models – Influence on domestic markets due to integration of retailer activities (added value meals, consumer convenience and ethical values) and more strategic sourcing.



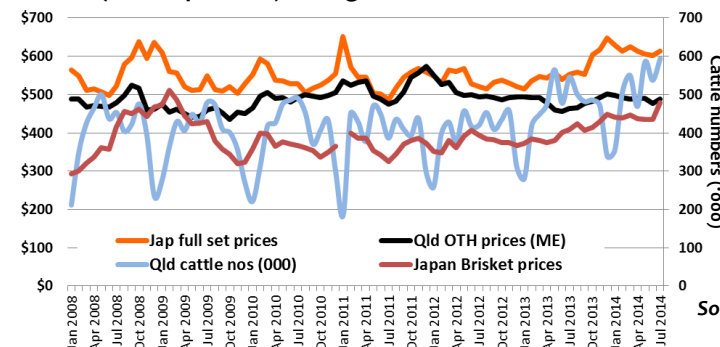
4.1 Beef

4.1.3 Beef pricing over time

Exports the main driver

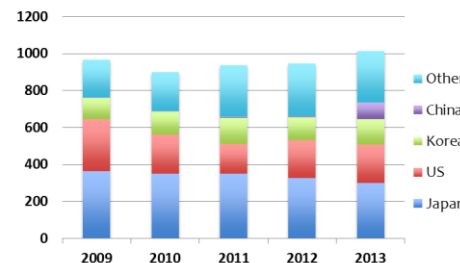
- There are slim margins between values achieved for saleable meat and carcass prices paid for animals. This situation is common globally – meat processors in most developed large-scale regions effectively operate with profit margins of less than 3% of sales, which is subject to variability due to the volatility in cattle prices.
- Relative cattle prices are influenced by the carcass sizes and production system which to some extent defines their path to market. Prices are most affected however due to the balance in available supply and feedlot and/or abattoir demand.
- The processing sector operates on small margins, with values obtained from co-products critical to profitability.
- **Export returns** vary over time due to the strength of demand from specific markets and value of the \$A over time which affects the competitiveness of Australian product in destination markets. In general however, export returns in recent years have averaged between \$3.50 and \$4.50/kg of processed meat.
- There is some relationship between prices achieved for exports into certain markets and the availability of cattle that are suited to specific markets. The chart at the top shows the relationship between over the hooks (OTH) prices for heavy steers and prices of meat sold into Japanese markets.
- Farmgate and slaughter prices for domestic livestock track overall cattle market trends. **Grocery retail prices for meat** are relatively stable, as retailers have sought to deliver consistent prices to consumers. Over time the data reflects practice – that retail prices follow trends (with some smoothing) in the cost of cattle inputs. See Fig 4.1.4.1 on page 49.
- The domestic retail market is strongly influenced by the price promotional activities of grocery chains, with popular cuts of meat being used as a major value drawcard since deep-discounting programs were intensified in 2010.

Figure 4.1.3.1 – Japanese market v Qld carcass prices (meat equivalent) v slaughter numbers 2008 to 2014



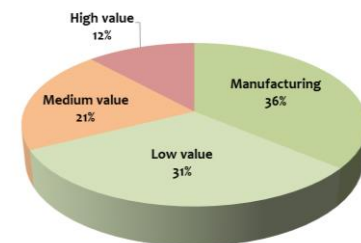
Source: MLA, ABS

Figure 4.1.3.2 – Export market mix 2009 to 2013 ('000t swt)



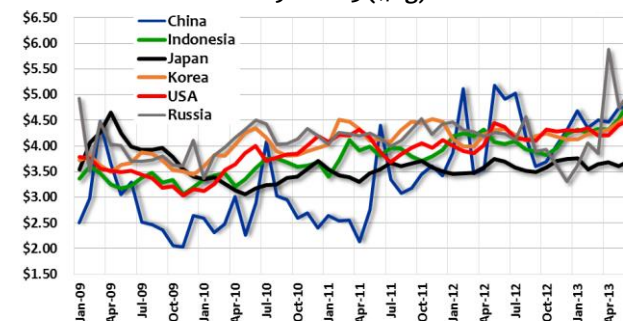
Source: MLA

Figure 4.1.3.3 – Australian beef exports – top 10 beef cuts in 2013



Source: MLA, Freshagenda analysis

Figure 4.1.3.4 – Beef boneless frozen exports 2009 to 2013 (\$/kg)



Source: MLA

4.1 Beef

4.1.3 Beef pricing over time

Retail product mix

- The sales mix of meat products through retail channels differs significantly from the prima-facie yield of cuts obtained from a beef carcass.
- The mix of meat sales volumes for the Australian retail market is dominated by mince, which is the lowest value portion.
- The chart on the right shows the typical average retail value and volumes obtained across the category over a full year.
- Prices for beef products have on average been consistent over recent years, due to the price competition within the category.
- Prices tend to vary over seasons within any year given the different demands for roasting and barbeque/frying products.
- Even within each of those portions, there is considerable range of prices due to variation in fat, eating grades, pack/portion size, and the extent of preparation for ultimate use.
- Cattle prices for medium weight cattle sold into domestic markets are relatively consistent over time, as are average retail prices for the beef category. While the farmgate share of retail (on the following page) draws on data from 2013 and 2014 financial years, the chart below at Fig 4.1.3.7 shows that similar calculations for earlier periods (2010 to 2012) would deliver similar results.

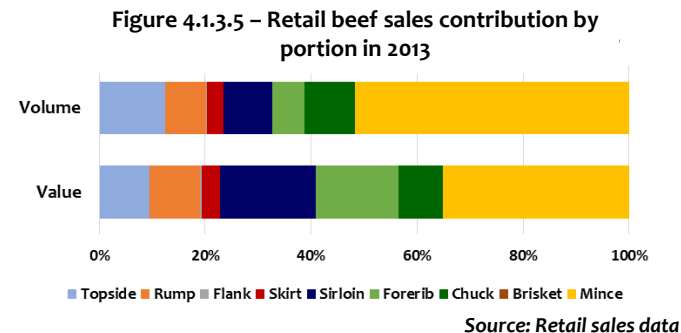
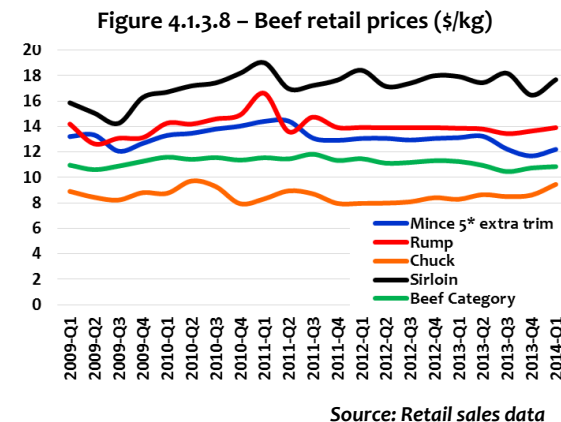
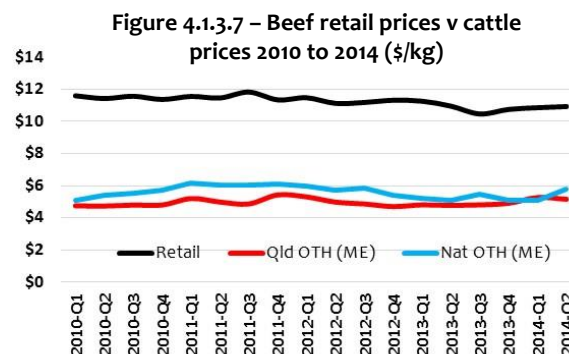
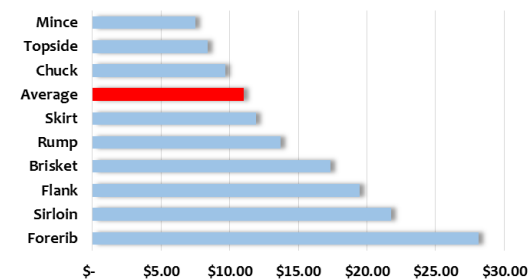


Figure 4.1.3.6 – Retail beef prices by cuts in 2013



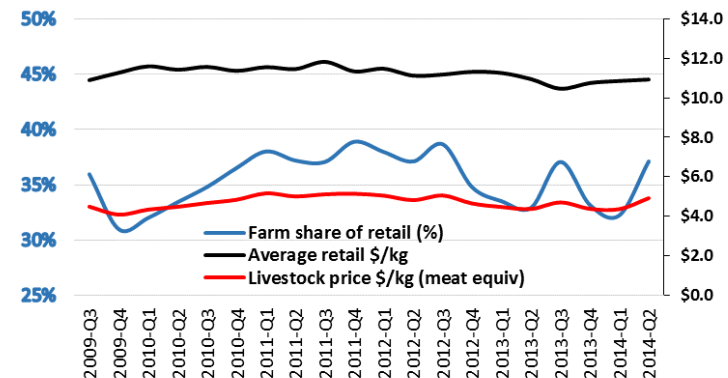
4.1 Beef

4.1.4 Beef supply chain models

Retailer direct supply model

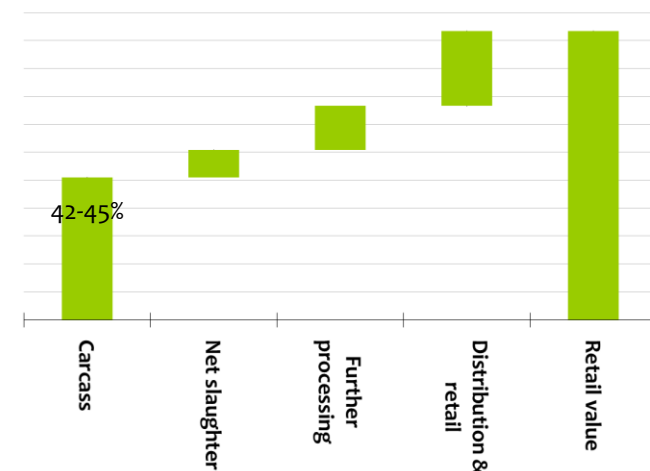
- We have undertaken analyses to compare an average retail value of beef cuts with the farmgate price of relevant livestock. This takes account of the carcass yield and actual retail sales mix, and the contribution of co-products from the beef value chain.
- There are a number of supply chain models in use within the industry. Meat sold through the Australian grocery channel is based on a variety of supply chain models with retailers sourcing animals from a mix of grass and grain fed-systems and some contract outsourcing of slaughter and processing.
- The calculation of relative prices paid (in meat equivalent terms) at farmgate (based on MLA data for domestic livestock in the weight range used for domestic sales, adjusted for co-product values) and retail is shown in the chart on the right. This shows the farmgate share has varied over the 5-year period between 31% and 39% of the retail value.
- **Assumptions used in these calculations are set out in the box on the following page.**
- Retailer models typically pay a little higher than the prevailing market prices, to ensure commitment and consistency of supply.
- An illustration of such a model over a 24-month period is provided in the chart on the right. A longer time series is not available through similar analysis due to the unavailability of livestock buying price data. This reflects a price paid to the producer which was about **45% and 42%** of the average achieved retail value across all cuts for the 2012/13 and 2013/14 financial years respectively.
- There are other models in use. The category and supply chain management models vary across retailers, with differences in the mix of sales through stores that have in-house butchery operations and those that rely on retail-ready packaged meat trays. These involve different cost structures in staffing and facilities for the retailer.

Figure 4.1.4.1 – Beef producer's share of retail meat prices



Source: MLA livestock sales and co-product data, Retail data, Freshagenda analysis

Figure 4.1.4.2 – Retailer value chain – illustrative costs and values



Source: Industry sources, Freshagenda analysis

4.1 Beef

4.1.4 Beef supply chain models

The role of co-products

- Co-products obtained from a beef carcass may have a material value in terms of the processing efficiencies available to meat processor.
- Yet cattle prices are not determined by reference to the potential value of offal or co-products that can be derived. In general prices paid for animals vary according to fluctuations in cattle supply and the demands of processors for throughput volumes.
- Over the hooks prices are set by processors according to a “grid” based on the estimated saleable meat yield and meat grade quality.
- Co-product yield is however an important outcome for the beef value chain, yet is accounted for between the participants in different ways depending on the relationship between processor, producer and/or ultimate processed meat customer.
- Where the processor takes full risk on processing an animal, co-products offset the cost of killing, dressing and cutting the carcass.
- In cases where the processor is engaged in a toll processing arrangement, an allowance for co-products may be costed into a net processing fee.
- A modern processing facility or downstream enterprises are likely to have significant investments in further stages of product recovery beyond the extraction of co-product portions at the slaughter stage, which may offer further value-adding but only after further investment and added cost.

Assumptions used in the comparative pricing analysis

- Farmgate values of livestock have been converted from a live animal cost into a price per saleable meat yield equivalent.
- Yields used in this analysis are based on estimated retail yields achieved.
- The value assigned to co-products (which has been deducted from the animal value at farmgate) has been determined using MLA data per the assumptions below.
- Average retail value is a volume weighted amount for each of the periods.

Assumptions used in assigning value to co-products

- Co-product yields have been calculated based on the expected weight for each component, for a 240kg carcass which has been used in the value allocation workings, using industry standard cutting yields sourced from past studies undertaken by our consulting team and MLA data.
- Unit prices were assigned to each component based on MLA data for offal and co-products over the years ended June 2009 to 2014, according to MLA's co-products reports.
- This assigned values to co-product recoveries extracted at slaughter stage. The values assigned to certain components that are typically used in or sold into further processing plants for downstream processing into fertilizer, animal meal and pharmaceutical products were nominal.
- This derived aggregate value for co-products is ascribed to the value of the carcass upon slaughter.

4.1 Beef

4.1.5 Beef pricing – overseas comparisons

Retail prices

- A number of comparisons have been extracted in our analysis of international beef prices, including achieved price points through various stages of the processing supply chain. This has been limited to countries where sufficient industry data is available.
- Australian retail beef prices tend to be cheaper on average than EU countries but similar on average to the US – although the comparison is dependent on exchange rate assumptions.
- EU countries are not specialist beef producers, as their beef market is essentially supplied by small-scale facilities from animals that are a by-product of their large dairy herds, resulting in a high cost of meat to consumers. Dedicated beef production on a large scale occurs in the US and in several Latin American countries.

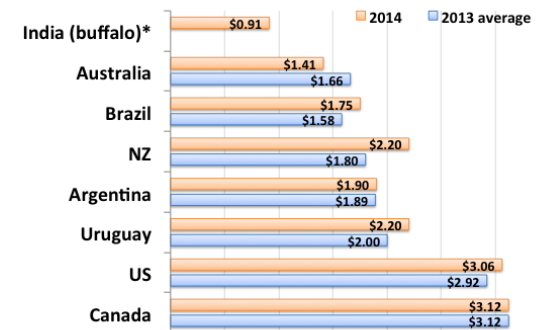
Share of retail value

- We have extracted a comparison of the farmgate share of retail prices in countries where such data is available and analyses are provided by their industries or government agencies. These prices have been yield-adjusted to ensure like-for-like meat values.
- Australian farmgate prices typically represent a **lower portion** of the average retail value compared with a number of other countries due to the strong influence of export markets which take a major share of Australian output and typically return lower meat values than the returns achieved in other countries from their domestic markets.

Lower farmgate values

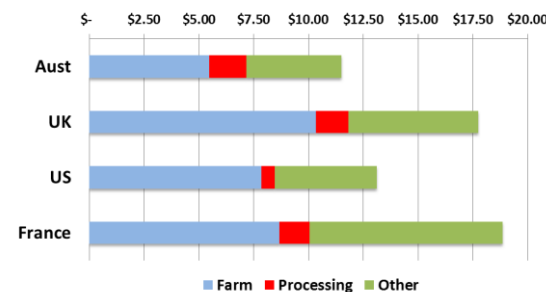
- Australian cattle prices are typically lower than their competitors, given the high portion of output exported into low-value uses. Australia uses smaller animals than other countries, influenced by the domestic market preference for portion size and yield. In recent times the high \$A has reduced the average value flowing back into the sector.
- Note: The Australian returns in these comparisons are affected by recent drought which has lowered livestock prices.

Figure 4.1.5.1 – Global average live cattle prices (US\$/kg)



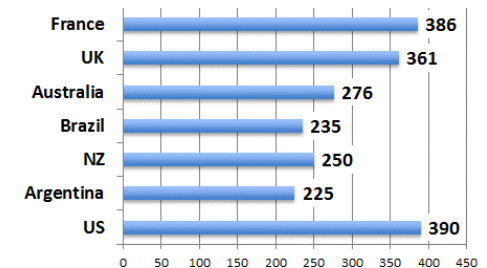
Source: Various industry bodies, Rabobank

Figure 4.1.5.2 – Share of retail value in A\$



Source: Freshagenda analysis from in-country data

Figure 4.1.5.3 – Average slaughter weights – kg/head



Source: MLA, USDA, AgriMer, Eblex

4.2 Lamb

4.2.1 Lamb industry overview

Introduction

- Lamb is a major element of the red meat sector, but its industry fortunes have been historically linked to that of the sheep sector, in view of the dual purpose role of sheep as a source of meat and fibre, and the historical influence of merino genetics for wool production.
- The size of the Australian sheep flock has fallen significantly from the turn of the century, and as a consequence the specialisation of lamb for meat production has increased in importance. Production of lambs and lamb meat has steadily increased, but varies year-to-year due to climate and export market conditions.
- Australia has emerged as the second-largest exporter of lamb behind New Zealand.
- A major influence in recent years has been the decline in product availability on the world market from other major production countries in the face of rising demand in the US, Japan and EU. These trends are expected to continue in to the foreseeable future.
- The behaviour of consumer segments in key markets such as the US will continue to drive change through the lamb sector and increase the focus on specialisation of production for those markets.
- Specialisation in prime lamb production has increased over time as production and feeding systems to meet customer specifications has become more sophisticated.

Figure 4.2.1.1 – The historic mix of markets for lamb ('000t)

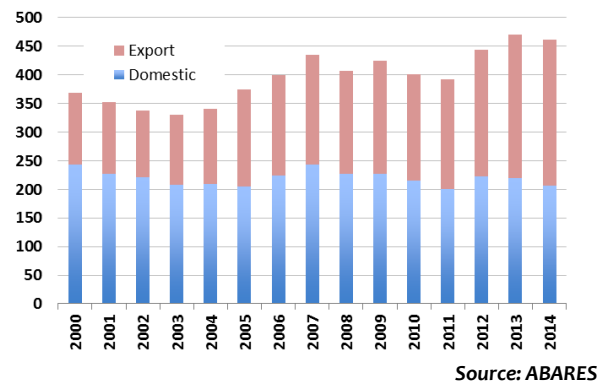
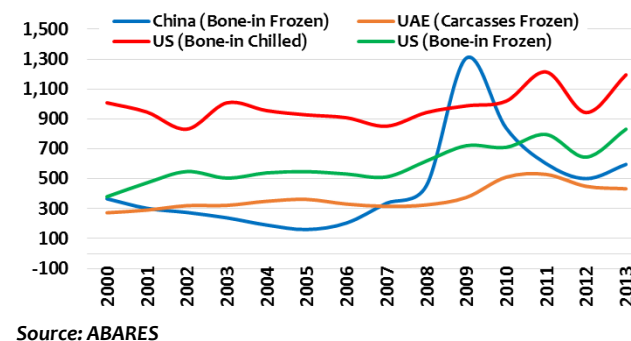


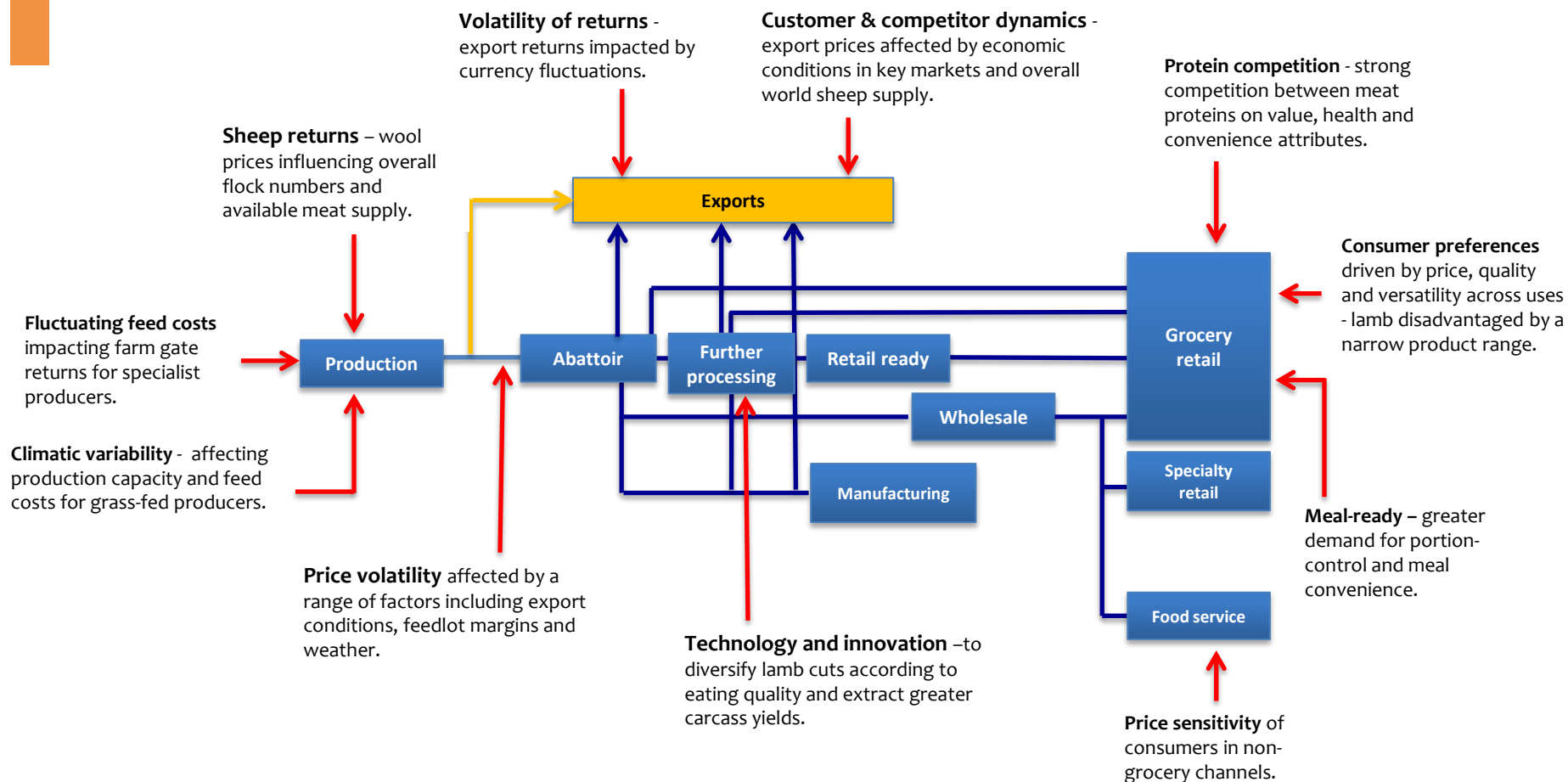
Figure 4.2.1.2 – Prices for Australian lamb (Ac/kg fob)



4.2 Lamb

4.2.2 Factors affecting lamb pricing

Overall, Australia has a high-level of self-sufficiency of lamb and sheepmeat, and a relatively stable supply. However, as with beef, there are a number of factors that influence supply stability and create a level of short-term volatility in prices and supply within the industry, including the influence of international markets and production complexity.



4.2 Lamb

4.2.3 Lamb pricing over time

Strong correlation with export returns

- Despite the high proportion of meat going into the domestic market, returns to the lamb production and processing sector are strongly influenced by world trade, through prices demanded by overseas customers. Domestic market consumption is relatively static, and subject to price competition from other red and white meats.
- With growing export influence of the sector, supply of lambs and accordingly the prevailing prices over time are driven by other factors which include:
 - Exchange rate relativity and volatility;
 - Seasonal conditions which affect both quality and quantity of stock. Drought may delay new season or sucker lambs coming onto the market; rainfall provides good feed and quicker turnoff of lambs which may increase supply and lower prices;
 - With increased specialisation of production through lot-feeding, there is greater exposure to movement in grain prices; and
 - The returns from wool, although this effect has weakened.
- As with beef, the major retail buyers operate with a variety of models to ensure they cover price, supply and quality risks. Buyers seek to achieve a target buying price to maintain target returns for the category, based on carcass usage, processing cost and competing retail prices for the category.
- Major retail buyers vary the mix of product sourcing between dedicated producers, paddock selection and livestock markets depending on market conditions.

Figure 4.2.3.1 – Meat/carcass prices v export prices 2009 to 2014

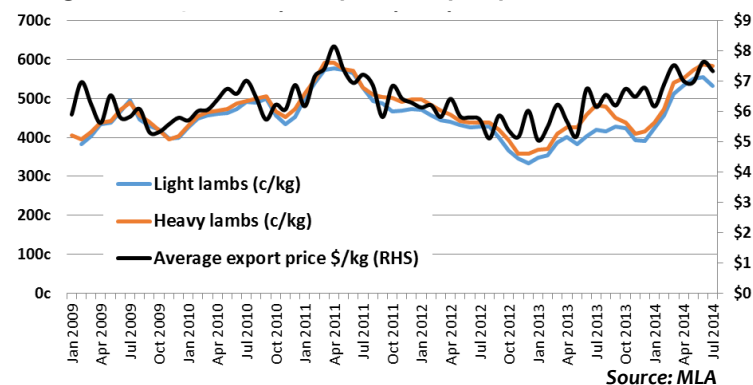
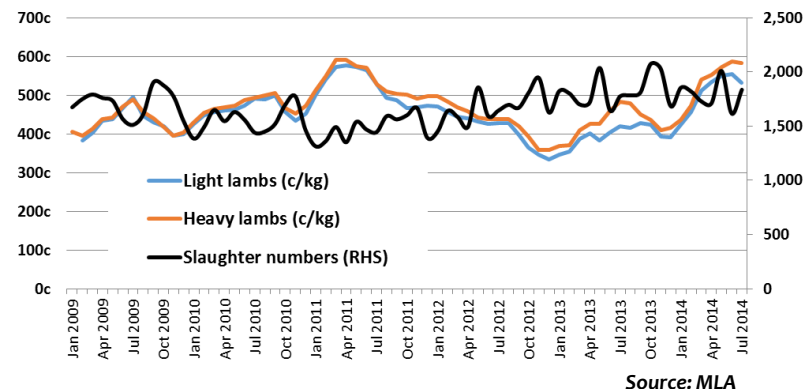


Figure 4.2.3.2 – Meat/carcass prices v slaughter numbers 2009 to 2014



4.2 Lamb

4.2.3 Lamb pricing over time

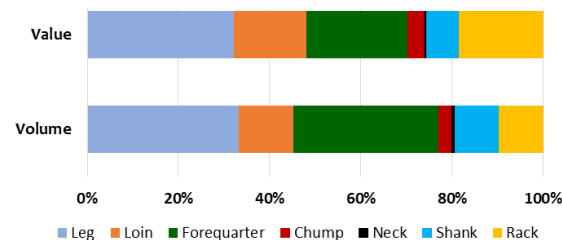
Retail prices

- There is a significant spread of prices achieved in the lamb category with an overall average price higher than that achieved in beef, despite a different mix of end uses across that spectrum, with a much smaller volume of lamb going into the “value” portions such as mince and stewing meals.
- In overall terms, domestic retail prices in the lamb category have been driven by providing sufficient coverage of costs, balanced against prices of competing meats at retail.
- Retail prices move with the cost pressures from the supply of lambs, competing with demand from export markets, despite the fact that there is a lower overall percentage of lamb directed to export markets.
- There is a demonstrated relationship between export prices and average retail prices as illustrated in the period from 2009 to 2013.
- This is a contrast to the case of beef, which is the anchor category in the meat department and which has been consistently priced as a key value-category by grocers.

Farmgate share of retail prices

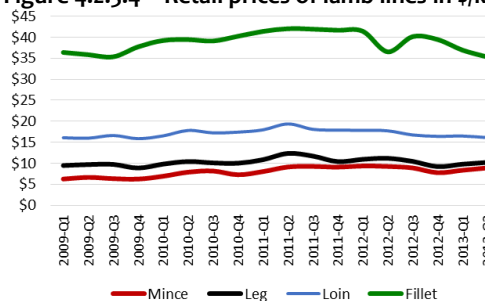
- We calculated weighted average retail selling prices across the retail category from 2009 to 2013.
- Based on average saleable meat yields; the average carcass selling prices achieved over 4 years to 2012/13 for medium trade lambs according to MLA data; and the above retail value, carcass prices represented about 51-64% of the retail value of lamb. With movements in carcass prices over the period, a range has been assigned to reflect these movements.
- Offal yield from lambs is minimal, yet a small value has been deducted on a basis consistent with that in the beef calculations in arriving at the above calculations.

Figure 4.2.3.3 – Retail lamb sales contribution by portion
3-year average (2010/11 to 2012/13)



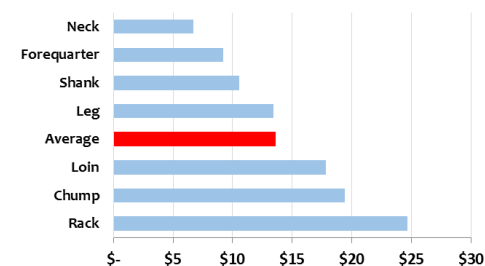
Source: Retail sales data, Freshagenda analysis

Figure 4.2.3.4 – Retail prices of lamb lines in \$/kg



Source: Retail sales data

Figure 4.2.3.5 – Retail lamb prices \$/kg by cuts in 2012/13



Source: Retail sales data

Figure 4.2.3.7 – Lamb farmgate value as a share of retail prices

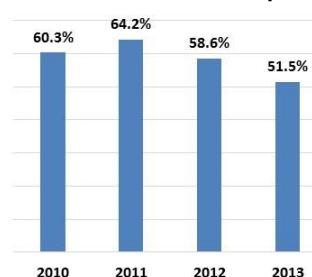
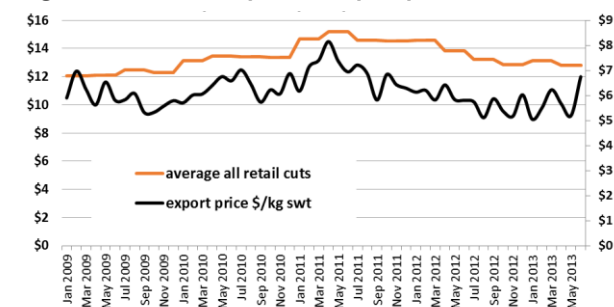


Figure 4.2.3.6 – Retail prices v export prices 2009 to 2013



Source: MLA, Retail sales data

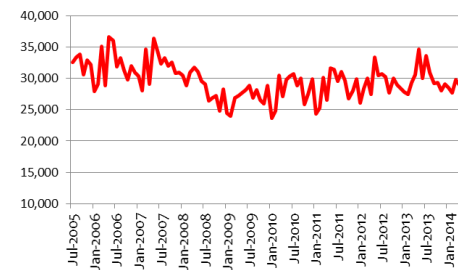
4.3 Pork

4.3.1 Pork industry overview

Introduction

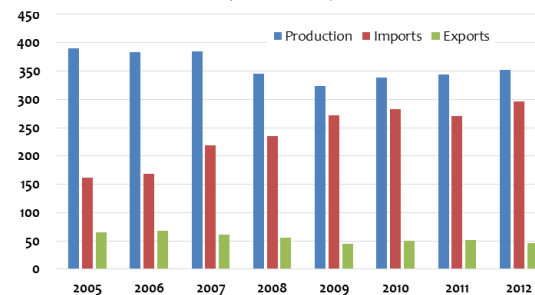
- Pork is a small fresh meat category alongside beef and poultry.
- The pork industry fortunes are strongly shaped by the large proportion of pigmeat used in processed smallgoods (ham, bacon and manufactured meats), which are exposed to significant import competition.
- The volume of use in smallgoods and manufacturing varies according to the competitiveness of local product in the face of the landed cost of processed imports.
- There has been a gradual fall in pork export volumes over time due to a high \$A and loss of cost-competitiveness of local product.
- Pig carcass prices over time reflect the balance of returns from fresh pork cuts and use of major portions in production of ham, bacon and other smallgoods.
- Producers are further exposed to volatility in feed grain input costs which represent a high portion of production costs. Feed is the major cost of production representing an estimated 60% in pigmeat production in normal conditions.
- The overall impact of these different forces on carcass profitability has been to sustain pressure on net returns for pork processors and producers. Production volumes have tracked trends in carcass returns and import prices.
- Production of pork has been relatively unchanged for the past 15 years. Imports of frozen pork by major processors for hams and cured meats have meanwhile increased over time to take a greater share of rising domestic consumption.

Figure 4.3.1.1 – National monthly pork production (tonnes cwt)



Source: ABS

Figure 4.3.1.2 – Pork production and trade ('000t cwt)

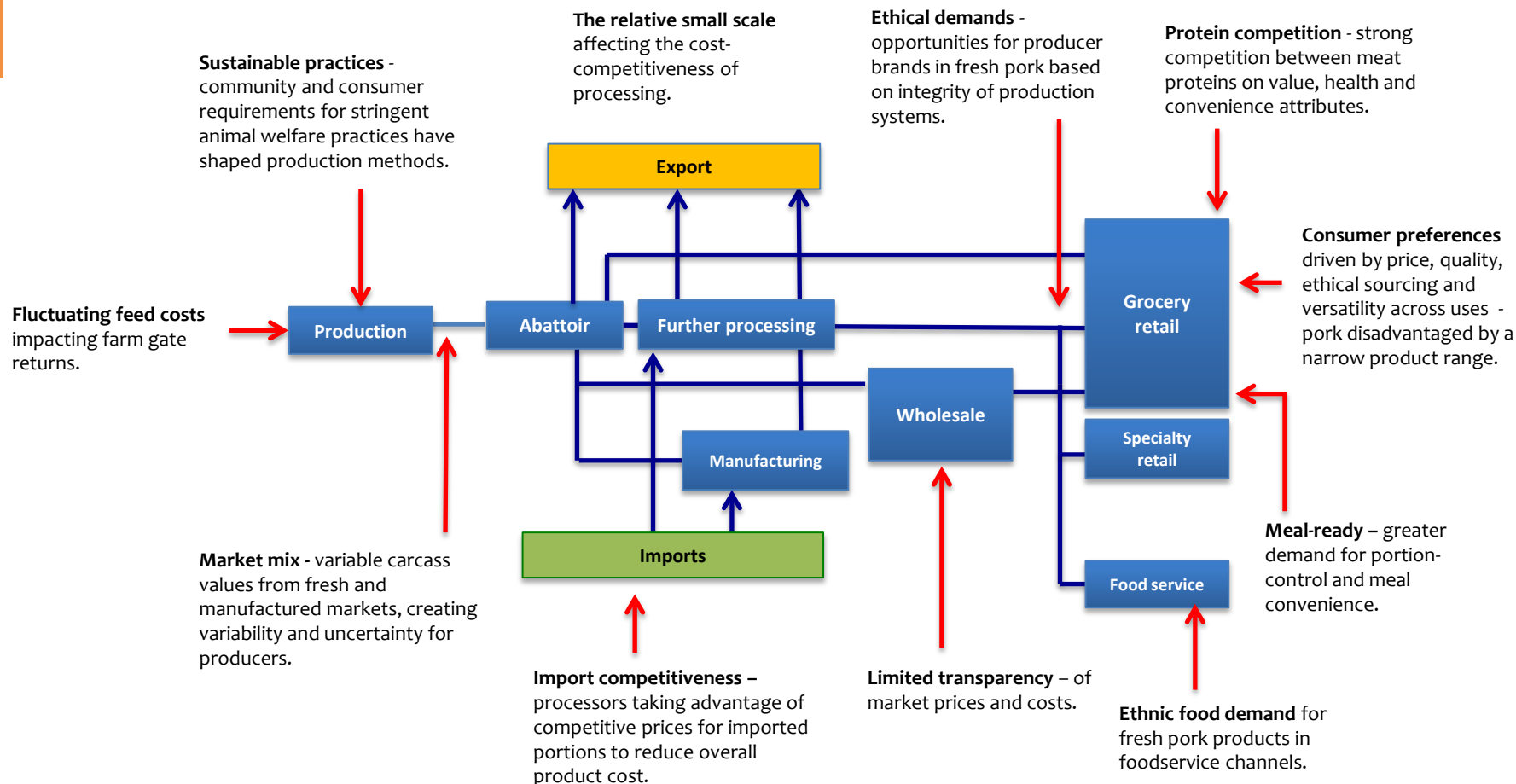


Source: ABARES

4.3 Pork

4.3.2 Factors affecting pork pricing

Pork value chain: The pressure points identified reflect the pressure of balancing returns from the fresh pork products and the growing import competition from processed small goods products. Factors influencing short-term volatility of prices and supply include the impact of currency movements, import competition, and complexities within the production system.



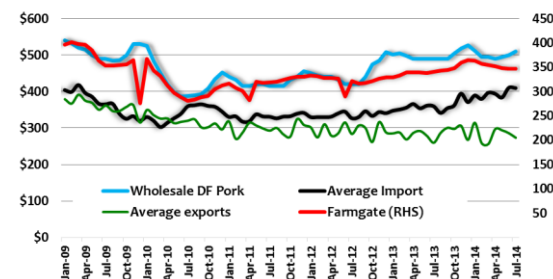
4.3 Pork

4.3.3 Pork pricing over time

Strong influence of import trade

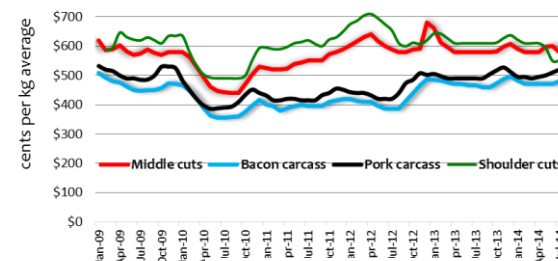
- Returns to producers in carcass prices from domestic and export markets for pork are determined by a set of forces affecting the wholesale value in fresh and processed meat markets.
- Processors have sought to extract optimum value from the domestic fresh pork market subject to strong competition for alternative meats.
- Retail prices for pork products and cuts are subject to competition in terms of price and consumer preference for meat use from other red and white meats.
- Over time the average retail price that has been observed for fresh pork cuts has remained relatively flat, with some slight correlation to the pricing of shoulder cuts in wholesale markets as shown in the charts on the right.
- Wholesale prices for carcasses and portions track trends in imported pork values.
- Australia's domestic production and processing sectors are at a cost disadvantage to these suppliers due to their production scale and labour costs.

Figure 4.3.3.1 – Pork farmgate v wholesale and import prices (Ac/kg) 2009 to 2014



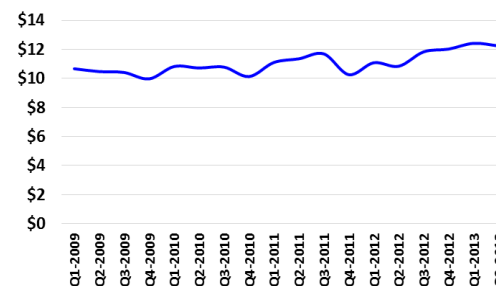
Source: Australian Pork Limited

Figure 4.3.3.2 – Pork wholesale prices 2009 to 2014



Source: Australian Pork Limited

Figure 4.3.3.3 – Quarterly retail pork prices (\$/kg)



Source: Retail sales data

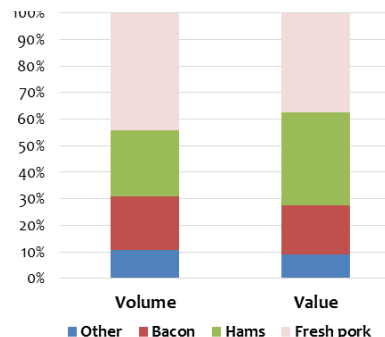
4.3 Pork

4.3.3 Pork pricing over time

Farmgate share of retail prices

- Returns to producers in carcass prices from domestic and export markets for pork are influenced by the value of the uses of the carcass in fresh and smallgoods markets, with imported smallgoods impacting the prices offered by processors.
- In contrast to the yield-based return calculations that have been undertaken for beef and lamb, it is a far more complex consideration for pork given the wide variety of end-uses of portions of the pork carcass, including the use in a range of processed meats which do not have a directly comparable retail value given other ingredients used in some of those products.
- The illustration undertaken for these purposes makes important assumptions based on the use of the pork carcass, assuming all portions are used in retail products.
- The analysis shows that the farmgate value of the saleable meat yield from the pork carcass over the 4 years to 2012/13 was the equivalent to 53-63% of the retail value of carcass portions.
- This is based on:
 - average carcass prices reported by Australia Pork (as shown in the chart on the previous page);
 - a saleable meat yield from a typical medium-weight pork carcass; and
 - retail prices achieved for fresh bacon, ham, pork cuts and other product forms (including sausage).
- This assumes a full retail utilisation of a carcass, and takes account of a portion of the carcass yielding value for offal, which reduces the farmgate equivalent of meat value.
- Lower values may be realised for portions of the carcass in manufactured meats from time to time which would lift the farmgate share above the range provided from this analysis.

Figure 4.3.3.4 – Share of carcass across products



Source: Freshagenda analysis

Figure 4.3.3.5 – Retail pork sales contribution by portion 2011/12

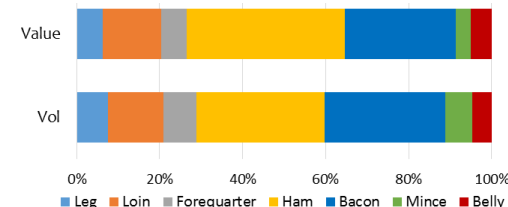


Figure 4.3.3.7 – Pork farmgate value as a share of retail prices

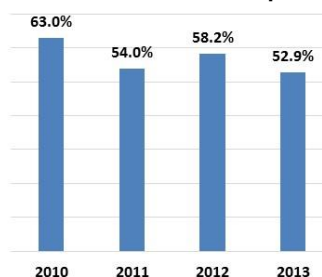
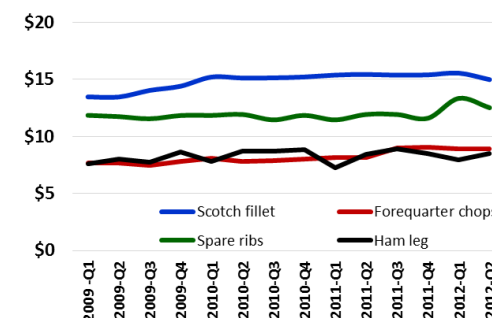


Figure 4.3.3.6 – Retail pork prices by cuts (\$/kg)



Source: Retail sales data

4.4 Poultry

4.4.1 Poultry industry overview

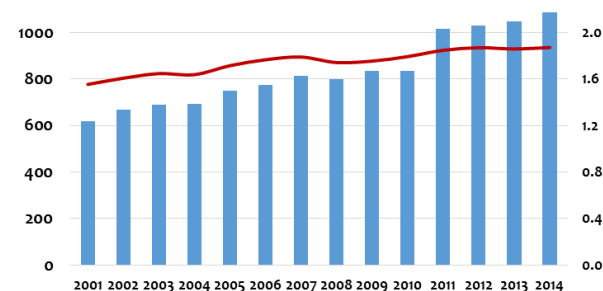
Introduction

- Poultry meat is the most consumed meat protein in the Australian domestic market, but being only domestically focused with minimal overseas trade, operates on a much smaller scale than the beef sector.
- Industry output has gradually increased over time as chicken meat has claimed a greater share of domestic per-capita protein consumption. This is largely due to the consistency, price competitiveness and versatility of use across a range of meal occasions and preparation methods of chicken meat compared to red meat and pork.
- The industry is dominated by two major processors, Baiada and Ingham, with a number of smaller regional processors.

Integrated models

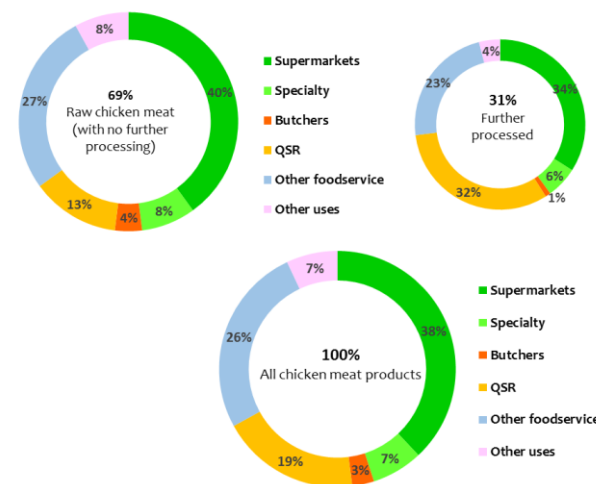
- The industry operates with fully integrated models that encompass breeding, feeding, slaughtering, and further processing business models managed by major poultry companies.
- This approach is similar to that run in other major poultry producing countries, as a means of achieving production efficiencies, food safety and hygiene control, product quality and supply chain management over time.
- As a result there is no “farmgate” as such in the chicken production industry. Poultry growers are contracted by processors to rear birds on a fee-per-bird basis that is negotiated based largely on cost factors, in some instances using collective bargaining arrangements.
- Growers are provided with day-old chicks and a required feed regime, and supply grown-out birds to processors. Growing fees represent about 10% of the production cost of a bird. Feedgrain represents the most significant portion of total costs.

Figure 4.4.1.1 – Chicken meat production ('000 tonnes) and yield per bird (kg)



Source: ABS

Figure 4.4.1.2 – Relative importance of distribution channels (volume)

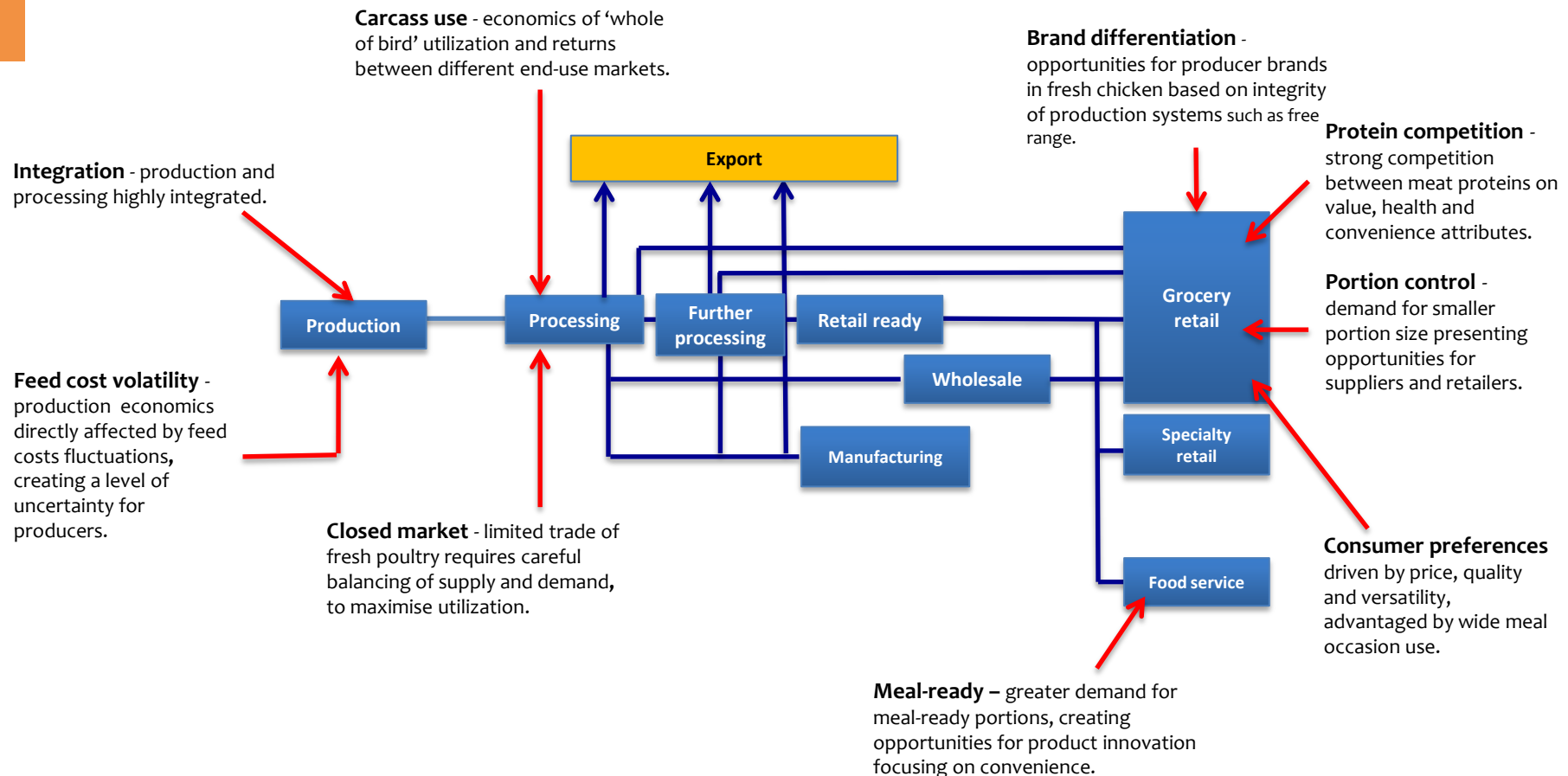


Source: Chicken Meat Federation 2011

4.4 Poultry

4.4.2 Factors affecting poultry pricing

Poultry value chain: The pressure points in the chain reflect the highly integrated and concentrated nature of the production and processing sectors, and the importance of the balancing recovery of meat from birds through the various market channels for fresh and processed poultry meat. Factors contributing to short-term volatility of supply and prices include the lack of visibility across the supply chain, and the influence of climate and price movements.



4.4 Poultry

4.4.3 Poultry pricing over time

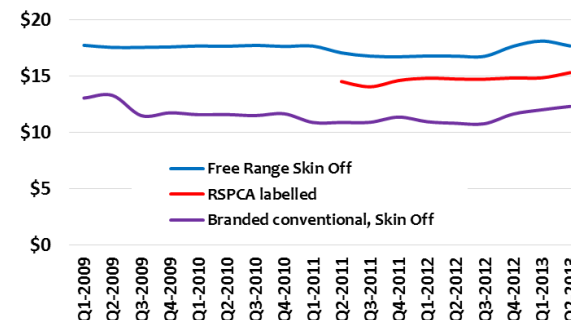
Through-chain pricing not relevant

- Chicken meat encompasses great diversity and is sold in various forms for different uses in retail stores – fresh in a wide range of cuts and portions in meat trays (sold alongside other meat categories), at the deli counter - raw and cooked, in ready-to-eat BBQ packs and frozen (which is now a very small portion of the category).
- Further processed poultry products such as nuggets and crumbed fillets are sold through frozen food sections.
- The highest use however is in the foodservice category where processed meat is the largest meat protein used in the fast food sector.

Production systems

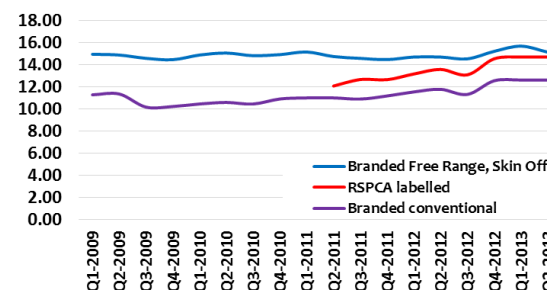
- Chicken meat provides one of the strongest examples of acceptance by consumers of higher prices for free-range and organic products.
- Free range products have about 14% of the share of the sales of fresh poultry through the grocery channel. There is a growing share of sales being won by welfare-accredited lines which are used by one major retail chain and planned by the other at the time of writing.
- This will be lower in the foodservice sector but there is no visibility of pricing.

Figure 4.4.3.1 – Chicken breast fillets retail prices (\$/kg)



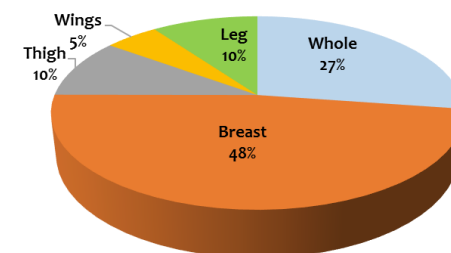
Source: Retail sales data

Figure 4.4.3.2 – Chicken thigh fillets retail prices (\$/kg)



Source: Retail sales data

Figure 4.4.3.3 – Poultry retail mix by fresh portion (volume share) in 2013



Source: Retail sales data

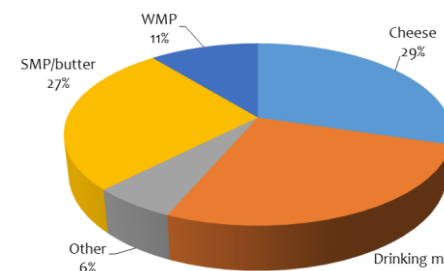
4.5 Dairy

4.5.1 Dairy sector overview

Introduction

- The dairy industry produces a wide range of consumer products and ingredients for domestic and international markets. This analysis focuses on consumer products sold in the domestic market.
- Milk output** for the Australian industry fluctuates with seasonal conditions affecting feed input costs and the production margins in southern states (Victoria, Tasmania and southern South Australia) which produce about 70% of Australian milk output.
- While Australia is a competitive exporter of dairy products, static milk output coupled with steady growth in output by competitors such as New Zealand and the US has seen Australia's share of the world trade halve in the past decade to about 7-8% in 2013/14.
- Wholesale prices for manufactured dairy products (cheese, spreads and ingredients) and most farmgate milk prices are highly influenced by world market prices for traded dairy commodities.
- The Australian market has accounted for an increasing share of the industry's milk output, as production has stalled and consumption has continued to grow.
- Depending on total production, 40-45% of milk output is exported in the form of manufactured dairy products. While the domestic portion of milk use is therefore significant, a further 30% of milk is used in products for which wholesale prices are directly affected by world prices, due to tariff-free access to the Australian market for imports of cheese, butterfat and other ingredients.

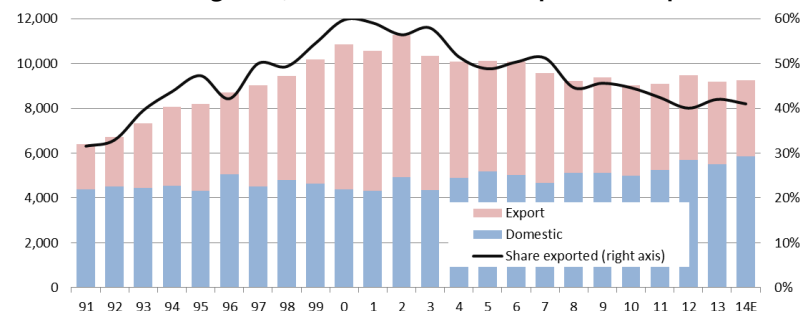
Figure 4.5.1.1 – Australian industry use of milk in 2013/14



Source: Dairy Australia

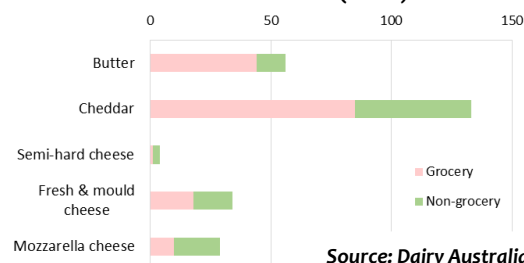
SMP = skimmed milk powder; WMP = whole milk powder

Figure 4.5.1.2 – Australian consumption and exports



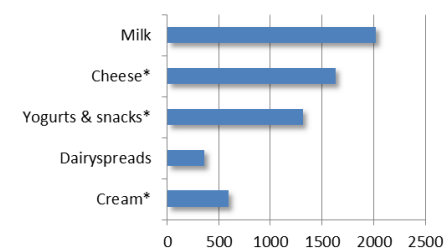
Source: Dairy Australia

Figure 4.5.1.3 – Sales of product into channels ('000t)



Source: Dairy Australia

Figure 4.5.1.4 – 2013 retail value (\$ million)

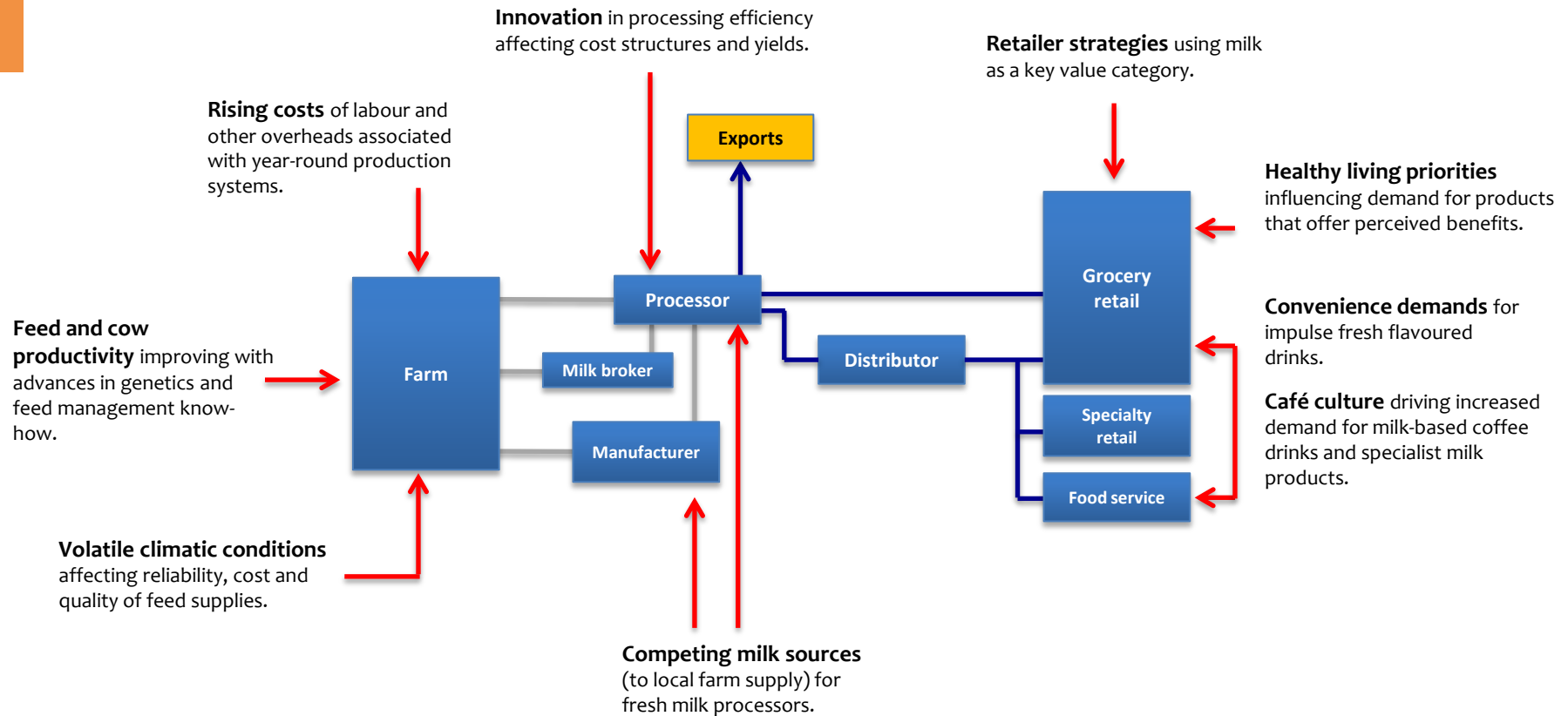


Source: Freshagenda analysis

4.5 Dairy

4.5.2 Factors affecting packaged milk pricing

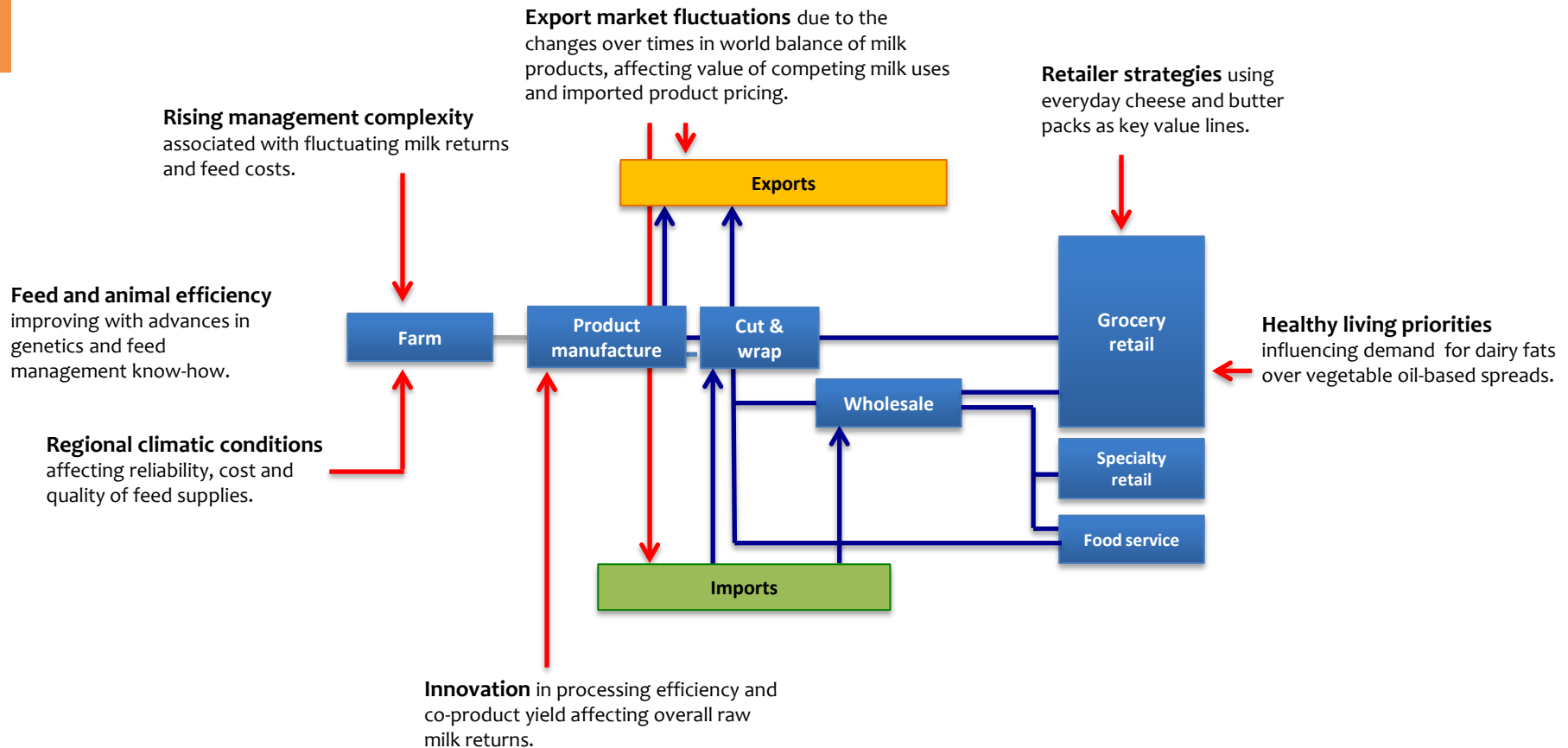
Fresh dairy value chains are highly integrated for everyday production and processing, relying on year-round production systems on farms, processing focused on managing the balancing of milk use, and the precise cold supply chain requirements for supply into various market channels. Overall, Australia is self-sufficient in fresh milk and has a relatively stable supply.



4.5 Dairy

4.5.2 Factors affecting dairy product pricing

Australia is relatively self-sufficient in manufactured dairy production (although is exposed to import competition in cheese, butter and ingredients), with a large export focus of a number of the major manufacturers based in southern low-cost milk production regions. The significant factors contributing to the short-term volatility of prices and supply include the influence of climate, currency movements, and production complexity.



4.5 Dairy

4.5.3 Milk products

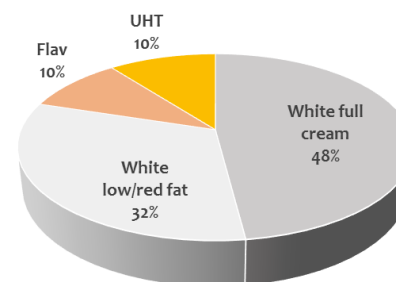
The market

- Fresh milk is an important category to the dairy sector, accounting for about 25% of national milk production. The share of raw milk use in fresh milk processing varies significantly between states.
- Demand for milk products has generally risen in line with population growth. In the 5 years to 2014, drinking milk sales have grown at an average of 2.1%. Dairy Australia estimates that per capita milk consumption rose from 103.8 to 107 litres in the 5 years to 2013.
- Much of the growth in sales volume in the past decade or more has been in sales of low and reduced fat products, but sales of UHT and flavoured milk products have grown faster in percentage terms.
- The supermarket sector has almost 55% of total white milk sales, with convenience and foodservice making up the remainder. The supermarket share has steadily increased over time.
- Only about 40% of flavoured milk sales are made through grocery with a high proportion of these made through convenience and takeaway stores.
- Growth in private label milk sales has strengthened since the introduction of discounted private label milk in early 2011, relative to branded milk sales, although the total value of the category has not kept pace with volume increases.

Brands v private label

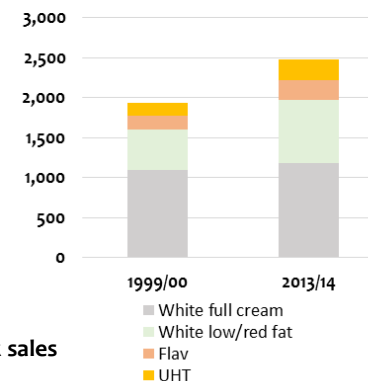
- A major influence that has shaped returns from the fresh milk market has been the use of private label lines by grocery chains.
- Private label lines have been used in milk products for more than 15 years, however the challenge for milk processors has been the large price differential between their branded lines and private label lines, exacerbated in 2011 when the average price of major 2 and 3 litre lines fell to \$1/litre, which is where it remains in 2014.
- This saw a significant shift to low and reduced fat product sales, as private label lines had previously been priced well above regular full cream milk.

Figure 4-5.3.1 – Share of milk sales by type in 2013/14



Source: Dairy Australia

Figure 4-5.3.2 – Changing total sales mix 2000 to 2014 (m litres)



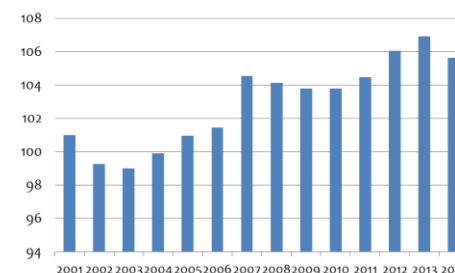
Source: Dairy Australia

Figure 4-5.3.3 – Generic vs branded milk sales by state



Source: Dairy Australia

Figure 4-5.3.4 – Per capita milk consumption (litres)



Source: Dairy Australia

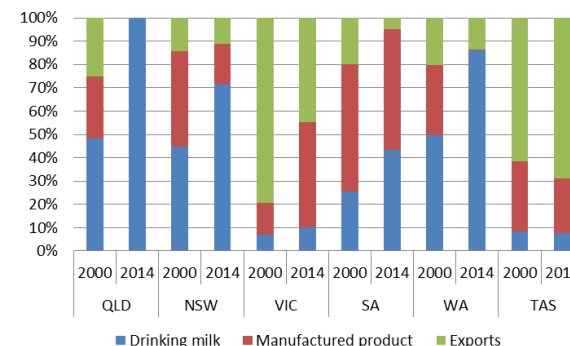
4.5 Dairy

4.5.3 Milk products

The value chain

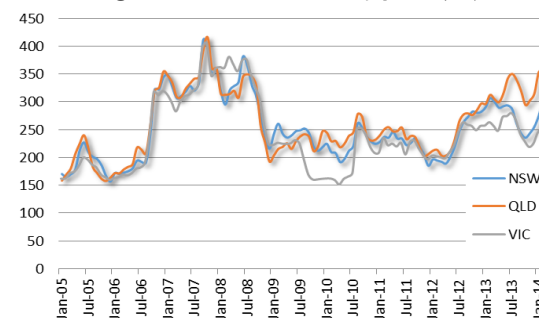
- Most fresh milk processing requirements are supplied from farms close to major processing plants and retail markets, therefore costs of production vary by region.
- Year round production systems supply most fresh milk requirements. Processors source from southern regions where possible to balance milk supplies and avoid surpluses. In southern regions, prices for year round processing will be in general higher than prices paid by manufacturers but smoother over time.
- Prices are more stable in northern regions (Qld and NSW) and WA where the majority of milk is used to supply local fresh milk demand, compared to southern regions where prices are more directly influenced by manufactured returns, in turn affected by export returns.
- In fresh milk regions there is greater use of contracts and price signals aimed at encouraging flat supply to avoid surpluses, as there is no capacity with major milk processors to process surpluses into storable dairy products in these regions.
- In regions that are more skewed toward manufacturing products, most farmers have an exclusive supply agreement to a dairy company or cooperative, with no set price or volume. At the commencement of the production season, an opening price is announced which is typically 90% of the expected final price and includes some intra-season variation. “Step-ups” are then announced over the season as milk is converted to product and sold on the domestic or export market.
- As international market volatility has increased, the variability of southern prices has also increased.

Figure 4.5.3.5 – Milk utilisation by state



Source: Freshagenda analysis

Figure 4.5.3.6 – Feed barley price (\$/t)



Source: Dairy Australia

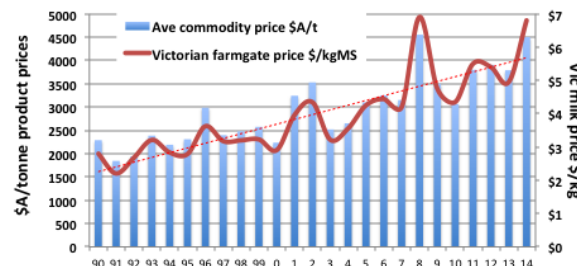
4.5 Dairy

4.5.4 Farmgate pricing over time

Farmgate influences

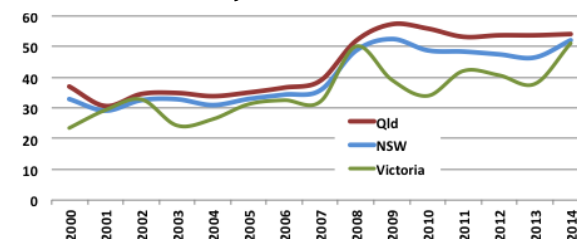
- Southern mainland dairy regions produce about 70% of Australia's milk. Milk prices paid to farmers in that region closely track trends in global dairy commodity prices.
- There remains a large farmer-owned cooperative in Murray Goulburn (MG) that operates across a number of regions and accounts for around one third of annual production. With exposure to both export and domestic markets, MG plays an important price-setting role as competitors tend to match or better the MG price offered to its suppliers in order to retain or attract supply.
- While international cheese prices are far less volatile than other export commodities such as milk powders, they utilise more milk in total. Farmgate prices paid in the 5 years to the end of 2013 have closely tracked spot prices for cheese on export markets, which as outlined earlier, also influence wholesale prices within the food industry in Australia.
- Farmgate prices in other regions (most of NSW, Queensland, WA), which are committed to the supply of milk year-round for fresh milk processing, are influenced over time by a balance between long-range cost of local production and alternate sources of supply, which includes transport of milk interstate.
- No major effect of the private label pricing has been seen in NSW and Qld pricing, as since 2011 average regional farmgate prices according to industry data collated by Dairy Australia (per the chart at Fig 4.5.4.8) have been largely stable.

Figure 4.5.4.1 – Victorian farmgate price v average commodity prices



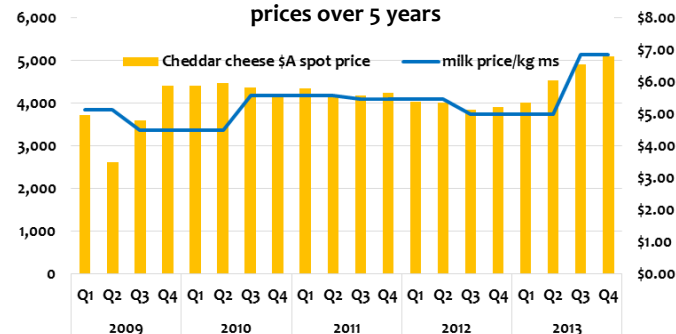
Source: Freshagenda, Dairy Australia

Figure 4.5.4.2 – Average farmgate prices (cpl) – financial year ended June



Source: Dairy Australia

Figure 4.5.4.3 – Cheese and southern farmgate prices over 5 years



Source: Dairy Australia

4.5 Dairy

4.5.5 Milk product pricing over time

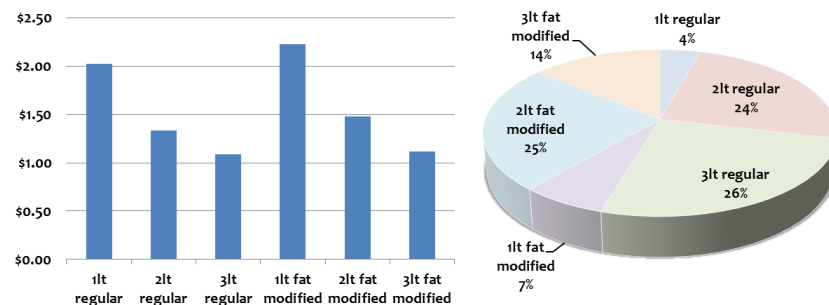
Milk products

- Returns to processors are affected by the mix of private label and brand in each region and the proportion of their business represented by flavoured milks, which provide higher margins.
- There is a significant spread in the value achieved in milk products – based on pack-size, fat modification, flavouring and other attributes. There was formerly – prior to the advent of discounted milk pricing – a significant differential between full-cream and low-fat products.
- “Natural” continues to be an important value associated with fresh white milk. Consumers are highly distrustful of any additives to milk – which limits the ability for processors to fortify and enhance.
- Smaller brands with an emotional appeal to consumers – either because of regional branding or a “good for you” message are enjoying strong growth and achieving higher prices as seen in sales of A2 products.
- Increased price pressure from private label has not driven down farmgate prices significantly. The most significant influence on prices from year to year has been changeovers in private label supply contracts with retailers that have altered the milk requirements of processors, and the extent to which they seek to commit to milk supply in regions without processing capacity to manage surpluses.

Farmgate share of retail prices

- Our analysis shows that the average farmer share of the average retail value achieved in the total fresh white milk category (a mix of branded and private label products) is between 32 and 42%, depending on the region.
- The state variation reflects not only the difference in farmgate prices – but also the difference in average retail prices, influenced by the share of private label products as well as processor and retailer pricing strategies. The farmgate price share for Victoria fluctuates significantly with export returns, while Queensland and NSW shares are more stable.

Figure 4.5.5.1 – Average selling prices and sales mix in retail channel



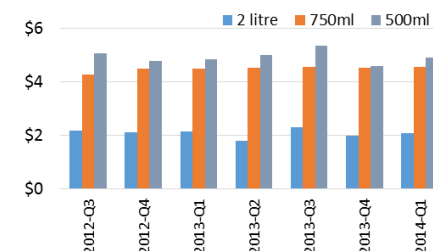
Source: Dairy Australia

Figure 4.5.5.2 – Fresh white milk v Avg farmgate (cpl) - 3-yr average to 2013/14



Source: Dairy Australia

Figure 4.5.5.3 – Flavoured milk retail unit price by pack size



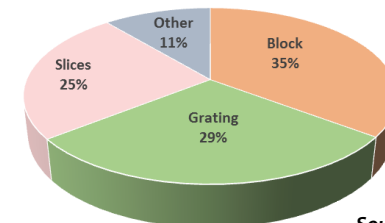
Source: Retail sales data

4.5 Dairy

4.5.6 Cheese pricing over time

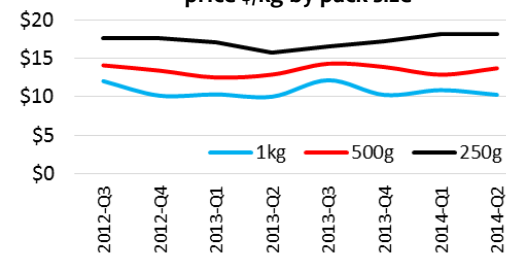
- Cheese products use approximately 33% of total milk usage, making it the largest single product category for the dairy industry. There are many sub-categories of cheese produced and sold, differentiated on the basis of quality, age, production method, fat content, texture and appearance. Accordingly there are a large range of values achieved between everyday “commodity” cheese and specialty gourmet lines.
- Cheddar is the largest variety category with about 47% of total output, and is the most internationally traded cheese. Cream cheese and Mozzarella are the next most traded types.
- Australia exports a similar volume of cheese as it consumes in the domestic market. There are significant cheddar cheese imports, mostly from New Zealand, which ensures wholesale prices in the market are closely aligned to world prices over time.
- The grocery channel accounts for about 56% of cheese sales by volume for the entire category. However share varies greatly by variety. For example, the grocery channel accounted for 74% of white mould cheese sales, but only 20-28% of semi-hard sales.
- Cheese export prices are more stable than other internationally traded dairy commodities such as milk powders. Due to the influences of world trade on milk prices for producers in regions producing cheese, there is some correlation over time between cheddar wholesale prices and farmgate milk prices.
- However, annual milk prices are more strongly influenced by returns from milk powder products whereas cheddar pricing is relatively more stable.
- Average per kilogram retail prices in the domestic grocery market have been under pressure over the past two years due to price competition and promotions.

Figure 4.5.6.1 – Cheese sales in grocery by form (Mar 2013)



Source: Aztec

Figure 4.5.6.2 – Block cheese retail unit price \$/kg by pack size



Source: Retail sales data

4.5 Dairy

4.5.6 Cheese pricing over time

Farmgate share of retail prices

- Milk prices paid in Australia by dairy manufacturers under formal supply agreements or terms are expressed in explicit values for the milk solids (fat and protein) contained in whole milk supplied from farms. These prices are commonly expressed in per-litre prices as a guideline or benchmark.
- There are a number of potential co-product options available to manufacturers from the production of cheddar cheese, including a range of whey powder products (with varying component specifications and concentrations), butter and/or cream. Smaller cheese manufacturers may not process whey at all and may either sell or dispose of the waste.
- Co-product earnings (gross and net) will vary widely depending on market movements, milk solids and supply seasonality to a processor, and the extent of investment made in further processing to yield specific product functionality.
- Our discussions with processors indicate there is not a standard approach used, rather the co-product configurations and options vary across the sector. The common aspect of the approach taken however is to seek to extract highest value from the available milk components in prevailing market and supply conditions, and based on available processing facilities.
- Rather than attempt to develop a theoretical co-product yield, the most appropriate approach is to address the portion of value of whole milk (based on values of milk solids) that should be assigned to cheese. This has been derived in the workings on the right.

Milk solids (total fat and protein of 638g) required for a kg of cheddar cheese

X milk price paid (\$/kg milk solids)

Milk solids in whole milk required to yield 1 kg of cheese (9.46 litres)

In 2013/14, based on average milk solids produced, this yielded a result of 90% of the milk price of \$6.81/kg or \$6.17/kg, being attributable to the milk solids used in cheddar cheese.

Figure 4.5.6.3 – Farmgate share of retail cheese prices

| Year | Average retail value | Farmgate \$/kg milk solids | Value of raw milk in cheese | Share of retail value |
|---------|----------------------|----------------------------|-----------------------------|-----------------------|
| 2009/10 | \$11.56 | \$4.49 | \$4.01 | 35% |
| 2010/11 | \$11.28 | \$5.58 | \$5.00 | 44% |
| 2011/12 | \$11.45 | \$5.46 | \$4.95 | 43% |
| 2012/13 | \$10.87 | \$5.05 | \$4.55 | 42% |
| 2013/14 | \$11.16 | \$6.81 | \$6.13 | 55% |

4.5 Dairy

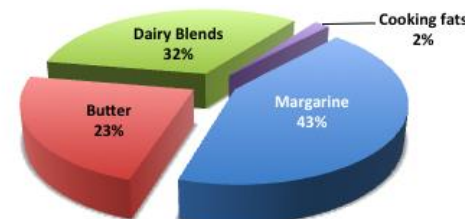
4.5.7 Dairy spread pricing over time

- Butter and dairy blended spreads are an important product group within the dairy category with a wide range of uses as spreads and cooking ingredients. Overall the spreads category is gradually declining on a per-capita basis as eating habits change and traditional uses decline.
- Butter and dairy blends has gained market share from margarine in recent years as consumers seek more “natural” products and avoid trans fats. Increased interest in cooking and baking at home have helped boost butter sales, as consumers have prioritised improved taste and functionality.
- The grocery channel had 78% share of wholesale volumes in 2012/13 in the overall category (butter and blend products).
- Private label penetration in supermarket sales for dairy spreads was 32% (by volume) in 2013, with much higher penetration in the butter segment. Manufacturer brands dominate sales of dairy blends, with just 5% of the segment private label.
- Retail prices remain in check despite the changing export value of the product - butter features in private label campaigns of the grocery chains. Australia exports 40-45% of butter and butter oil production. Imported product accounted for 21% (by volume) of the domestic market for butter and blends in 2012/13.

Farmgate share of retail prices

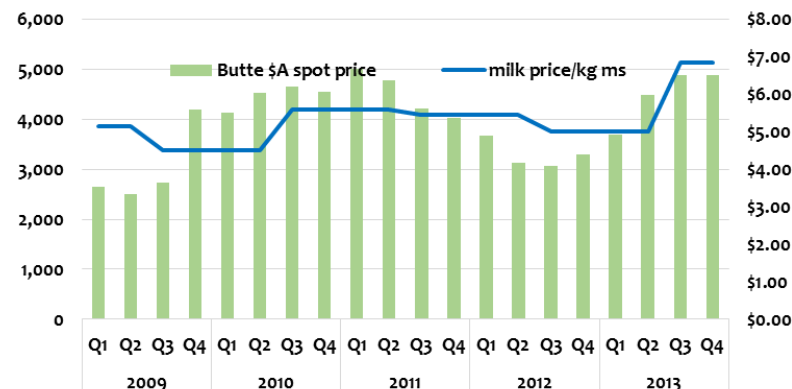
- Butter can be produced as a co-product to several milk powders and casein. Rather than assign respective values based on relative value of other products, the value of butterfat itself is recognised at farmgate.
- The value of butterfat in whole milk required for the production of butter products is calculated using a similar approach to that with cheddar cheese. The payment for milk at farmgate by dairy manufacturers which can be attributed to butterfat averages about 35% of milk payment rates.

Figure 4.5.7.1 – Mix of supermarket sales by value 2012/13



Source: Retail sales data

Figure 4.5.7.2 – Butter and southern farmgate prices over 5 years



Source: Dairy Australia

Figure 4.5.7.3 – Farmgate share of retail butter prices

| Year | Average retail price (\$/kg)* | Farmgate \$/kg milk solids* | Value of 82%* butterfat at farm (\$/kg) | Share of retail value |
|---------|-------------------------------|-----------------------------|-----------------------------------------|-----------------------|
| 2010/11 | \$8.21 | \$5.58 | \$2.38 | 29% |
| 2011/12 | \$8.50 | \$5.46 | \$2.33 | 27% |
| 2012/13 | \$8.51 | \$5.05 | \$2.16 | 25% |
| 2013/14 | \$8.45 | \$6.81 | \$2.91 | 34% |

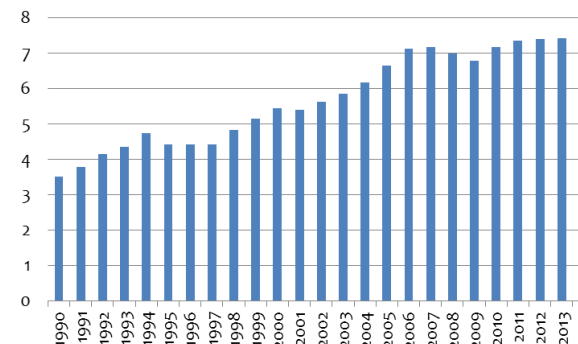
*Source: Dairy Australia

4.5 Dairy

4.5.8 Yoghurt pricing over time

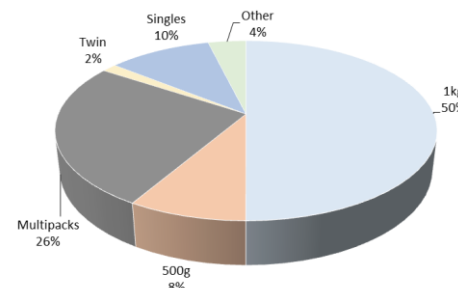
- Yoghurt has been a “hero” product for the dairy category, combining positive attributes of health, convenience and innovation. This has resulted in steady growth in consumption, as processors have responded to consumer demands for reduced fat lines, flavour variants and innovative packaging.
- The category is dominated by international brands such as Ski and Yoplait. The proliferation of well-known brands and continued product innovation and marketing has limited the role for and penetration of private label products. In fact, private label products accounted for just 2.6% of supermarket yoghurt sales in 2013.
- The dairy yoghurt category was valued at \$994 million for the year to June 2014. While sales volume grew by around 1%, value has grown 4% for the period.
- Unit prices for yoghurt products vary significantly based on packsize and other attributes. Per kilogram prices ranged from over \$10 for single serve tub to less than \$5 for bulk packs. Multipack products – of 4, 6 or 12 single serve tubs are a highly competitive segment with price averaging around \$5 per kilogram. In recent years there has been an increase in the number of gourmet yoghurt products – marketed as a “healthy indulgence”, as well as products that feature added cereal.
- Yoghurt is produced using fresh milk, to which dairy ingredients such as cream and skim milk powder are added, as well as fruit and other flavourings.

Figure 4.5.8.1 – Per capita consumption of yoghurt (kg)



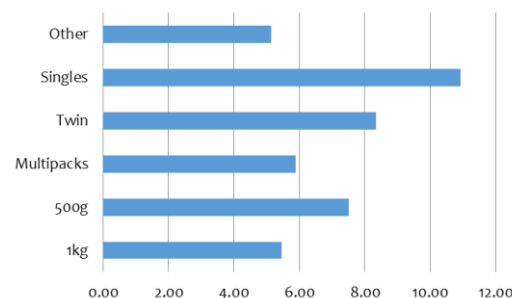
Source: Dairy Australia

Figure 4.5.8.2 – Supermarket yoghurt sales by packsize (MAT to June 2014)



Source: Aztec

Figure 4.5.8.3 – Unit price by packsize (MAT to June 2014)



4.5 Dairy

4.5.9 Dairy pricing – overseas comparisons

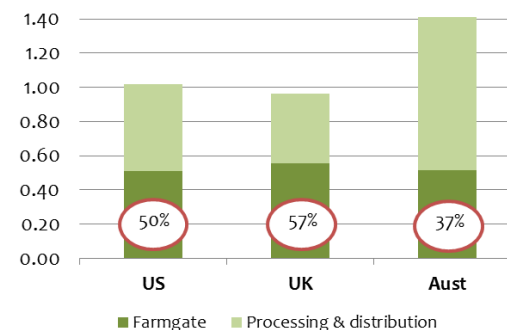
Introduction

- We have compared the pricing of dairy consumer products in a number of markets.
- Milk consumption is in decline in most developed world markets – Australia is one of the few comparable countries managing to keep consumption stable or rising, largely due to a strong perception of the natural advantages of the product, and aided by the continued growth in the popularity of milk coffee drinks.

Farmer share of retail prices

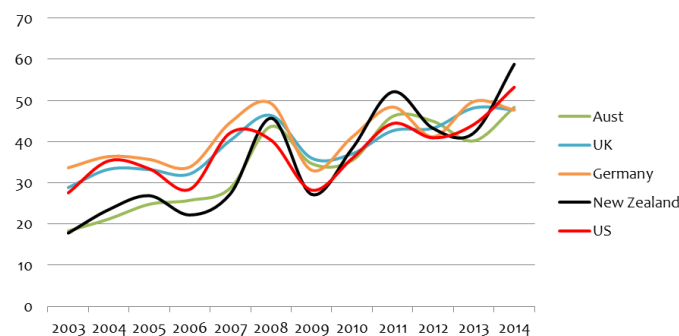
- Farmer shares of retail milk prices in Australia are comparable to major northern hemisphere producing and consuming countries, where comparable products are used.
- In each case, the estimated average grocery retail prices for major selling 2-3 litre fresh white milk products have been used for the comparison in Fig 4.5.9.1.
- Australia is a cost-competitive dairy producer, with lower farmgate prices on average compared with many of its export competitors.
- That said, there has been increasing convergence in farmgate prices in recent years, as the EU has reduced its market-based support mechanisms in preference for direct income support, and the US has become more engaged with the international dairy market.

Figure 4.5.9.1 – 2013/14 cpl prices in A\$ (farmgate as % of grocery retail)



Source: Freshagenda analysis from industry data

Figure 4.5.9.2 – International farmgate price comparison (US\$ per 100kg)



Source: Dairy Australia, DairyCo, LIC, USDA

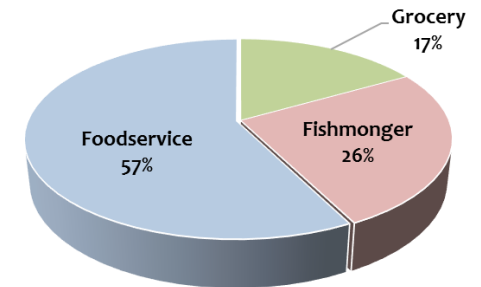
4.6 Seafood

4.6.1 Seafood sector overview

Introduction

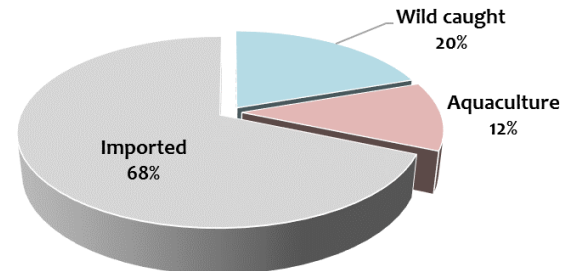
- Australia exports high-value species and imports low-cost chilled and frozen product. Australia's dependence on lower value imported seafood and much of the supply chain is focused on managing the integration of local wild caught, aquaculture with imported sources.
- It is estimated that imported product makes up more than two-thirds of consumption, once yield is taken into account regarding tonnages of local wild-catch and aquaculture production.
- There are about 320,000 to 350,000 tonnes of edible seafood sold in the Australian market with about 55-60% of this volume going through the food service sector. The retail market value (all channels) of all forms of seafood is estimated at \$2.5 to 2.7bn per annum.
- Seafood is sold in many forms. Fresh seafood however has its origins in different supply chains and processes, which includes fresh, chilled and defrosted to be sold as fresh. The category also includes product sold in a frozen, canned and smoked form.
- Fresh seafood (which excludes tinned and frozen product) has a volume of about 220,000 to 230,000 tonnes of which 36% is sold through retail (grocery and fishmongers).
- The large number of independent specialist fishmongers dominate the retail seafood category, but major grocery chains have grown their share in recent times with improved offers to take advantage of increased consumer interest in the category for health and convenience benefits.
- The distribution channels are complex and often lengthy due to:
 - the diversity of species (fish, crustaceans, and molluscs);
 - the range of product forms (fresh, chilled and frozen);
 - geographic supply and production sources;
 - different requirements for early-stage cold-chain handling; and
 - the wide range of market outlets for fresh seafood products

Figure 4.6.1.1 – All seafood – estimated by channel



Source: Freshagenda analysis

Figure 4.6.1.2 – Sources of seafood – shares of edible volumes



Source: Freshagenda analysis

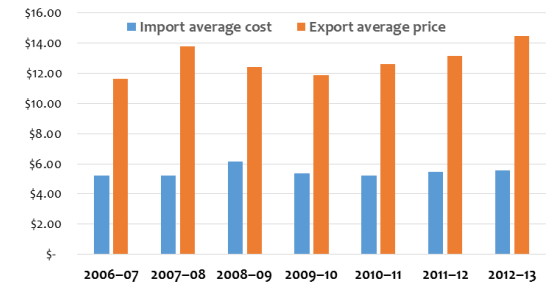
4.6 Seafood

4.6.1 Seafood sector overview

Pricing

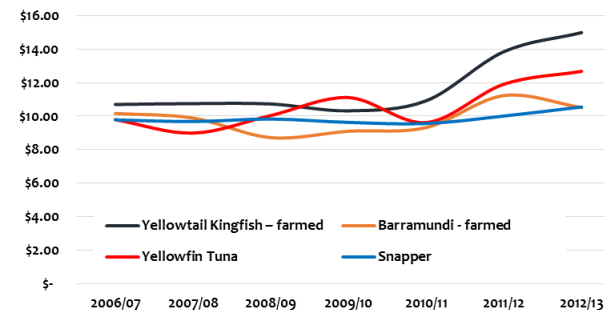
- It is simplistic to generalise about the seafood market due to its diversity and varied distribution channels to consumers.
- Traditional consumer preferences vary by region and capital city, and while the top selling products are similar in each state there is a wide range of fish species and localised names that contribute to the diversity of demand.
- Market conditions are tight, these being led by availability, value-seeking consumers, intense retail competition and further fuelled by the ready availability of lower priced imported seafood that requires minimal processing.
- With a stronger \$A in recent years general wholesale margins are under pressure as imports become more affordable, and the overall fish market has moved towards increased proportion of overseas product.
- The pressures on local product is also impacted by:
 - The lack of visibility of prices for imported products, due to the poor information and intelligence systems in the industry;
 - The increasing prevalence of imported product that requires minimal transformation and therefore less opportunity to further process and capture value; and
 - The ease with which larger buyers can deal directly with importers and or the overseas source of the product.
- These pressures have generally capped local wholesale product prices.

Figure 4.6.1.3 – Seafood unit value of imports and exports



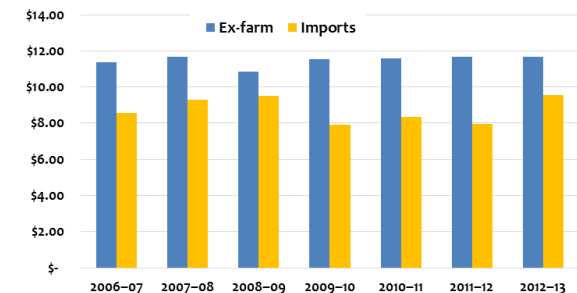
Source: Sydney Fish Market

Figure 4.6.1.4 – Sydney Fish Markets wholesale prices 2006 to 2013



Source: Sydney Fish Market

Figure 4.6.1.5 – Salmon – ex-production v imported prices

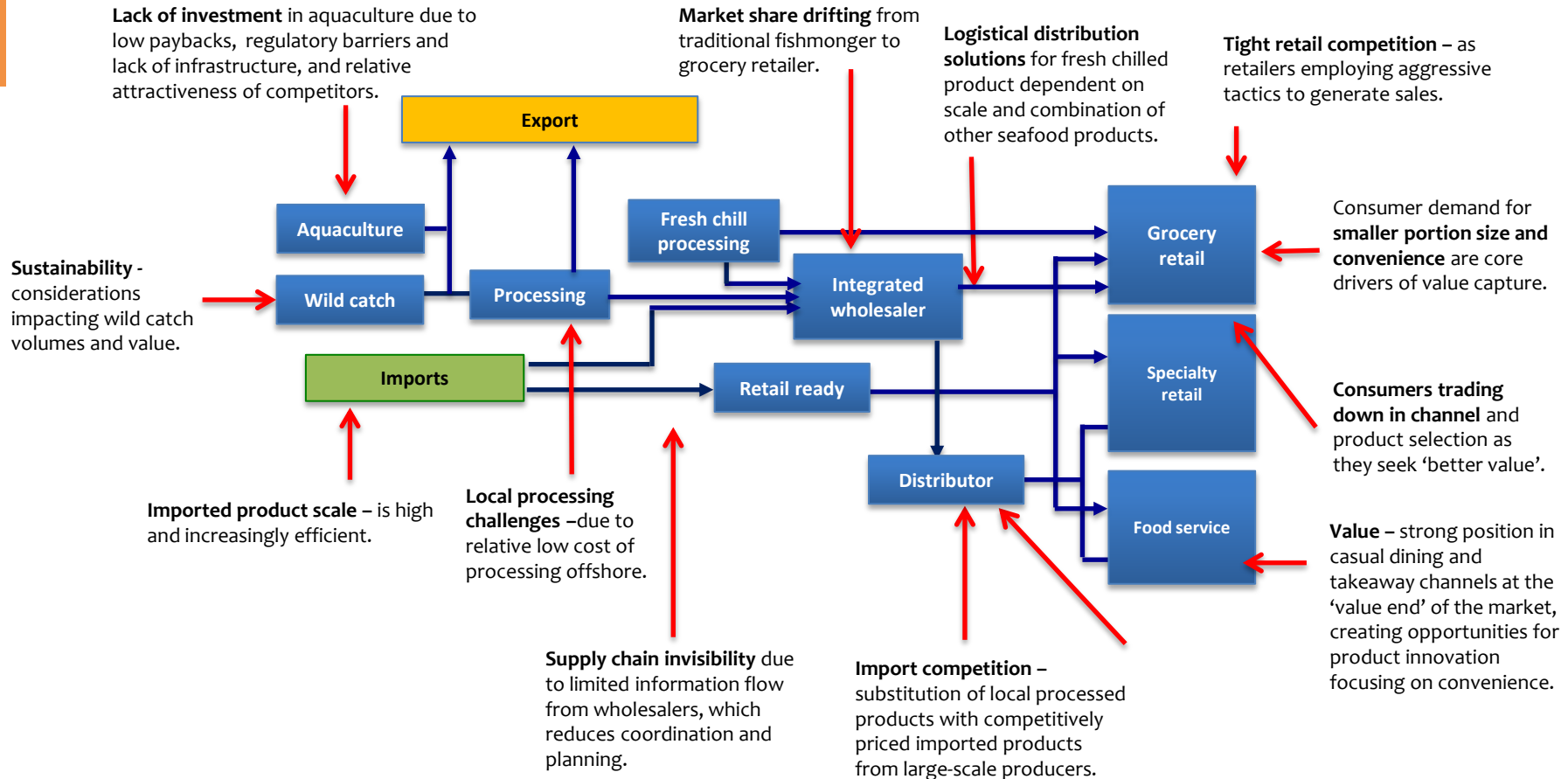


Source: ABARES

4.6 Seafood

4.6.2 Factors affecting seafood pricing

The distribution channel structures for fresh seafood are complex and often lengthy due to the diversity of species, catch, and geographic sources, the different requirements for early-stage cold-chain handling, and a wide range of market outlets for fresh seafood products. The complexity is due to the fact that most sales are made of highly perishable product sold in fresh or frozen form.



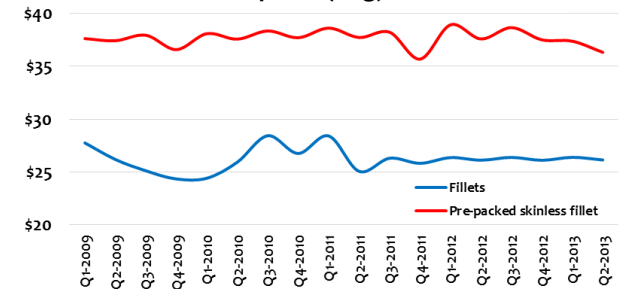
4.6 Seafood

4.6.3 Seafood pricing over time

Limited through-chain analysis

- There is limited industry data available on pricing of seafood through the various supply chains that operate in the sector.
- The dominant drivers of relative values paid for products in the fresh seafood sector are:
 - Balance of supply and demand for specific species
 - Competition between meat proteins at relevant price points for meal occasion and preparation method, compared with competing meats such as beef and chicken
 - Perceptions of fish and other seafood eating quality
 - A large component of imported frozen fish volumes are sold into the domestic markets as fresh product
 - Increased demand for portion-prepared products.
- We have highlighted the prices for two high-selling fish lines in recent years, which reflect consistent pricing while the category enjoys strong growth.

Figure 4.6.3.1 – Fresh Atlantic salmon retail prices (\$/kg)



Source: Retail sales data

4.7 Fresh fruit & vegetables

4.7.1 Fresh produce overview

Introduction

- Fresh produce – covering fruit, vegetables and herbs, is the largest combined food category sold into the domestic food market in terms of total value.
- While the size going through the grocery channel is significant, wholesale fresh produce markets in capital cities still play an important role in the setting of price – they are reflective of the movements in seasonal value. Evidence suggests that grocers pay prices well above the average prices reflected in reported wholesale pricing data.
- For these products, the seasonality of supply – and the extent to which the fluctuations in volumes are anticipated by the market - is the biggest single driver of wholesale and retail prices over time.
- There is a value range for fruit & vegetables – vegetables generally at an average of about \$3-5/kg, while fruits tend to sell a little higher – but there are many exceptions even within categories – such as tomatoes.
- There are significant regional and seasonal variations in pricing due to supply and demand variations. Retail data has not been available at regional levels, but the summaries for the sub-categories examined shows seasonal variations in national average prices.
- Fruit is more prone to seasonality and regional production. Vegetable production tends to be for shorter growing cycles and hence easier for suppliers to match demand patterns relative to fruit which are often from established orchards.
- There have been changes over time in the structure of many produce sectors, with increasing farm sizes, a greater prevalence of protected cropping systems in certain produce, and migration of production away from urban areas.
- There are few major restrictions other than quarantine on the importation of fruit and vegetables – freshness and perishability remains a key limitation but this is being overcome with the increasing use of airfreight for high-value produce. Import competition is expected to intensify from NZ (apples), and SE Asia (pineapples).

Figure 4.7.1.1 – Range of achieved retail value per category in 2013



This shows the range of value achieved and the overall average for the category

Source: Freshagenda analysis using retail data

4.7 Fresh fruit & vegetables

4.7.1 Fresh produce sector overview

Quality of data

- Wholesale market reporters capture an estimate of selling prices achieved on a daily basis through the capital city fresh produce markets. These are aggregated over longer periods and reported in terms of price ranges and the estimated average prices paid.
- Only Brisbane market provides volumes sold through the wholesale markets. Larger markets in Sydney and Melbourne only report prices.
- Wholesale market data reflects a mix of product quality and possible terms on which produce was sourced. This is reflected in a wide range of reported prices for each period.

Farmgate share of retail prices

- It is not feasible to calculate a reliable estimate of the farmer's share of retail prices where sales are made through markets other than direct supply to major grocery chains, due to the wide range of outcomes achieved in wholesale produce markets and the lack of reliable retail data from independent grocers and speciality greengrocers.

Disclosure

- This section has drawn on confidential data that enables a comparison over time between retail prices, grocery buying prices and wholesale market prices. Charts that provide these comparisons do not disclose actual prices, but the trends and relationships over time.

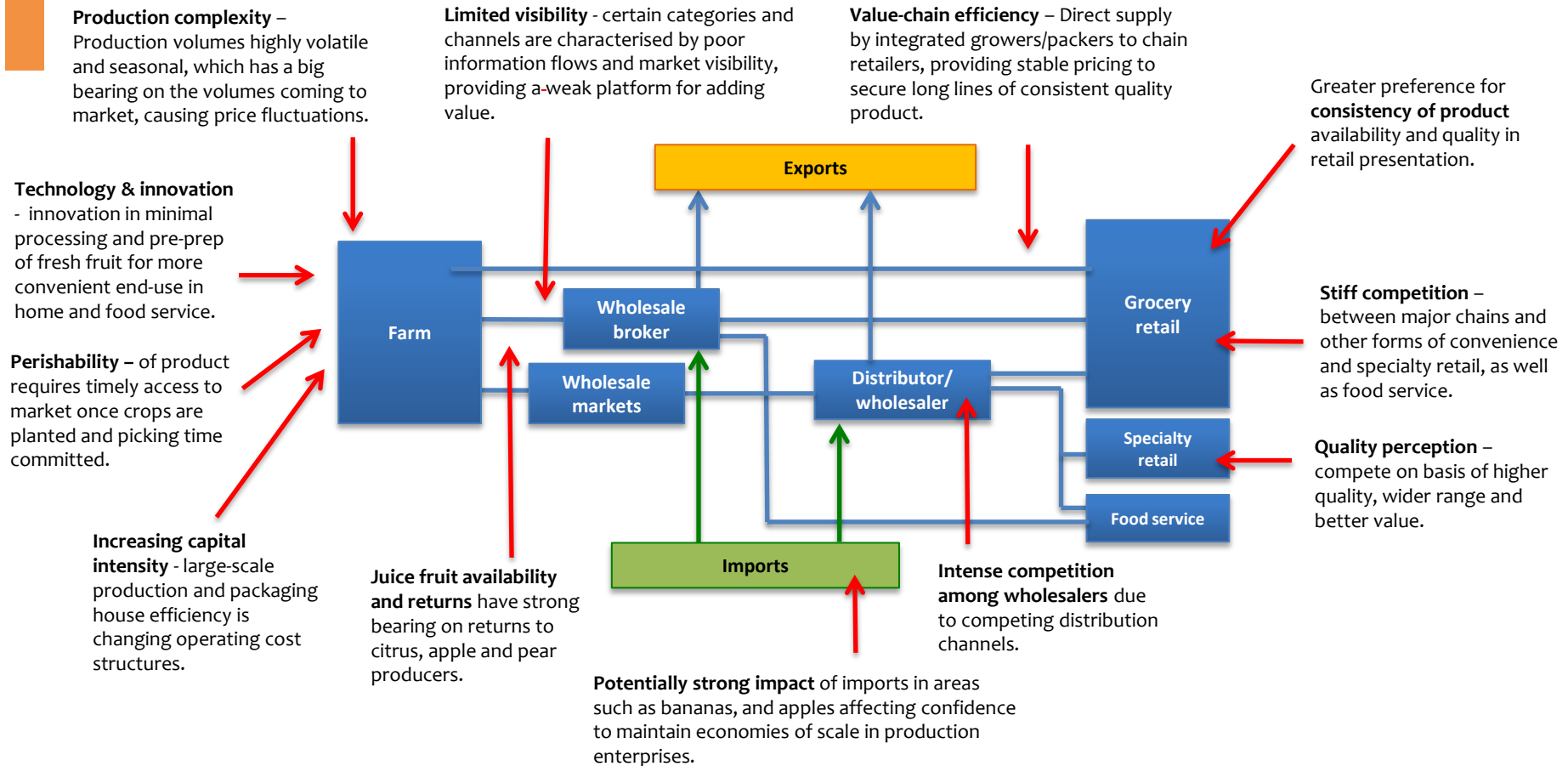
Direct supply v produce markets

- Wholesale prices for fresh produce are generally set in a fresh market system which operates in capital cities and limited other major urban centres.
- A grower either:
 - Sells produce to a market wholesaler who takes a position in the produce to realise an available price; or
 - Uses a commissioned agent to facilitate or broker a sale on the growers' behalf to a buyer.
- Wholesale markets remain a major function within the fresh produce sector, influencing wholesale produce values in all channels. This is despite significant volume of fresh produce supply being purchased direct by major supermarket chains.
- The use of direct supply arrangements has grown in the past decade. These arrangements are preferred by major grocery buyers as:
 - Produce reaches stores in and gets into store in a shorter time – accordingly it is fresher;
 - Certainty of supply is improved, minimising retail stock outs;
 - Stability in pricing is more readily achieved; and
 - Specifications for quality, appearance or other attributes are agreed in advance or to reflect adverse seasonality.
- The fresh produce markets – which collectively handle about 45-50% of volumes (for independent grocers and specialist greengrocers) retain a key role for the overall market in **price discovery**. Direct supply prices in the short-run remain directly influenced by prevailing seasonal conditions and prices struck in the fresh markets system. Our observations on prices confirm this over recent years.
- The direct supply arrangements generally benefit suppliers, who typically earn a higher price than the prevailing averages achieved in the wholesale markets, although the extent of such differentials and the ongoing fluctuations in product varies category to category.

4.7 Fresh fruit & vegetables

4.7.2 Factors affecting fruit pricing

Fruit value chain: The fresh fruit sector is highly fragmented and diverse in terms of the product groups, scale of enterprises in farm production and extent of integration that exists through the chain. The sector is strongly driven by the competition at retail level between major supermarkets and specialty green grocers for a share of the consumer dollar. The consumer is sensitive to the cost of fresh food items that go into their shopping basket.



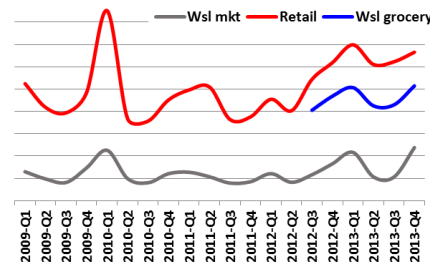
4.7 Fresh fruit & vegetables

4.7.3 Fruit pricing over time

Avocado

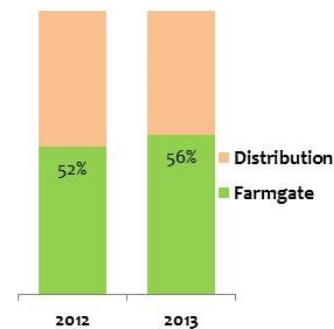
- Avocado is a fruit that is a key salad item, but increasingly used in other occasions.
- Prices are relatively stable but have fluctuated due to local supply gaps, chiefly in summer months.
- Prices are reflected on a weight basis in wholesale and retail data but products are sold as single fruit on a “price per item”.
- There is a significant influence of imported product (from New Zealand mostly) due to those seasonal shortages in local production. Imported product has been able to gain a significant foothold in recent years once it was accepted, and now represents a growing portion of the market. A small volume of fresh exports are also made.
- Prices reflect strong seasonal variation with changes in supply. Local prices also reflect a close correlation with landed prices from New Zealand. Wholesale and retail prices have lifted in 2013 due to local supply shortages.
- Our analysis of grocery retail and farmgate prices for Haas avocado over two financial years based on confidential data provided to us shows the farmgate portion of the average retail prices was between 52% and 56%. Costs between producer and wholesaler include packaging and transport, which are assigned to the “distribution” share of prices in this illustration.

Figure 4.7.3.2 – Avocado prices 2009 to 2013*



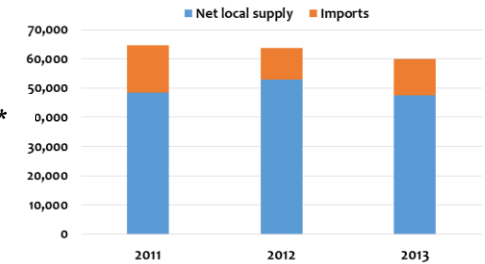
Source: Brisbane Markets, Retail sales data

Figure 4.7.3.4 – Share of retail price in %



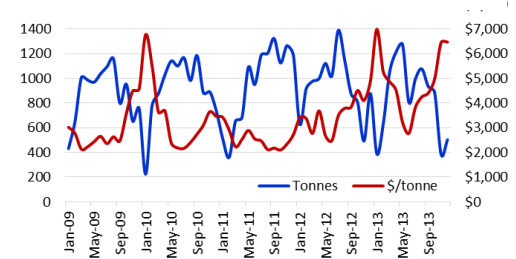
Source: Freshagenda analysis

Figure 4.7.3.1 – Avocado net local supply and imports (tonnes)



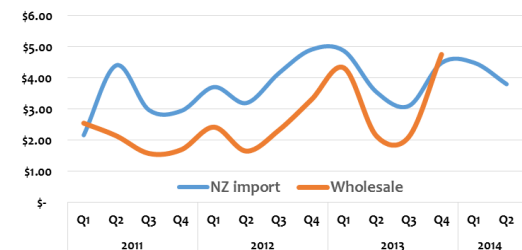
Source: UN Comtrade

Figure 4.7.3.3 – Average avocado wholesale prices and volumes 2009 to 2013



Source: Brisbane Markets

Figure 4.7.3.5 – Wholesale v NZ import prices (A\$/kg)



Source: UN Comtrade

*See the disclosure note on page 80

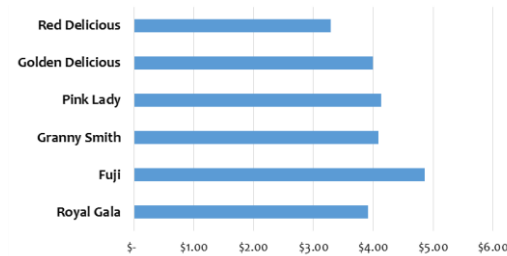
4.7 Fresh fruit & vegetables

4.7.3 Fruit pricing over time

Apples

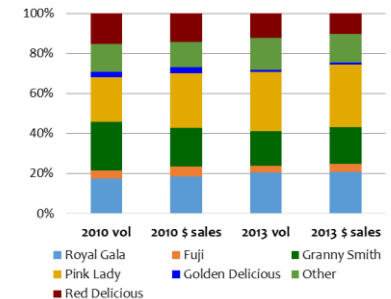
- Apples are a major fruit category with year-round availability comprising a number of varieties, of which Pink Lady is the highest seller in volume and value.
- Total fresh production is about 200,000 tonnes, with about 1% exported. A further 80,000 tonnes was produced for juicing and processing.
- A small volume of imported apples are supplied to the market.
- The category is made up of a number of varieties with different eating qualities and appearance.
- Apple pricing for major selling varieties tends to be relatively stable over time, with the exception of extreme weather events which shortened supplies of other fruit, creating greater demand for the category.
- Grocery buy prices represent a relatively high portion of the retail price, reflecting costs associated with storage.
- Our analysis of grocery retail and farmgate prices in the apples category over two financial years based on confidential data provided to us shows the farmgate portion of the average retail prices was between 52% and 56%. Costs between producer and wholesaler include packaging and transport, which are assigned to the “distribution” share of prices in this illustration.
- Other apple lines achieved a slightly higher share of retail prices in 2013/14 of up to 60% of retail value.

Figure 4.7.3.6 – Range of retail prices for apple varieties (2013)



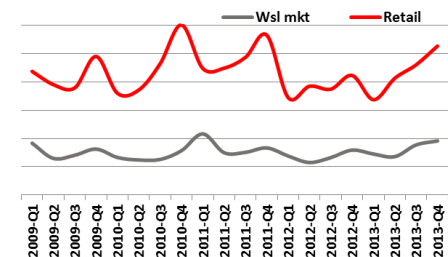
Source: Retail sales data

Figure 4.7.3.7 – Changing sales mix of apples 2010 to 2013



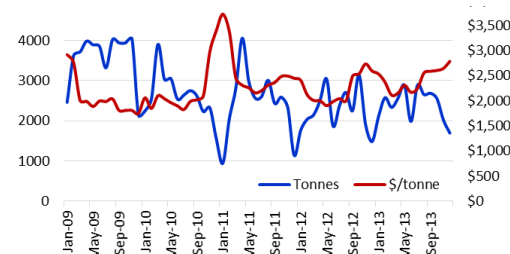
Source: Retail sales data

Figure 4.7.3.8 – Royal Gala apple prices 2009 to 2013*



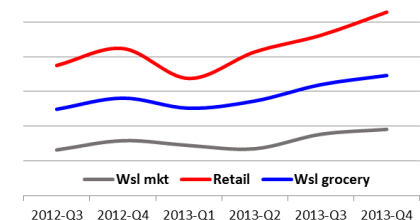
Source: Brisbane Markets, Retail sales data
*See the disclosure note on page 80

Figure 4.7.3.10 – Average apple wholesale prices and volumes 2009 - 2013



Source: Brisbane Markets

Figure 4.7.3.9 – Royal Gala apple prices 2012 to 2013



Source: Brisbane Markets, Retail sales data

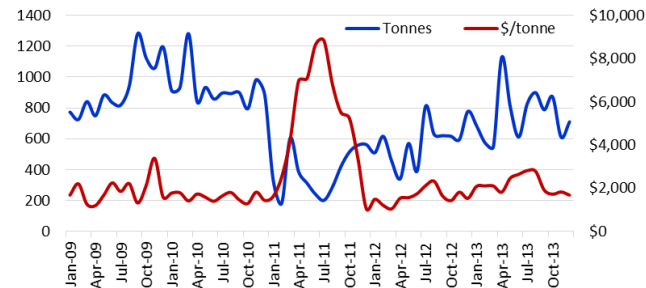
4.7 Fresh fruit & vegetables

4.7.3 Fruit pricing over time

Bananas

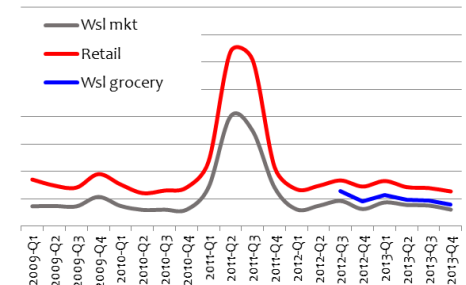
- Bananas are a major fruit category with seasonal availability.
- 97% of the category are the Cavendish variety with small volumes of Ladyfinger and Eco bananas.
- Banana pricing is highly variable over time, affected by product availability in normal production seasons, but in recent years has been severely affected by extreme weather events.
- This is shown graphically in the chart, when the 2011 cyclone affected the crop and a slow recovery has ensued. It is estimated 100,000 tonnes was taken out of annual production as a result of the event – about a third of annual output.
- Retail prices have closely tracked wholesale prices.
- Our analysis of grocery retail and farmgate prices for Cavendish bananas over two financial years based on confidential data provided to us shows the farmgate portion of the average retail prices was between 49% and 52%.
- Costs between producer and wholesaler include ripening, packaging and transport, which are assigned to the “distribution” share of prices in this illustration.

Figure 4.7.3.11 – Average banana wholesale prices and volumes 2009 to 2013



Source: Brisbane Markets

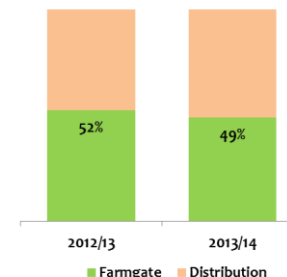
Figure 4.7.3.12 – Banana prices 2009 to 2013*



Source: Brisbane Markets, Retail sales data

*See the disclosure note on page 80

Figure 4.7.3.13 – Share of retail in %



Source: Freshagenda analysis

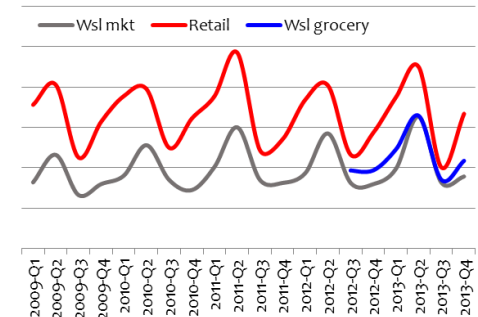
4.7 Fresh fruit & vegetables

4.7.3 Fruit pricing over time

Berries

- Berries are a snacking and dessert fruit category with seasonal availability, which results in wide variation in pricing for fresh fruit as shown at right.
- At retail level, strawberries are generally sold in 250g punnet at prices that fluctuate between \$1.50 and \$3 depending on overall availability of supply, averaging around \$2.70-\$2.80 in grocery based on overall sales volumes.
- Fresh strawberries compete with a number of snacking fruit lines but have a wide range of applications across eating occasions.
- The fresh product also competes with frozen berry products which offer greater convenience in storability.
- Minor volumes of imported lines enter the fresh market if there are shortages, but these have minimal effect on pricing.
- Our analysis of grocery retail and farmgate prices for strawberries over two financial years based on confidential data provided to us shows the farmgate portion of the average retail prices was close to two-thirds on average.
- Costs between producer and wholesaler include packaging and transport, which are assigned to the “distribution” share of prices in this illustration.

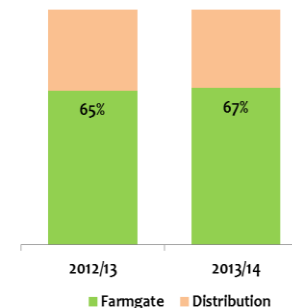
Figure 4.7.3.14 – Strawberry prices 2009 to 2013*



Source: Brisbane Markets, Retail sales data

*See the disclosure note on page 80

Figure 4.7.3.15 – Share of retail in %



Source: Freshagenda analysis

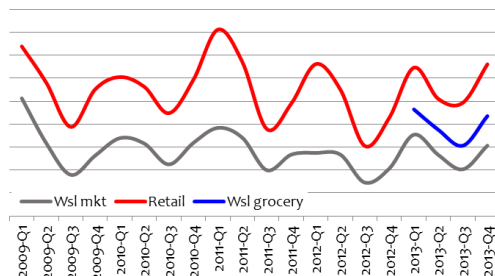
4.7 Fresh fruit & vegetables

4.7.3 Fruit pricing over time

Oranges

- Citrus are a major fruit category with seasonal availability, which drives fluctuations in wholesale and retail pricing.
- There are two major varieties of oranges with different seasonal usages – Navels typically available June to October and Valencia from November to February. Navels are sold in much greater volume and in 2012 and 2013 we estimate the variety represented about 85% of sales value in grocery.
- Orange production varies according to seasonal conditions affecting water availability. Annual local production has ranged from 300,000 tonnes to about 470,000 tonnes in the recent past, with efforts to sustain export volumes a priority over domestic market sales. Australian production is supplemented by small volumes of seasonally imported navel oranges typically from the US.
- Juicing is the major use of Valencia varieties, and also a destination for unwanted volumes of navel oranges which do not make export specification and/or are in excess of fresh market demand.
- Our analysis of grocery retail and farmgate prices for Navel oranges in 2013/14 based on confidential data provided to us shows the farmgate portion of the average retail prices was between 50% and 55%.

Figure 4.7.3.20 – Orange retail and wholesale prices*



Source: Brisbane Markets, Retail sales data

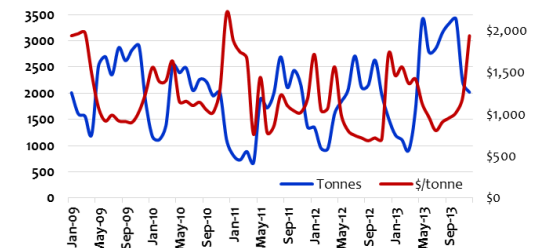
*See the disclosure note on page 80

Figure 4.7.3.19 – Export prices v local wholesale values



Source: ABARES

Figure 4.7.3.16 – Average orange wholesale prices and volumes 2009 to 2013



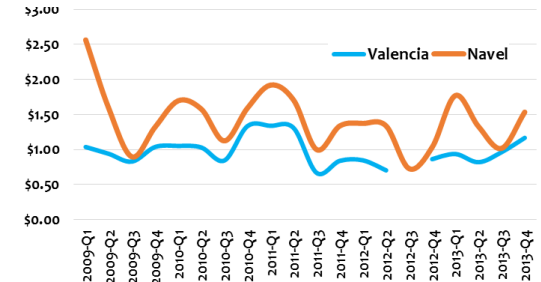
Source: Brisbane Markets

Figure 4.7.3.17 – Orange volumes – local crop availability and exports ('000 tonnes)



Source: ABARES

Figure 4.7.3.18 – Fresh orange wholesale prices (\$/kg)



Source: Brisbane Markets

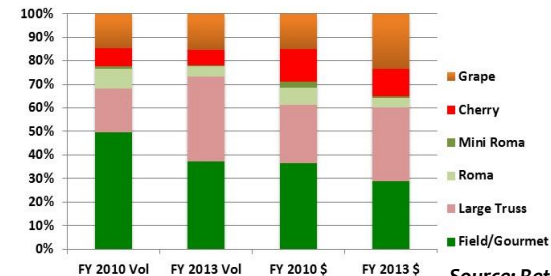
4.7 Fresh fruit & vegetables

4.7.3 Fruit pricing over time

Tomatoes

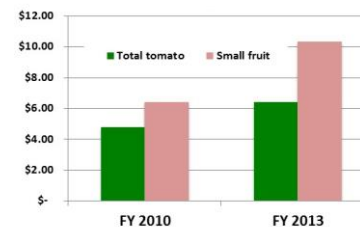
- Tomatoes are a major fresh produce category which has grown in overall retail value in the past decade.
- The tomato category has evolved in recent years towards a higher value mix of product as suppliers and retailers have responded to greater consumer demand for products that provided greater taste, usage and convenience.
- The fresh tomato category in 2013 reflected a wide range of retail pricing from loose field gourmet to pre-packed grape tomatoes.
- While field tomatoes formerly dominated the category with close to half of overall sales in a typical retail profile, their share of sales has slipped to about a third as pre-packed truss and small fruit lines have increased in popularity.
- Pre-packed (PP) products – presented in punnets and small trays – typically attract a significant price premium over loose. The range of small fruit products have been enhanced by products targeted at snacking occasions.
- Wholesale prices stay volatile due to seasonal factors - adverse weather and drought conditions in key production regions.

Figure 4.7.3.21 – Changing fresh tomato retail sales mix (2010 v 2013)



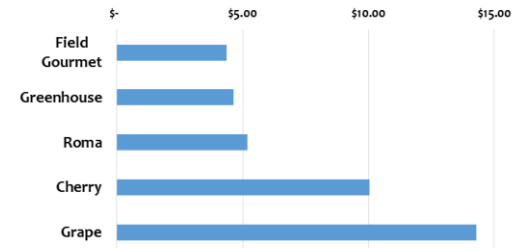
Source: Retail sales data

Figure 4.7.3.22 – Fruit price/kg in fresh sales



Source: Retail sales data

Figure 4.7.3.23 – The value range in retail prices per kg



Source: Retail sales data

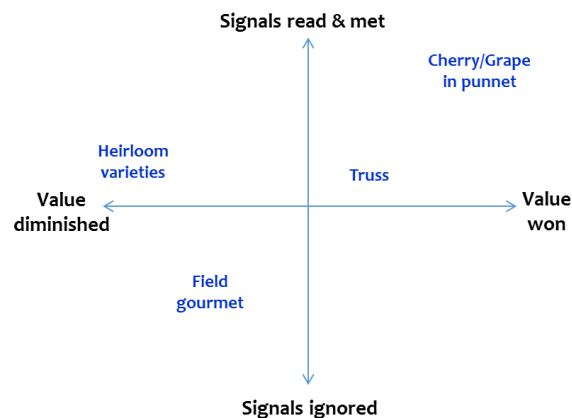
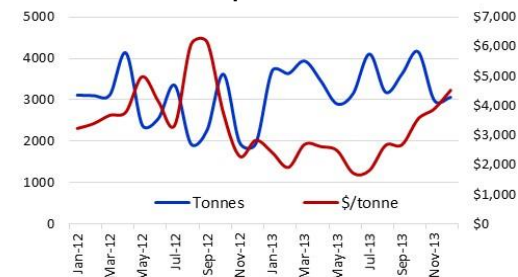


Figure 4.7.3.24 – Average tomato wholesale prices and volumes



Source: Brisbane Markets

4.7 Fresh fruit & vegetables

4.7.3 Fruit pricing over time

Tomatoes (continued)

- Prices for low-value field gourmet tomatoes at wholesale and retail are heavily influenced by the different seasonality of supply, whereas the pricing of pre-packed, small fruit is relatively stable by comparison due to their consistent year-round production in protected cropping (greenhouse) facilities.
- The chart on the right compares an estimate of the national average wholesale prices achieved for varieties of tomatoes sold through fresh produce markets.

Farmgate share of retail price

- Grocery retailers pay a buying price to their direct suppliers that is well above that reported by the fresh produce markets. The chart on the right shows a comparison over a period of 6 quarters in 2012 and 2013.
- Our analysis of retail and farmgate prices for field gourmet products over two financial years based on confidential data provided to us shows the farmgate portion of the average retail prices was between 41% and 45%.
- The share of retail in other higher-value pre-packed lines tested by us were between 55% and 65% of the retail value, showing a higher value-capture for the supplier.
- Costs between producer and wholesaler include packaging and transport, which are assigned to the “distribution” share of prices.

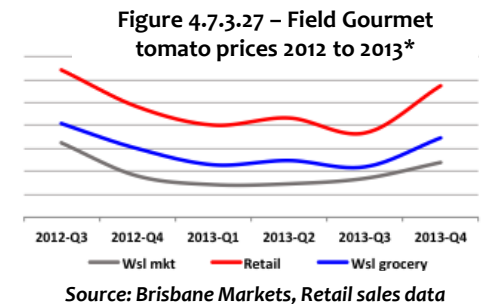
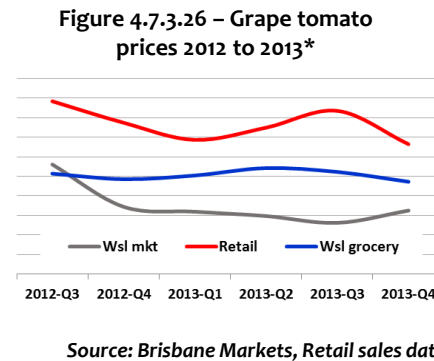
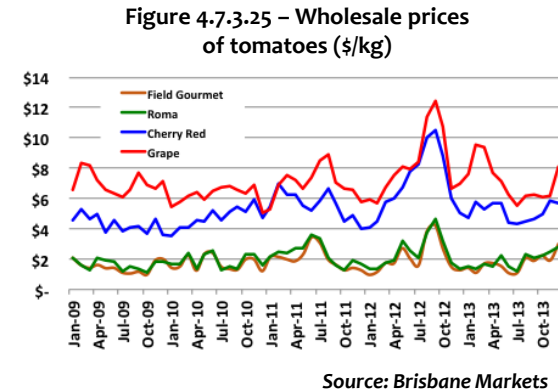


Figure 4.7.3.28 – Share of retail price in % (field gourmet)

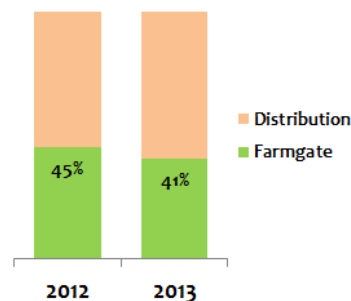
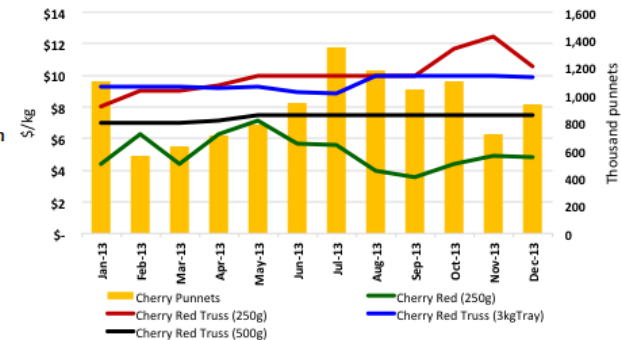


Figure 4.7.3.29 – Seasonality of cherry tomatoes – vol v value of lines



*See the disclosure note on page 80

4.7 Fresh fruit & vegetables

4.7.4 Factors affecting vegetable pricing

Vegetable value chain - The fresh vegetable category is highly fragmented and diverse in terms of the product groups, scale of enterprises in farm production and the extent of integration along the chain. The dominant drivers of value include the balance of supply and demand throughout seasons, and primary volume lines of staple vegetables. The consumer is sensitive to the cost of fresh food items that go into the shopping basket.

Production complexity – Production volumes highly volatile and seasonal, which has a big bearing on the volumes coming to market, causing price fluctuations.

Limited visibility - certain categories and channels are characterised by poor information flows and market visibility, providing a weak platform for adding value.

Value-chain efficiency – Direct supply by integrated growers/packers to chain retailers, providing stable pricing to secure long lines of consistent quality product.

Demand patterns – Greater demand for convenience and lifestyle solutions in meals and food preparation .

Technology & innovation - innovation in minimal processing and pre-prep of fresh vegetables for more convenient end-use in home and food service.

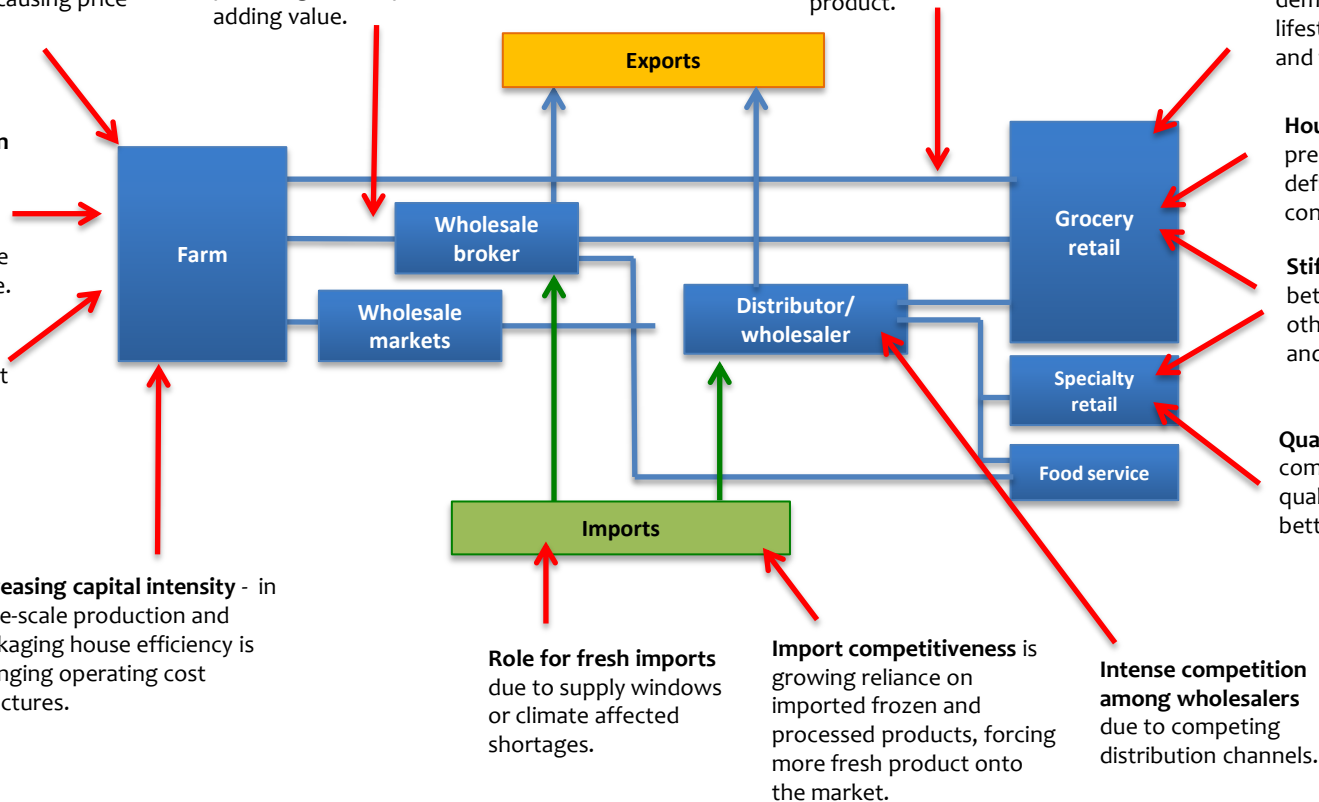
Perishability – of product requires timely access to market once crops are planted and picking time committed.

Increasing capital intensity - in large-scale production and packaging house efficiency is changing operating cost structures.

Household penetration – prep methods and usage defining peak consumption periods.

Stiff competition – between major chains and other forms of convenience and specialty retail.

Quality perception – compete on basis of higher quality, wider range and better value.



4.7 Fresh fruit & vegetables

4.7.5 Vegetable pricing over time

Broccoli

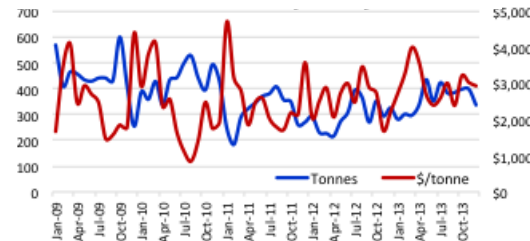
- Broccoli is a major vegetable category which has steadily grown in overall value due to its image as a healthy green vegetable.
- Seasonal fluctuations in supply are regularly caused by climatic patterns, which flow on to cause price variations at both wholesale and retail points. Broccoli displays strong seasonal purchasing patterns with increased weekly purchasing during cooler months of the year.
- There has been limited product development and range extension in the category. The large majority (90%) of broccoli is sold as a crown in loose form, at an average price that typically ranges between \$3.50 and \$5.50/kg, and in 2013 averaged close to \$4/kg.
- The remaining 10% of volume is sold as Broccolini or Baby Broccoli, which is sold by the bunch at a substantial price above loose broccoli, in a range of \$12 to \$13/kg - a narrower range that is reflective of the managed marketing of this product.

Farmgate share of retail price

- Based on confidential data provided to us for the purposes of this study, broccoli producers supplying direct to a grocery retailer earned an average of 45% of average retail price in 2012, and 43% in 2013.
- Costs between producer and wholesaler include packaging and transport, which are assigned to the “distribution” share of prices.

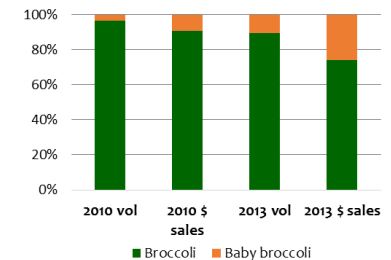
*See the disclosure note on page 80

Figure 4.7.5.1 – Average broccoli wholesale prices and volumes 2009 to 2013



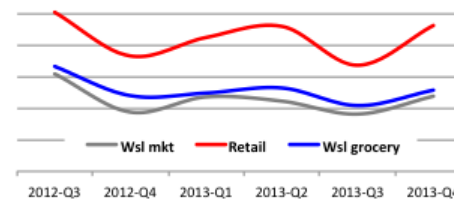
Source: Brisbane Markets

Figure 4.7.5.2 – Changing sales mix 2010 to 2013



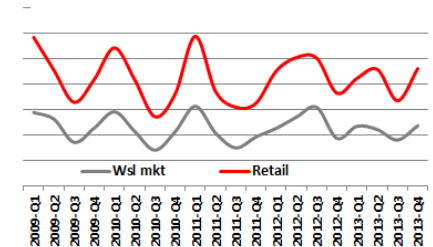
Source: Retail sales data

Figure 4.7.5.3 – Broccoli prices 2012 to 2013*



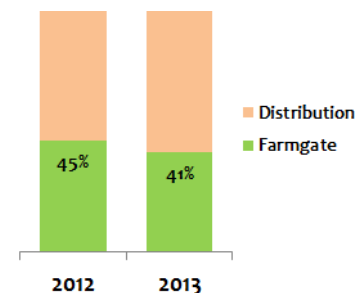
Source: Brisbane Markets, Retail sales data

Figure 4.7.5.4 – Broccoli prices 2009 to 2013*



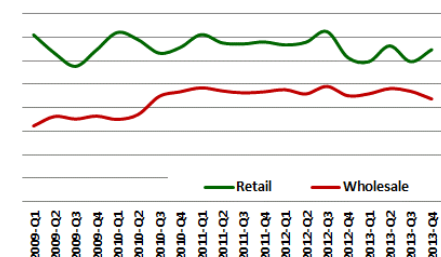
Source: Brisbane Markets, Retail sales data

Figure 4.7.5.5 – Share of retail price in %



Source: Freshagenda analysis

Figure 4.7.5.6 – Baby broccoli prices 2009 to 2013 (\$/kg)*



Source: Brisbane Markets, Retail sales data

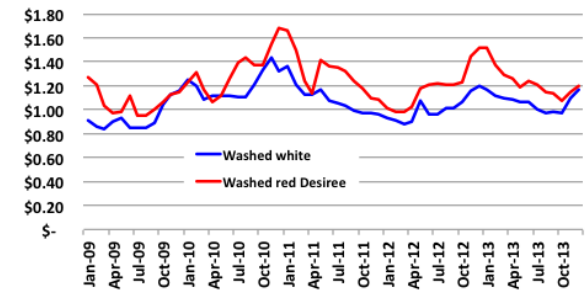
4.7 Fresh fruit & vegetables

4.7.5 Vegetable pricing over time

Potatoes

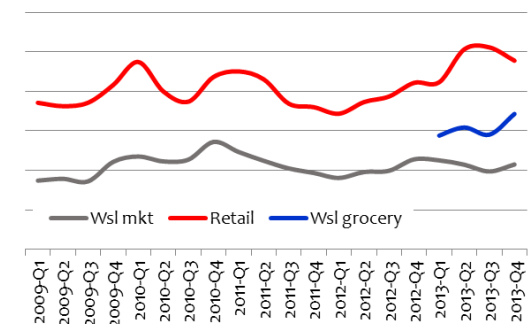
- Potatoes are a major hard-cooked vegetable category which remains a staple in cooked meals and salads.
- Seasonal fluctuations in supply are less-pronounced in this category and prices tend to be far more stable than soft-cooked and salad vegetables.
- Potatoes are a comparatively low value vegetable product that is purchased by consumers for an average around \$2 to \$2.50/kg.
- There has been varietal and range extension in the category over the past decade to provide consumers with a range of products to suit various cooking methods and end-use occasions. The composition of the category is shown in the chart at right.
- There has been a growing preference by consumers for pre-packed product which has increased its annual share of category value from about 50% in 2009/10 to 65% in 2013/14. In recent years, varieties in small pre-packed form, offering better convenience, have added greater unit value.
- This has lifted overall average retail prices in the category by about 22% over this period.
- Based on confidential data provided to us for the purposes of this study, potato producers supplying direct to a grocery retailer earned between 45% and 50% in 2013/14 for major selling varieties in loose form. Products sold in larger bagged quantities earned a higher share.
- Costs between producer and wholesaler include packaging and transport, which are assigned to the “distribution” share of prices.

Figure 4.7.5.7 – Wholesale prices of potatoes (\$/kg)



Source: Brisbane Markets

Figure 4.7.5.8 – 3kg washed potatoes prices 2009 to 2013*



Source: Brisbane Markets, Retail sales data

*See the disclosure note on page 80

4.7 Fresh fruit & vegetables

4.7.5 Vegetable pricing over time

Lettuce

- The lettuce category is a large component of the fresh salads market, with a seasonal sales pattern dominated in warmer months.
- The category has evolved to include a number of different and innovative varieties and types of lettuce, including loose, self-select and pre-packed product. There are various pre-packed consumer options also, with standalone varieties and mixed salads.
- Our assessment of product contribution to the category is shown on the right – the high proportion of convenience-based products has added significant value to the category over time.
- Product innovation has helped grow the category, increasing the versatility of use and the overall value of the category. New varieties and types of lettuce have also played a role in this development.
- Loose product sells in two forms, loose leaf (leaves that do not form a compact head) and whole headed product. All headed products are sold on an “each” basis, while loose leaf products are sold by weight.
- Pre-packed salads have won support with greater interest in portion control, convenience and limiting household waste. This is better suited to single and couple households that do not require a full head of lettuce.
- Many of the prepacked salads are supplied in kit form, reducing preparation time. This has included the likes of resealable tubs, providing solutions for mobile snacking occasions.
- Based on confidential data provided to us for the purposes of this study, lettuce growers supplying direct to a grocery retailer earned between 45% and 50% in 2013/14 for iceberg lettuce in loose form.
- Suppliers of bagged pre-pack products captured higher value and achieved between 50% and 65% depending on the specific line.
- Costs between producer and wholesaler include packaging and transport, which are assigned to the “distribution” share of prices.

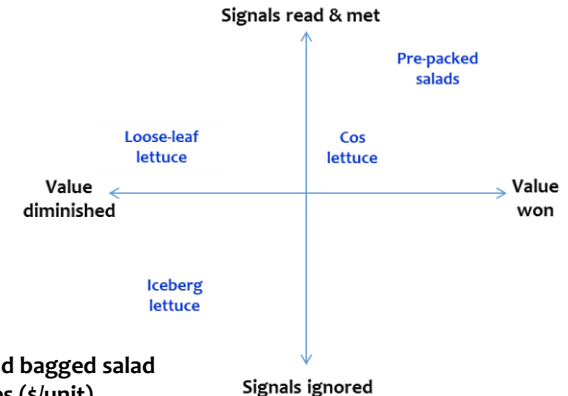
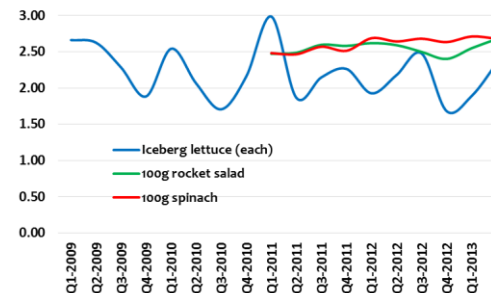
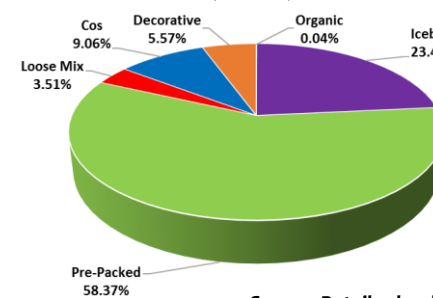


Figure 4.7.5.9 – Lettuce and bagged salad products retail prices (\$/unit)



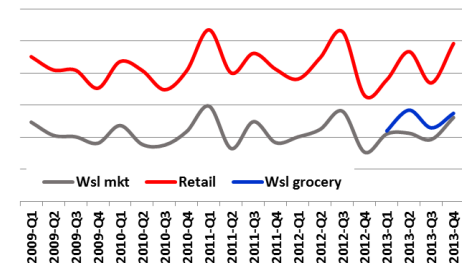
Source: Retail sales data

Figure 4.7.5.11 – Estimated share of retail sales (2012/13)



Source: Retail sales data

Figure 4.7.5.10 – Iceberg lettuce prices 2009 to 2013*



Source: Brisbane Markets, Retail sales data

* See the disclosure note on page 80

4.7 Fresh fruit & vegetables

4.7.5 Vegetable pricing over time

Onions

- Onions are a key seasoning category.
- Seasonal fluctuations in supply are less-pronounced in this category and prices tend to be far more stable than soft-cooked and salad vegetables.
- Onions are a comparatively low value vegetable product that is purchased by consumers for an average around \$2-2.50/kg.
- There has been limited varietal and range extension in the category over the past decade.
- The composition of the category is shown in the chart at right.
- The chart on the right shows the comparison of average prices achieved for different products.
- About half of all sales are made in loose form, which sell at a significant premium to the bulk pre-packed form. In recent years, small sales of varieties in loose form offering culinary variety have added greater unit value, but remain insignificant in the overall category.
- Based on confidential data provided to us for the purposes of this study, onion producers supplying direct to a grocery retailer earned an average of 49% in 2013/14 for major selling lines in bulk and pre-packed bags.
- Costs between producer and wholesaler include packaging and transport, which are assigned to the “distribution” share of prices.

Figure 4.7.5.12 – Wholesale prices of onions (\$/kg)*

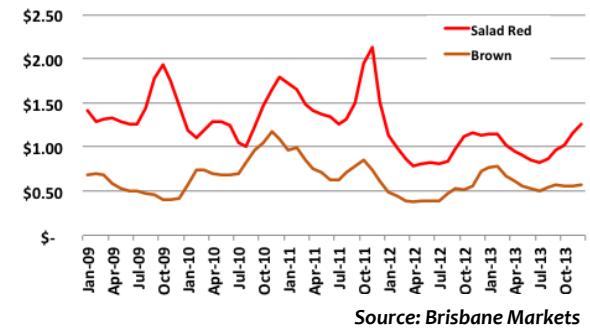
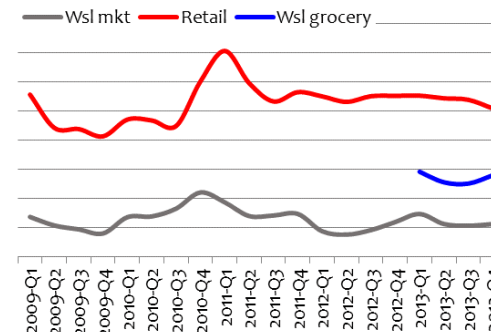


Figure 4.7.5.13 – Brown onion prices 2009 to 2013*



*See the disclosure note on page 80

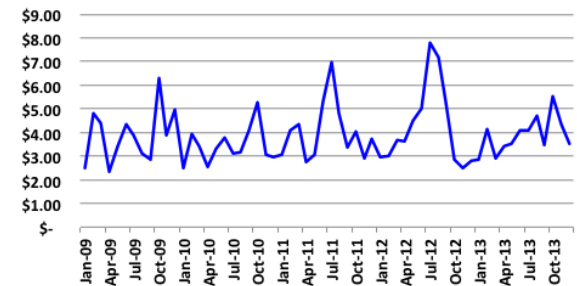
4.7 Fresh fruit & vegetables

4.7.5 Vegetable pricing over time

Green beans

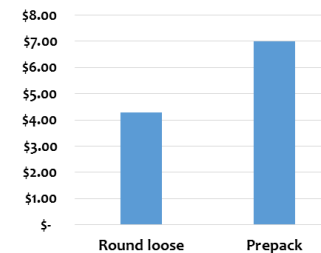
- Green beans are a small soft-cooked vegetable category.
- Seasonal fluctuations in supply affect pricing in this category, although it tends to be a little more stable than some other soft-cooked and salad vegetables.
- Beans are a comparatively high value vegetable product that is purchased by consumers averaging between \$4 and \$7/kg.
- There has been limited varietal and range extension in the category over the past decade. The chart on the right shows the comparison of average prices achieved for different products.
- Half sales by value are made in loose form, but sales in pre-packed packaging are made at a unit price per kg which is a significant premium (greater than 60%) to the bulk form.
- The overall product mix has not altered significantly in recent years.
- Based on confidential data provided to us for the purposes of this study, bean producers supplying direct to a grocery retailer earned an average of 54% in 2013/14 for major selling lines in bulk and pre-packed bags.
- Costs between producer and wholesaler include packaging and transport, which are assigned to the “distribution” share of prices.

Figure 4.7.5.14 – Wholesale prices of round beans (\$/kg)



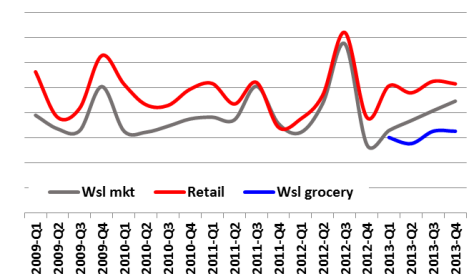
Source: Brisbane Markets, Retail sales data

Figure 4.7.5.15 – Price comparison in 2013
Loose v pack (\$/kg)



Source: Retail sales data

Figure 4.7.5.16 – Round bean prices 2009 to 2013*



Source: Brisbane Markets, Retail sales data

*See the disclosure note on page 80

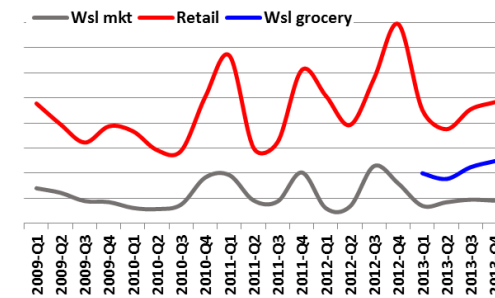
4.7 Fresh fruit & vegetables

4.7.5 Vegetable pricing over time

Pumpkin

- Pumpkins are a small hard-cooked vegetable category.
- Seasonal fluctuations in supply are more-pronounced in this category compared with other hard-cooked vegetables.
- Pumpkins are a comparatively low value vegetable product that is purchased by consumers for an average around \$2.50-3.00/kg.
- There has been limited varietal and range extension in the category over the past decade. The chart on the right shows the comparison of average prices achieved for different products.
- In recent years, small sales of varieties in loose form offering culinary variety have added greater unit value, but remain insignificant in the overall category.
- Based on confidential data provided to us for the purposes of this study, pumpkin producers supplying direct to a grocery retailer earned an average of 38-40% in 2013/14 for major selling lines.
- Costs between producer and wholesaler include packaging and transport, which are assigned to the “distribution” share of prices.

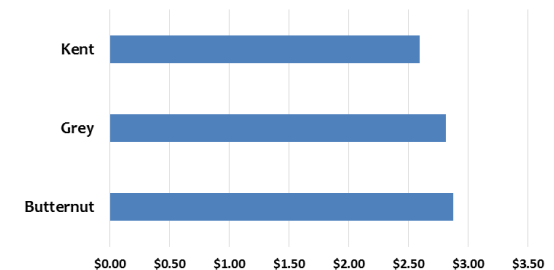
Figure 4.7.5.17 – Pumpkin prices 2009 to 2013*



Source: Brisbane Markets, Retail sales data

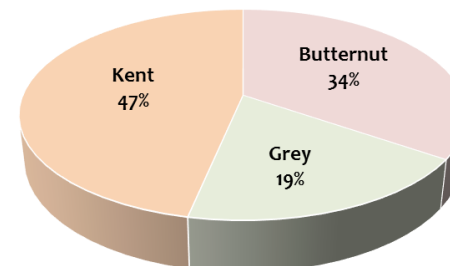
*See the disclosure note on page 80

Figure 4.7.5.18 – Relative prices for pumpkin varieties in 2013



Source: Retail sales data

Figure 4.7.5.19 – Share of pumpkin category by value



Source: Retail sales data

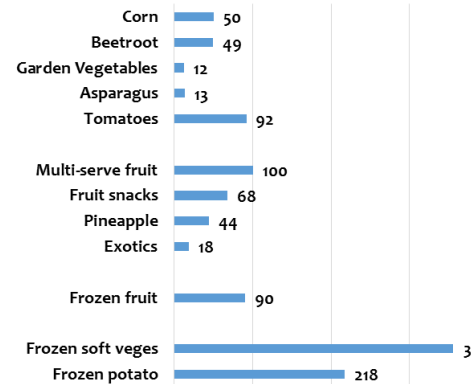
4.8 Processed fruit & vegetables

4.8.1 Processed foods sector overview

Introduction

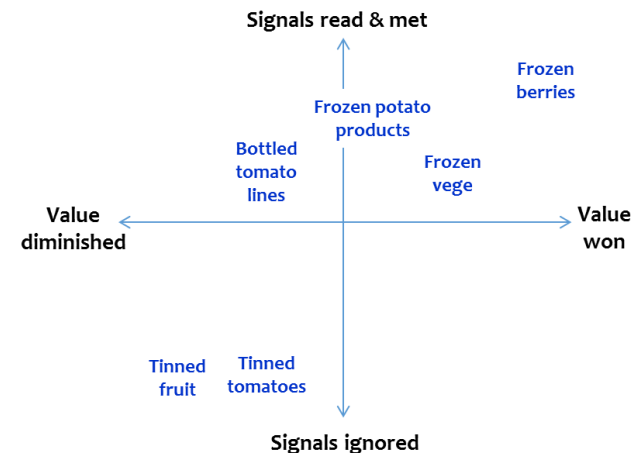
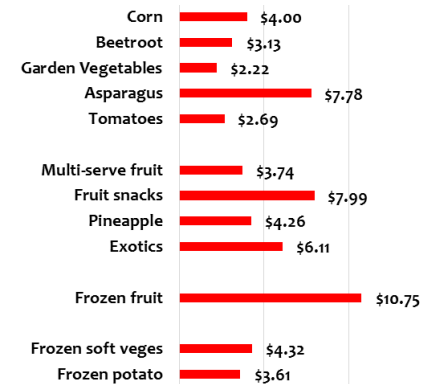
- The processed fruit and vegetable sector comprises products which are sold in grocery retail in frozen and tinned form. There are additional significant volumes sold into the foodservice sector for use in meal preparation and in fast food outlets.
- Our assessment of the products in the category is based on the unit value being added and the growth (or contraction) in sales demonstrated over recent years based on our analysis of retail industry data.
- The chart on the right shows the relative retail values for the grocery channel of the major product groups.
- Returns to processors and producers from the processed products sector are strongly influenced by the exposure to imported lines, which have increased in volume over the past decade as the value of the \$A has increased and as Australia's manufacturing labour costs move higher compared to those in alternate processing sources.
- Competition between processors is chiefly based on price, though there have been considerable efforts by some to increase the diversity of their product range, other than in canned products.
- These food segments have partially suffered due to their traditional product image, but some processors and marketers have innovated to improve product convenience. The resurgence in preparing more meals at home has helped with the recovery in volumes in some product categories.
- In more recent times, the interest in demonstrating support for products of local origin has also supported confidence in local processors.
- Producers supplying raw material have been forced to improve efficiency due to the competitive pressure on processors and manufacturers.

Figure 4.8.1.1 – Grocery value in \$m in 2013



Source: Retailworld 2013

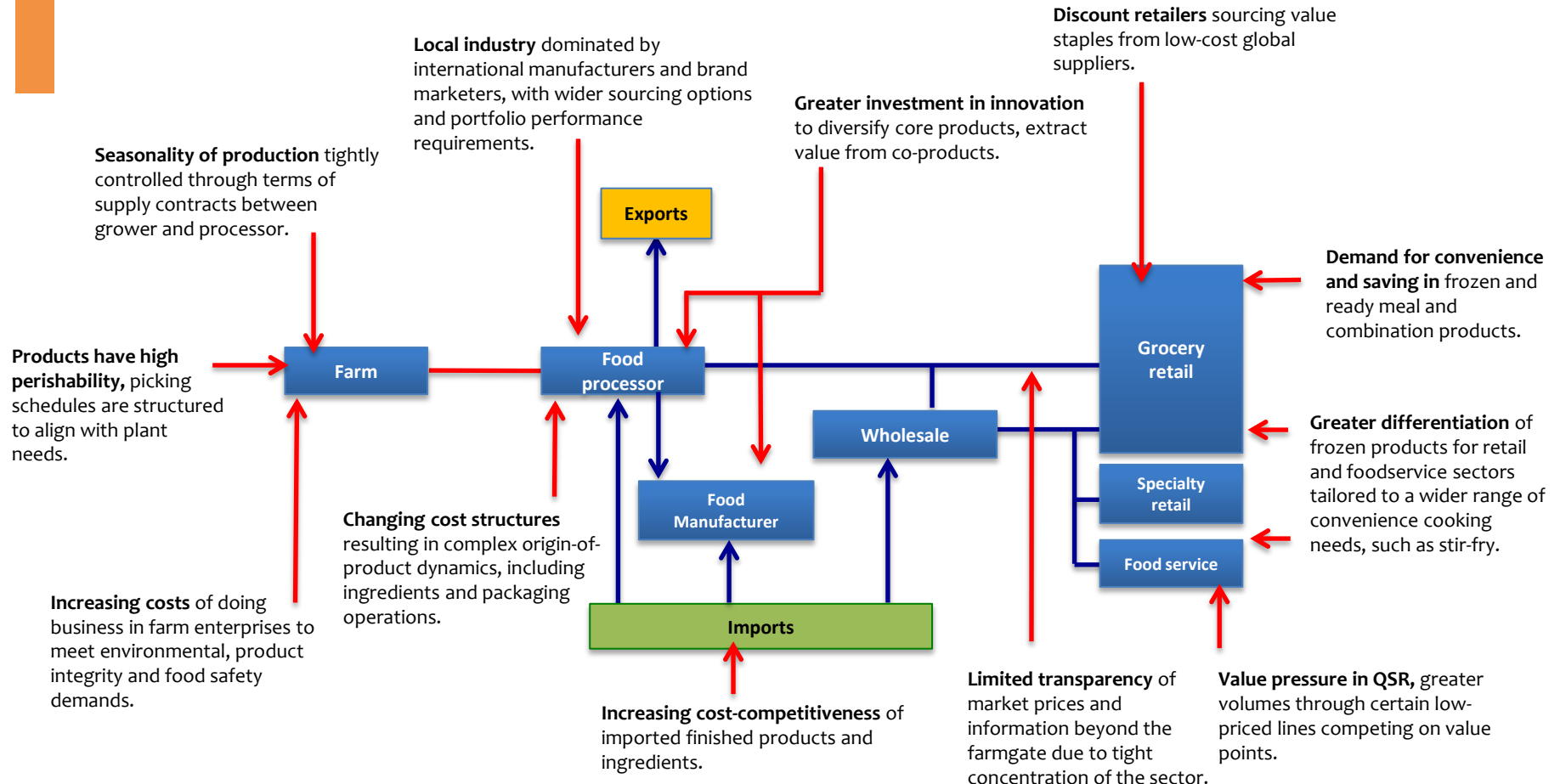
Figure 4.8.1.2 – Average retail selling price \$/kg in 2013



4.8 Processed fruit & vegetables

4.8.2 Factors affecting processed food pricing

Processed fruit and vegetables value chain: Unlike the fresh sector, Australia has a lower level of self-sufficiency and stability of supply of processed fruit and vegetables, relying on imports of some products at processed or finished goods stages, which in some categories, influences the short-term volatility of supply and prices.



4.8 Processed fruit & vegetables

4.8.2 Factors affecting processed food pricing

Prices to the consumer

- We have illustrated the consumer prices observed for a number of major selling processed food lines over time.

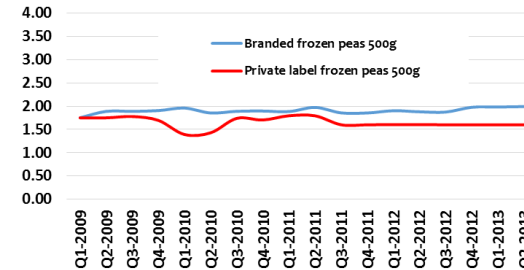
Peas

- Costs of imported frozen product fell over the three years to 2013, while retail prices have remained flat over the past 5 years.
- No reported series of farmgate prices for peas used in processing is available. Various studies in recent years have attempted to quantify annual prices paid for peas used in processing, the last of which identified in this study was undertaken in Tasmania in 2011, which assessed average prices in 2010 at between \$470-480/tonne.
- Contract negotiations between growers and processors are confidential.

Potatoes

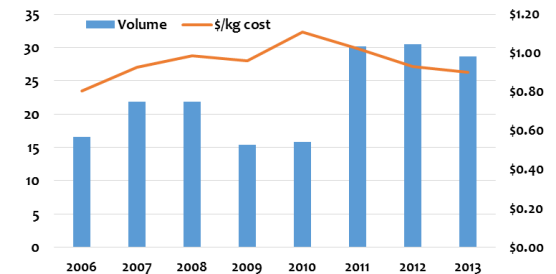
- Retail prices of main selling frozen potato products have remained flat for much of the past 5 years.
- No reported series of farmgate prices for potatoes used in processing is available. Various studies in recent years have attempted to quantify annual prices paid for produce used in processing, the last of which identified in this study was undertaken in Tasmania in 2011, which assessed average prices at close to \$290/tonne.

Figure 4.8.2.1 – Retail frozen pea prices



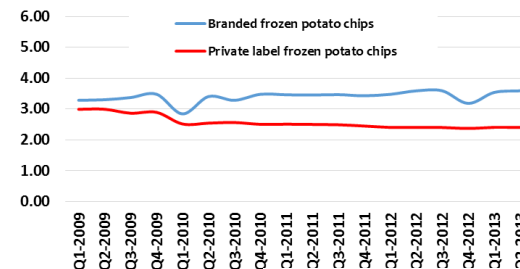
Source: Retail sales data

Figure 4.8.2.2 – Imports of frozen peas ('000 tonnes) and A\$/kg



Source: UN Comtrade

Figure 4.8.2.3 – Retail frozen potato product prices



Source: Retail sales data

4.8 Processed fruit & vegetables

4.8.3 Processed food pricing

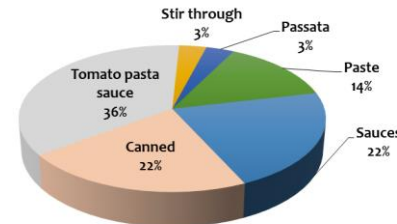
Tinned tomatoes

- Tinned tomatoes, while the largest canned sub-category, have a relatively small role in the overall grocery range for processed tomato products.
- While trends have been towards more meals being eaten at home, there is also an increased desire for convenience in meal preparation, favouring higher sales of bottled, value-add lines.
- Tinned tomato grocery sales have fallen over the 7 years to 2013. This has been offset by the growth in value-added pasta sauces and other meal base products (dominated by supplier branded lines). Consumers are prepared to pay more for the convenience and added-value of the bottled product.

Imports

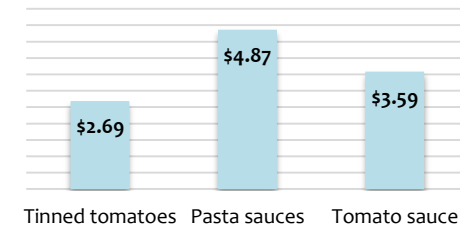
- Processed tomato imports have gradually taken a greater share of total demand in the Australian market. Weather and disease events have aided the decline, although the increased cost-competitiveness and quality of imported lines has damaged local margins.
- In March 2014, the Anti-Dumping Commission found that Italian imports are being dumped, causing injury to the local industry.
- Tinned tomato products make up a significant portion of imported product. While our analysis showed that import volumes have grown over time with the decline in local supply to tomato processing, there has been no appreciable growth in small tinned imports (i.e. retail pack) in the past 5 years.
- Growth has been far more pronounced in bulk puree and pasta sauce lines which are imported by brand manufacturers supplying bottled sauce, meal base and food service products.
- As these products are in more concentrated products, imports on a whole-tomato-equivalent basis, shows the growing dependence on concentrated ingredients for use in branded and bulk food service products.

Figure 4.8.3.1 – Grocery mix of processed product sales (% of value 2012/13)



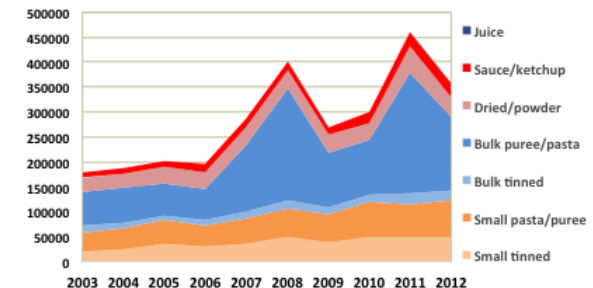
Source: Retailworld analysis

Figure 4.8.3.2 – Average retail prices/kg in 2012



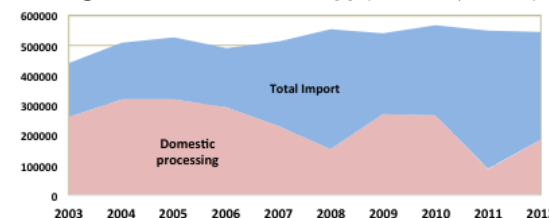
Source: Retail sales data

Figure 4.8.3.3 – Tomato product imports (WOTE tonnes)



Source: DFAT data

Figure 4.8.3.4 – Tomato supply WOTE (tonnes)



Source: Customs data; APTG survey

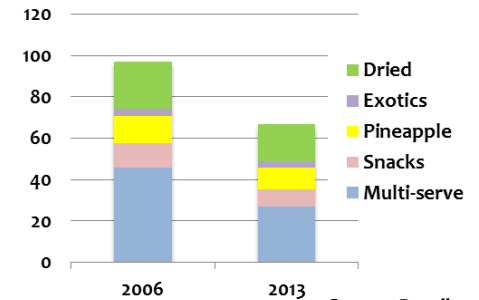
4.8 Processed fruit & vegetables

4.8.3 Processed food pricing

Processed fruit

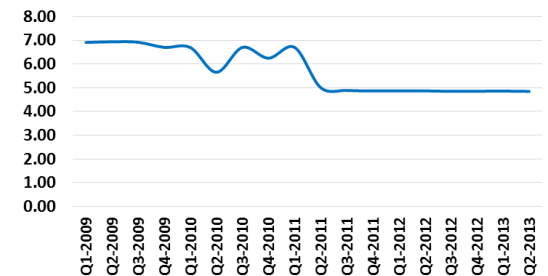
- The sales of tinned and plastic tub fruit products through the grocery channel have significantly reduced in volume and value terms between 2006 and 2012.
- The decline has been strongest in the lines of stone fruit, where competing foods, including fresh and frozen product, have won consumer support.
- While private label sales have grown slightly and proportionally in the overall category, in absolute sales the volumes of private label sales were not significantly higher in 2013 than in 2006. The greatest contraction has occurred in branded lines.

Figure 4.8.3.5 – Processed fruit sales ('000 tonnes)



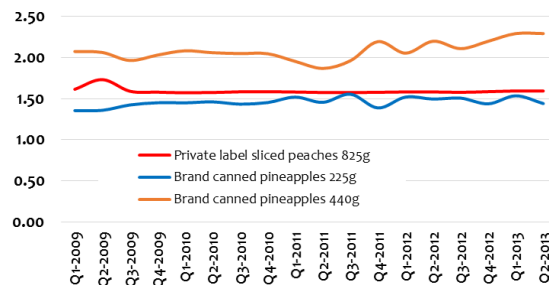
Source: Retailworld

Figure 4.8.3.6 – Frozen berry retail prices (\$/kg)



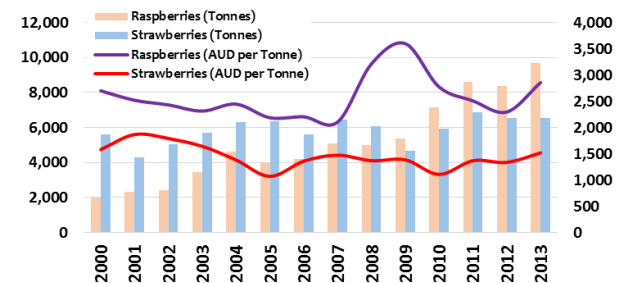
Source: Retail sales data

Figure 4.8.3.8 – Tinned fruit retail prices (\$/unit)



Source: Retail sales data

Figure 4.8.3.7 – Australia frozen berry imports



Source: FAS-USDA

4.8 Processed fruit & vegetables

4.8.2 Factors affecting juice pricing

Processed juice value chain: Unlike the fresh sector, Australia has a lower level of self-sufficiency and stability of supply of processed fruit and vegetables, relying on imports of some products at processed or finished goods stages, which in turn influences the short-term volatility of supply and prices.

Increasing capital intensity - in large-scale production and packaging house efficiency is changing operating cost structures.

Consumer health demands – Increasing consumer concerns about sugar and calorie levels in drinks products has affected juice sales across channels.

Enterprise mix – the farm production mix of variety production and the relative returns from fresh produce and juice markets.

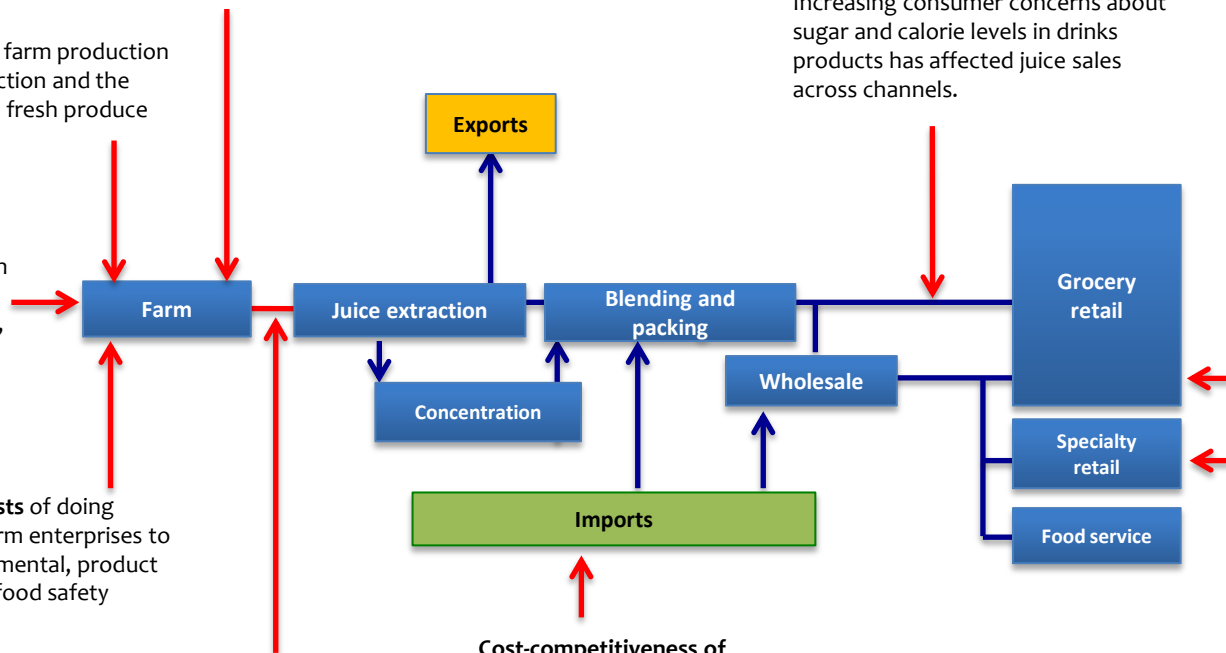
Production complexity – Production volumes are volatile and seasonal, which has a big bearing on the volumes coming to market, causing price fluctuations.

Increasing costs of doing business in farm enterprises to meet environmental, product integrity and food safety demands.

Relative returns from fresh produce and juice markets affects juicing product availability in seasons of short supply.

Cost-competitiveness of concentrate imports – the landed cost-competitiveness of frozen concentrates affects overall product costing.

Consumer preferences for natural products – supports greater preference for fresh local juice lines.



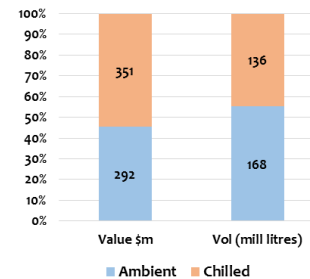
4.8 Processed fruit & vegetables

4.8.3 Processed food pricing

Juice

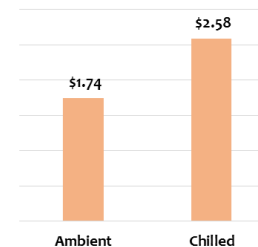
- The grocery channel sells about 300m litres of juice in chilled and ambient form, with about 45% sold in chilled form, yielding close to a 50% price differential at retail.
- Significantly higher unit selling prices are achieved in the convenience market, where a similar mix of product is sold.
- Orange juice is the major segment of the juice market. Australia does not produce sufficient juicing fruit to meet the total juice market, and supplies are supplemented by the import of concentrate.
- Imported orange juice concentrate (FCOJ) has a significant bearing on the profitability of the local juice industry and hence the prices offered for Australian fruit as a component of the overall product requirement, especially in the lower-cost ambient product. FCOJ volumes (mostly sourced from Brazil) have not grown significantly in recent years, despite the higher value of the \$A.
- Orange juice supplies from farms for the majority of annual requirements are generally contracted by processors at rates of \$270-\$320 per tonne, depending on the availability of fruit and quality of supply. This is used across a product range and blended with concentrates for some ambient products lines.
- Valencia oranges are the primary source, although with crop shortages in that variety, navel oranges are also used in processing. Spot purchases of fruit are also made above contracted volumes, but spot prices may vary considerably year-to-year depending on demand and supply situations.
- A time series of the paid prices for fruit is not available from processors. Based on a contract fruit price of \$300/t of oranges, and a typical yield from juicing, the freshly squeezed chilled juice product affords a farmgate share of just 24%. However, fresh juice is also blended into the lower value ambient products, but in proportions that are not available, hence an overall share is indeterminant.

Figure 4.8.3.9 – Mix of grocery sales



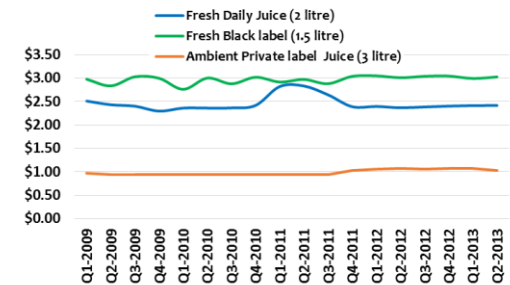
Source: Retail sales data

Figure 4.8.3.11 – Average grocery selling price of juice in 2013



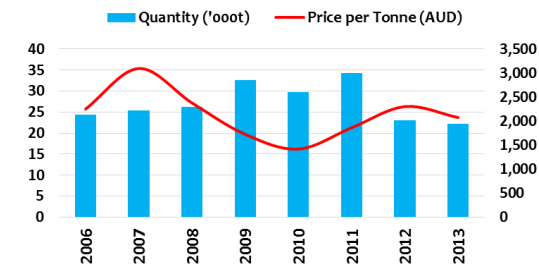
Source: Retail sales data

Figure 4.8.3.10 – Juice per litre equivalent retail prices



Source: Retail sales data

Figure 4.8.3.12 – Australia FCOJ imports



Source: UN Comtrade

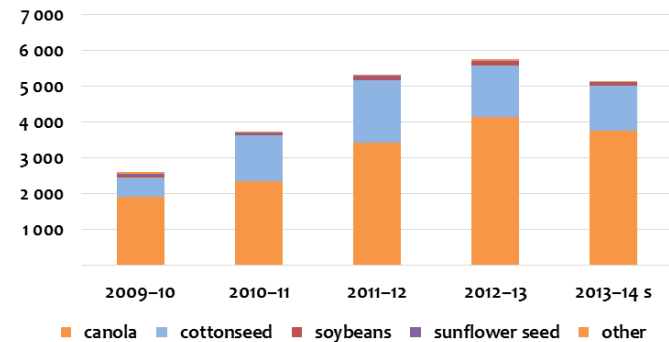
4.9 Oilseed products

4.9.1 Oilseeds overview

Introduction

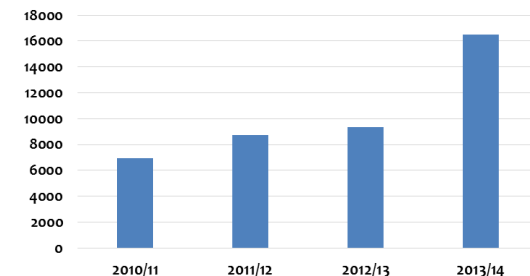
- The oilseed industry is predominantly export focused although this varies between crops.
- The main commodity used in retail cooking oil and margarine is canola, with smaller quantities of sunflower and soybeans. This report focuses on canola because this represents over 50% of the oils and fats used in the domestic retail market.
- Australia produces on average 3-4 million tonnes of canola annually of which around 600,000 tonnes is crushed into oil (for cooking oils and spreads) and meal (for animal feed).
- As such, international prices of both canola, competing oilseeds, cooking oils and fats is the major factor influencing raw material prices. There are small volumes of canola oil imported into Australia, but much larger volumes of vegetable oil which set prices.
- Similarly to other agricultural businesses, because the raw material is the major cost component, the influence of international prices is felt right through the value chain.

Figure 4.9.1.1 – Oilseeds production ('000 tonnes)



Source: ABARES

Figure 4.9.1.2 – Canola oil imports (tonnes)

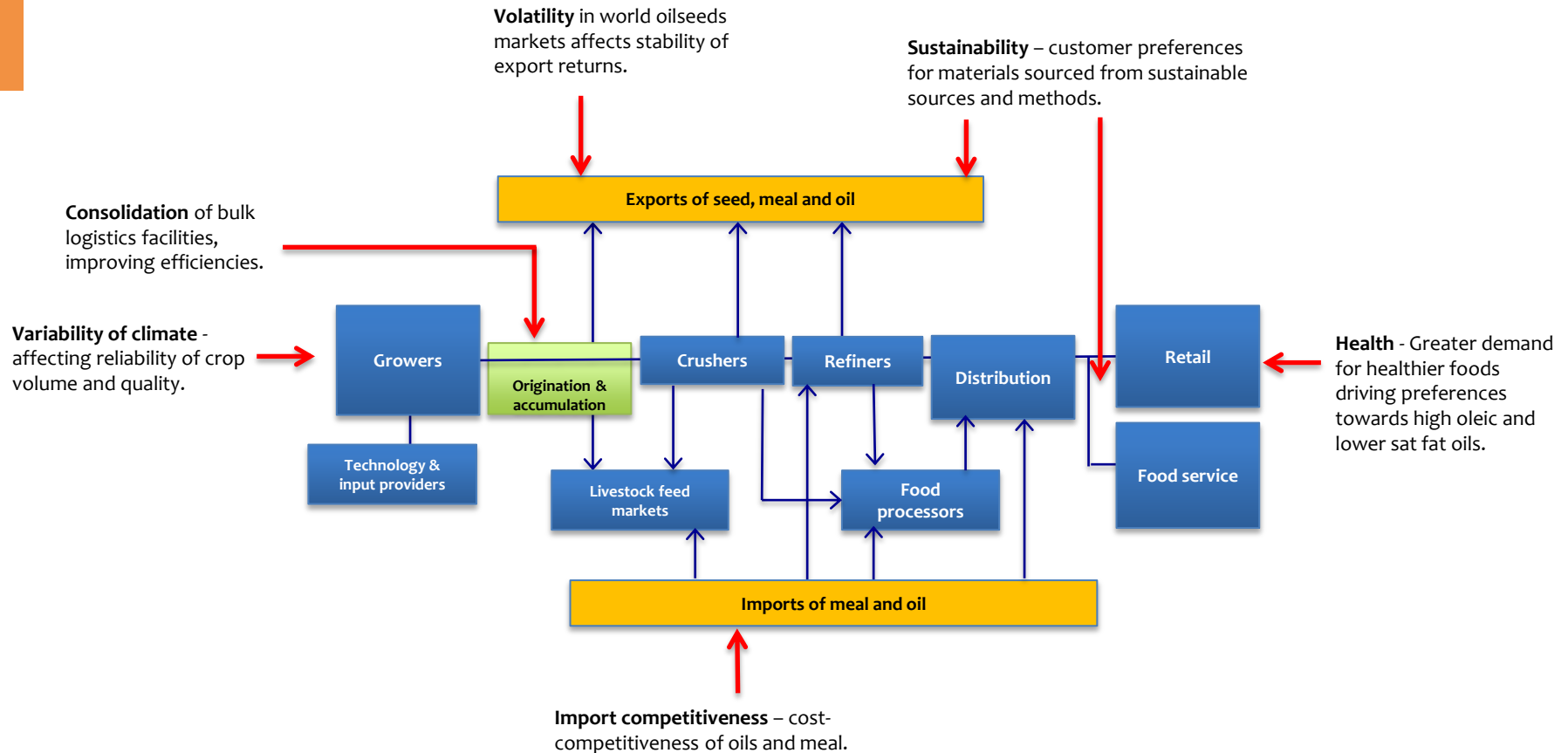


Source: Australian Oilseeds Federation data

4.9 Oilseed products

4.9.2 Factors affecting oilseeds pricing

The pressure points below reflect the issues in the value chain from Australian oilseeds production through to domestic oil products and the animal feed market. Prices are significantly influenced by the world market value for oilseed crops, trade in vegetable and competing oils and relative value of competing livestock feeds.



4.9 Oilseed products

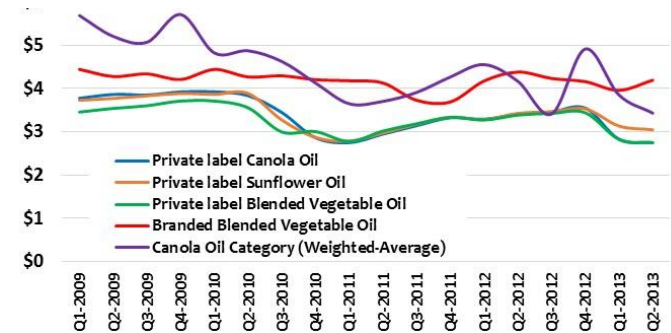
4.9.3 Oilseed product pricing over time

- Oilseed products of interest for the Australian retail and foodservice markets are spread across a range of oil types including olive oils, canola, other oilseed crop oils and blended products.
- Imported product makes up a significant component of the market, but with different quality and functionality attributes.
- A comparison of retail and imported oil prices illustrates the apparent influence of steady landed imported prices on retail prices offered to consumers over recent years.
- Retail prices across the canola oil category have been relatively stable, but have gradually trended downwards due to the increased share of sales through larger pack sizes.

Farmgate share of retail prices

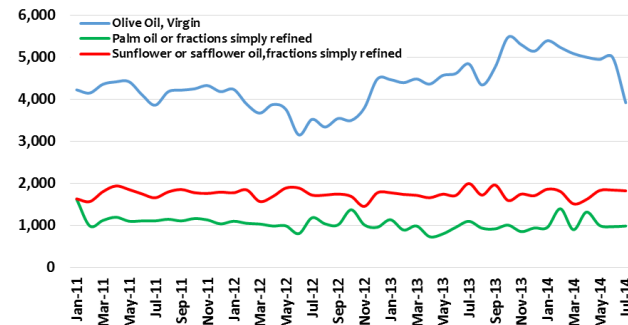
- The economics of canola processing depends on markets for oil and meal products, which are sold into livestock feed markets.
- Based on the oilseeds industry's experience of oil crushing and refining yields, the average canola seed price achieved at farmgate has in the 4 years to 2014 represented **a range of 22-26% of the retail value** of canola oil products.
- This takes account of the relative wholesale values of refined oil and canola meal, and the range of retail prices achieved in oil and spray products over that period. While retail prices are relatively stable, there is variation in canola seed prices.

Figure 4.9.3.1 – Retail oil prices 2litre packs and Canola oil average - \$/litre



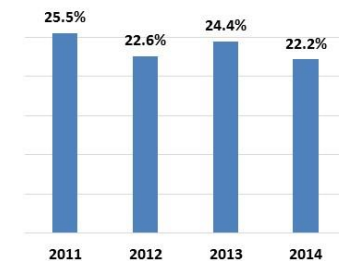
Source: Retail sales data

Figure 4.9.3.2 – Vegetable oil import prices (A\$/t)



Source: UN Comtrade

Figure 4.9.3.3 – Canola farmgate value as a share of retail prices for oil



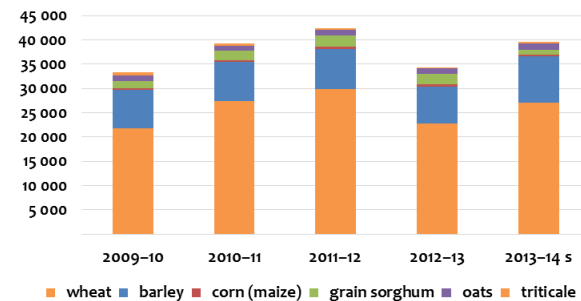
4.10 Grains and flour

4.10.1 Grains and flour sector overview

Introduction

- The major focus of pricing analysis for these purposes is prices of wheat, flour and flour products including bread. There are a range of other grains produced in Australia as shown in the chart on the right.
- The wheat industry is predominantly export focused, while the flour industry is domestically focused with a small portion of total flour production exported.
- The main factor that affects prices and costs through the chain is the international price of flour milling varieties of wheat.
- International prices returned to Australian exporters and affecting local grain prices are driven by supply and demand. With demand rising steadily, volatility is largely associated with fluctuating supply – the size and quality of crop harvests in major production regions which are spread across planting and harvesting schedules as outlined in the chart on the right. Local flour millers buy grain on contractual arrangements to smooth volatility in price, with costs benchmarked over time to export prices.
- The use of flour across bakery and other parts of food manufacturing is diverse.
- The flour milling sector has undergone considerable rationalisation in the past decade. The industry is highly competitive, low margin and suffers from considerable under-utilisation of milling capacity.

Figure 4.10.1.1 – Grain production ('000 tonnes)



Source: ABARES

Profarmer Australia's Global Crop Calendar

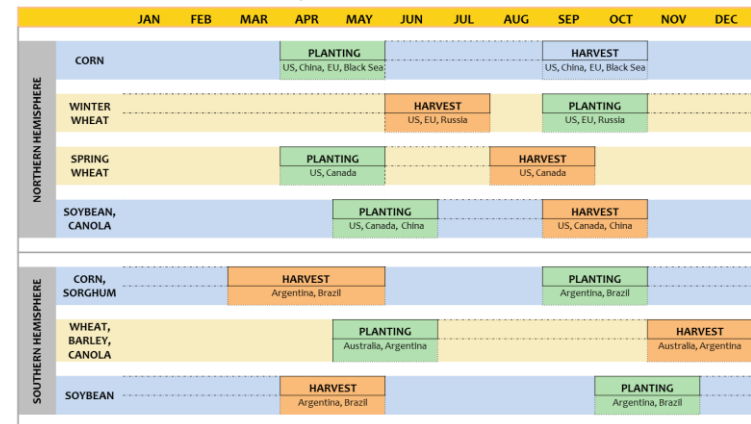
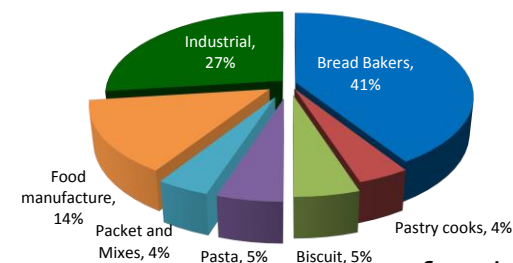


Figure 4.10.1.2 – Use of flour in food and non-food products

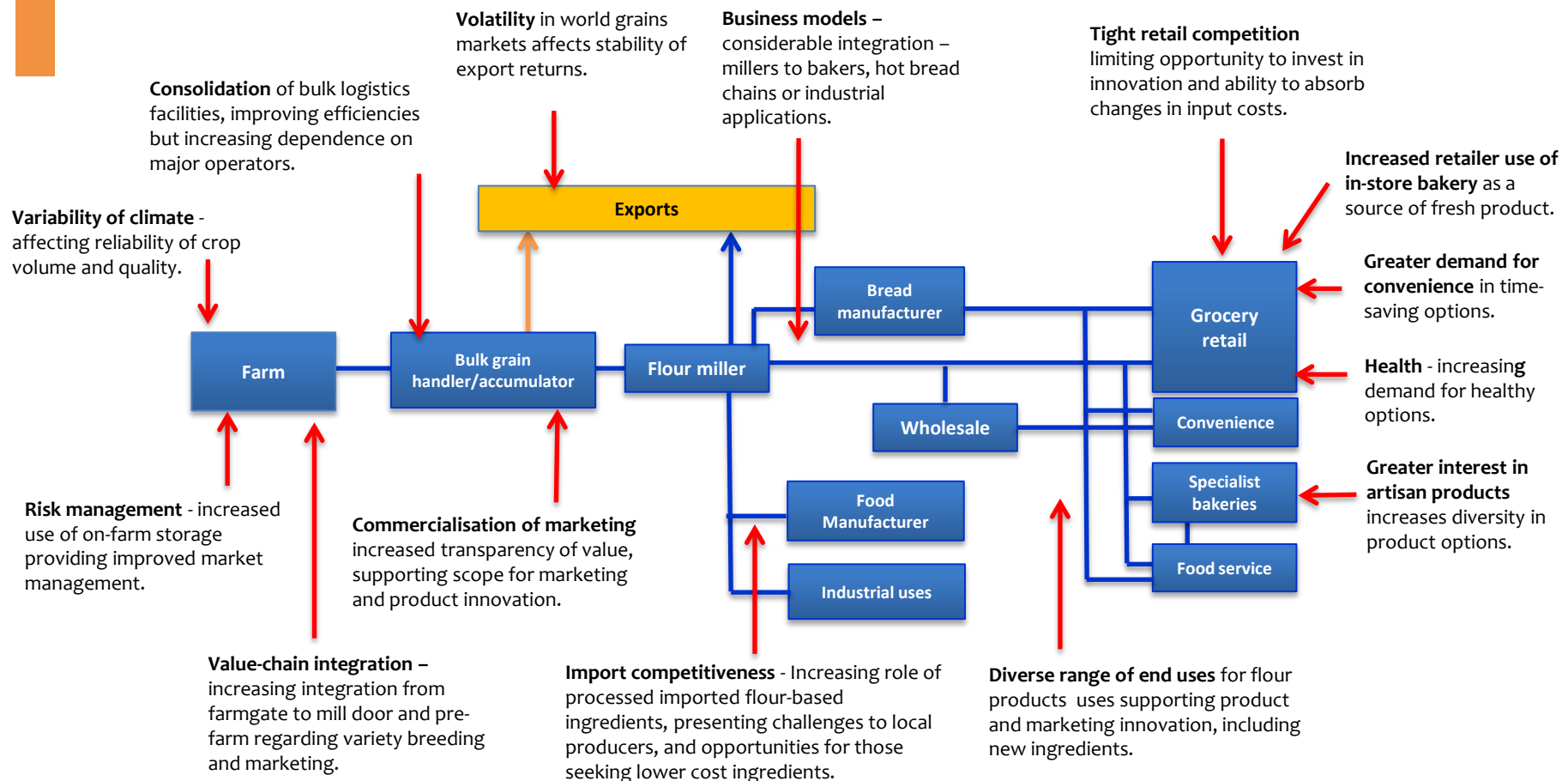


Source: Industry sources

4.10 Grain products

4.10.2 Factors affecting grains and flour pricing

The pressure points below reflect the issues in the value chain from Australian grains production through to domestic bread and baking market. Australia has a relatively high level of supply stability, and is self-sufficient in grains, bread and bakery products.



4.10 Grain products

4.10.3 Grains and flour pricing over time

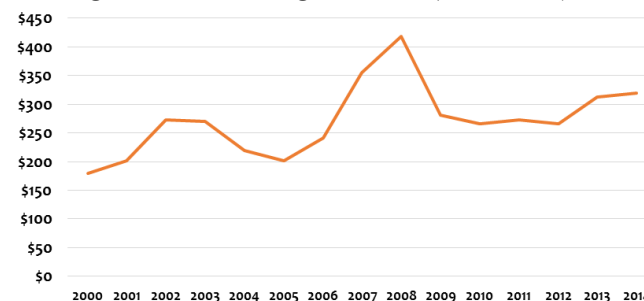
Usage of grain

- Grain prices at the farmgate vary over time according to the balance of global supply and demand, affected by crop sizes in the key production and exporting regions.
- There is no published or commercial source of data for the wholesale price of flour transacted between millers and users in the bakery and food manufacturing sectors.
- The industry produces between 2 and 2.2 million tonnes of flour each year, consuming close to 3 million tonnes of wheat. The grocery market uses a small portion (less than 2%) of the output in retail pack product.
- Movements in the cost of grain has a small bearing on the overall cost of bread manufacture across all product forms, the higher the value of the product, the less significant is the grain cost. In a basic white loaf, grain is 20-25% of the total product cost. A \$50 change in the cost of grain will amount to a 3% change in the cost of bread in this type of product. This effect declines with multigrain and other higher-value lines.
- There has been a slight increase in the average prices of branded product over the five years under review as grain prices have gradually increased.

Farmgate share of retail

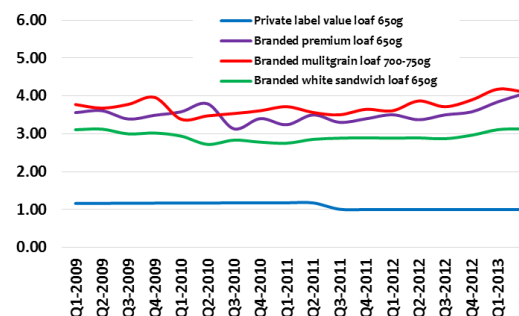
- The farmgate prices received by grain growers are derived from a combination of markets serviced by the industry.
- We calculated an average retail selling price of \$1.30/kg across the retail packet flour category in 2012/13, which has changed little since a large drop in pricing when flour was included in discount promotions.
- Based on flour milling yields, the average milling wheat price over the **3 years to 2013 represents a 34% share of the average retail value of flour.**

Figure 4.10.3.1 – Average AP wheat (flour wheat) in A\$/t



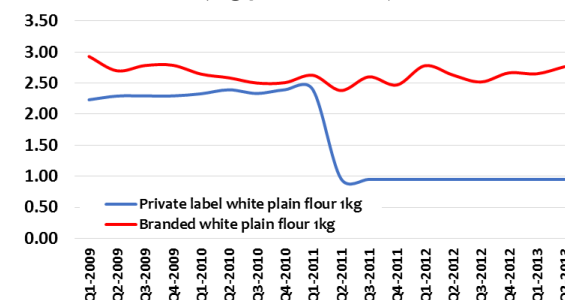
Source: Jumbuk Consulting

Figure 4.10.3.2 – Retail packaged bread prices



Source: Retail sales data

Figure 4.10.3.3 – Quarterly retail flour prices (1kg packs – \$/unit)



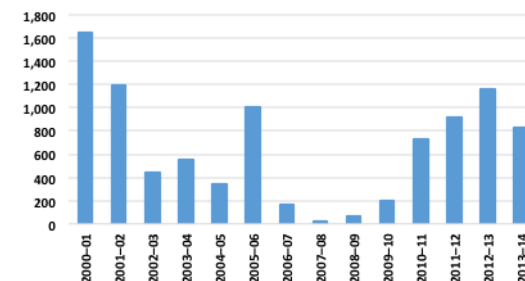
Source: Retail sales data

4.11 Rice

4.11.1 Rice sector overview

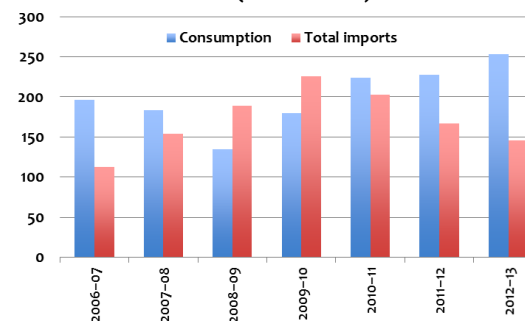
- The rice industry is predominantly export focused with much of the industry managed by a single integrated grower-owned co-operative, Ricegrowers, which trades as Sunrice. The industry retains a single desk export regime in NSW (where the vast majority of rice is produced) under the direction of the Rice Marketing Board.
- The industry's output has fluctuated greatly over time due to the limitations on irrigation water due to drought.
- As a result of drought experiences, Sunrice has developed a strong international market focus aimed at maintaining its market presence, and stabilising returns to growers. Australia is a small player in the world market, averaging less than 2% of trade when the local crop is above 1 million tonnes.
- The market mix of the industry varies with the size of the crop, but over the past decade an average of 37% of the Australian crop is consumed in the domestic market across a range of market channels. Year to year comparisons of output, imports and exports are affected by the timing of production and use of stocks in the supply chain.
- Australia imports a range of rice varieties with no trade barriers in place with the exception of brown and paddy rice, due to quarantine restrictions. Import requirements have grown over time with the culinary interest in fragrant rices (not produced locally) and the unreliability of the domestic rice crop, which has allowed some cheaper imported product a greater foothold in the market.
- Overall consumption of rice has grown over time, as there has been increased consumption by the food service and food processing sectors, and an increase in the volumes of imported fragrant and specialty rices.
- There has been value-adding achieved by marketers in pre-cooked and ready-meal rice products to address convenience and portion-size demands which has significantly extended the category. Grocery sales of these products had grown to \$70m in 2013.

Figure 4.11.1 – Australian rice production ('000 tonnes)



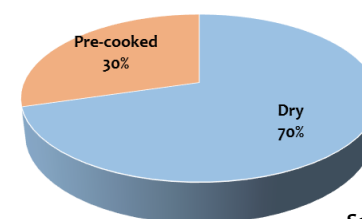
Source: ABARES

Figure 4.11.1.2 – Apparent consumption and imports of rice ('000 tonnes)



Source: ABARES

Figure 4.11.1.3 – Rice products – composition of grocery volumes in 2013

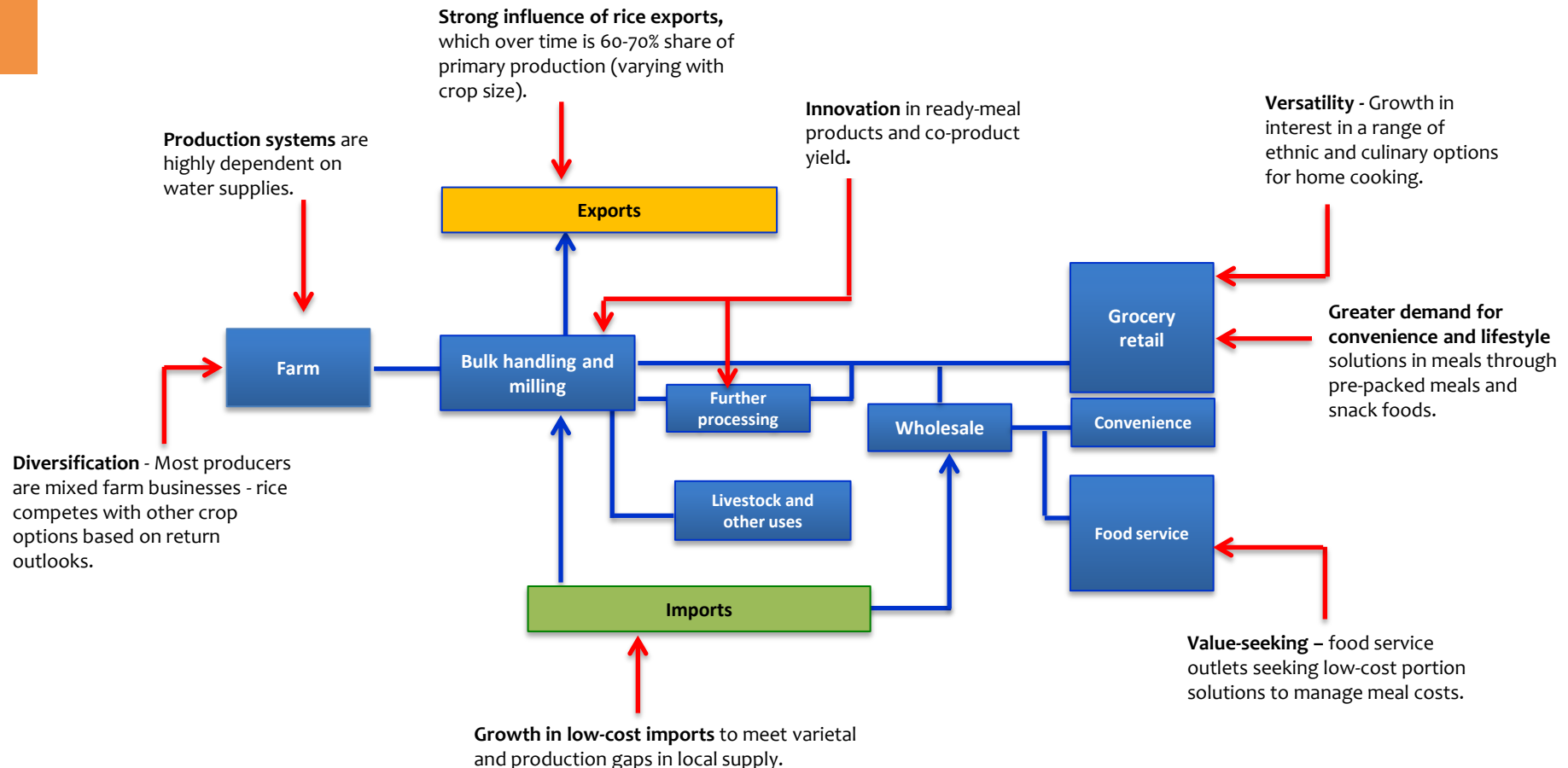


Source: Retailworld

4.11 Rice

4.11.2 Factors affecting rice pricing

Rice value chain: The rice industry is a closely integrated industry that retains a managed single desk for export markets. This dominates consumption of Australia's rice output.



4.11 Rice

4.11.3 Rice pricing over time

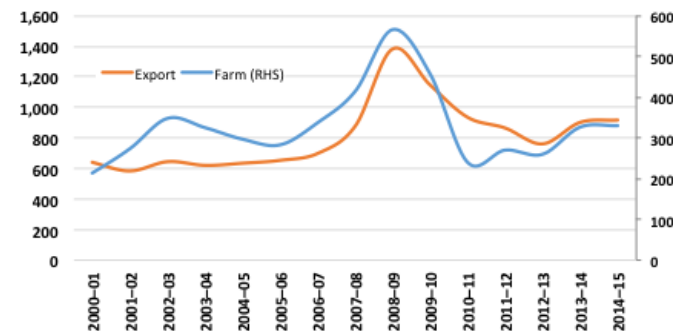
Influence of trade

- Australia has a small share of international trade in rice. About 8% of world production is traded, dominated by India, Vietnam and Thailand.
- Export prices are driven by global supply and demand. Unlike some globally traded commodities, rice trades on customer specifications, which encompass quality, packaging and delivery – producing a range of values. Australia operates at the premium end of medium grain rices.
- Whilst medium grain (MG) is the major crop variety produced, the majority is exported. Australia supplies about 20-25% of the traded world market for MG rice into discerning consumer export markets. Only 8% of domestic retail sales are of MG rice.
- There is limited relationship between domestic prices and export returns, given the small portion of the crop that remains in the domestic market and the strong influence of imported rices on the value extracted from the category.

Farmgate share of retail

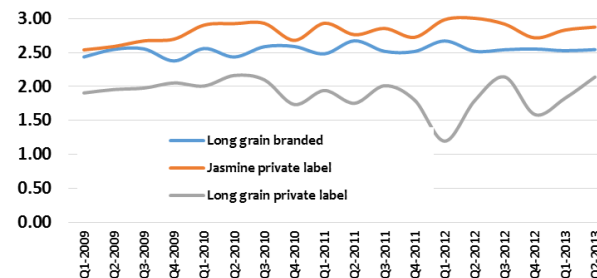
- The farmgate returns to rice growers above are based on the derived farmgate return from a combination of markets serviced by the industry.
- Rice growers are paid a weighted average return per variety based on the average returns from export and domestic markets in each season, which bears no relationship to the level of retail sales value on a long grain product alone.
- The domestic retail market represents a small portion of the usage of Australian-produced rice varieties.
- We calculated an average retail selling price across the retail category for medium grain rice in each of the periods, which has changed little over recent years. Based on milling yields, the paddy rice price reported by Sunrice over the 4 years to 2014 **represents a share of 28-34% of the average retail value**, with a range that varies due to crop pricing.

Figure 4.11.3.1 – Australian average farmgate and export rice price (A\$/t)



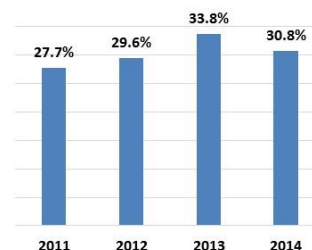
Source: ABARES

Figure 4.11.3.2 – Quarterly retail rice prices (1kg packs – \$/unit)



Source: Retail sales data

Figure 4.11.3.3 – Rice farmgate value as a share of retail prices

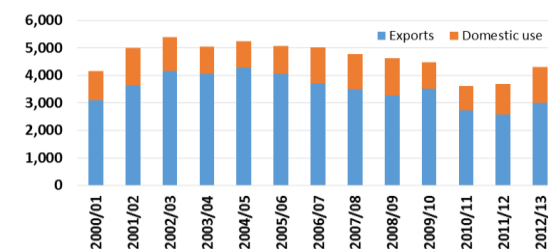


4.12 Sugar

4.12.1 Sugar industry overview

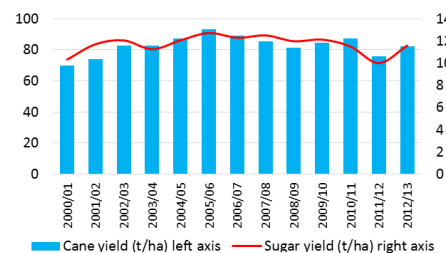
- About 72% of Australian sugar is exported and the remainder is consumed domestically in the food processing and food service sectors.
- Overall output varies according to climatic conditions – major weather events in North Queensland have adversely affected crop sizes in recent years.
- Industry returns are driven by prices available to Australian sugar exports – affected by prevailing levels of support provided to producers in the US and EU, and output from the largest producer in Brazil, which also supports its sugar production through cross-subsidies from its ethanol sector.
- World market conditions are volatile due to the variation in bulk sugar available to export markets by major producers, which includes Brazil which processes significant volumes to ethanol. Australia produces about 5% of world trade in sugar but is positioned as a high quality supplier.
- The domestic market consumes a relatively small percentage of raw and refined sugar in retail and food service products, and industrial use in food and drink manufacturing.
- Domestic retail sugar market returns have minimal affect on total industry returns as they represent about 3%, but are affected over time by the cost competitiveness of substitute products such as artificial sweeteners.

Figure 4.12.1.1 – Australian sugar production and use



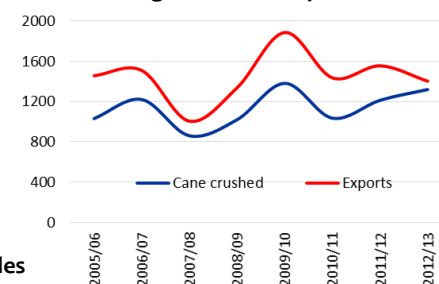
Source: ABARES

Figure 4.12.1.2 – Australian cane and sugar yields



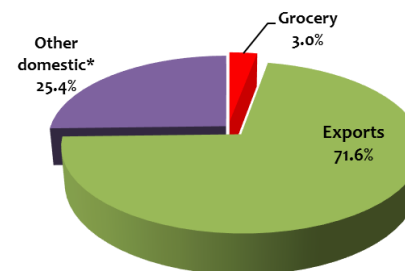
Source: ABARES

Figure 4.12.1.3 – Gross value of Australian sugarcane and exports in \$m



Source: ABARES

Figure 4.12.1.4 – Share of sugar sales



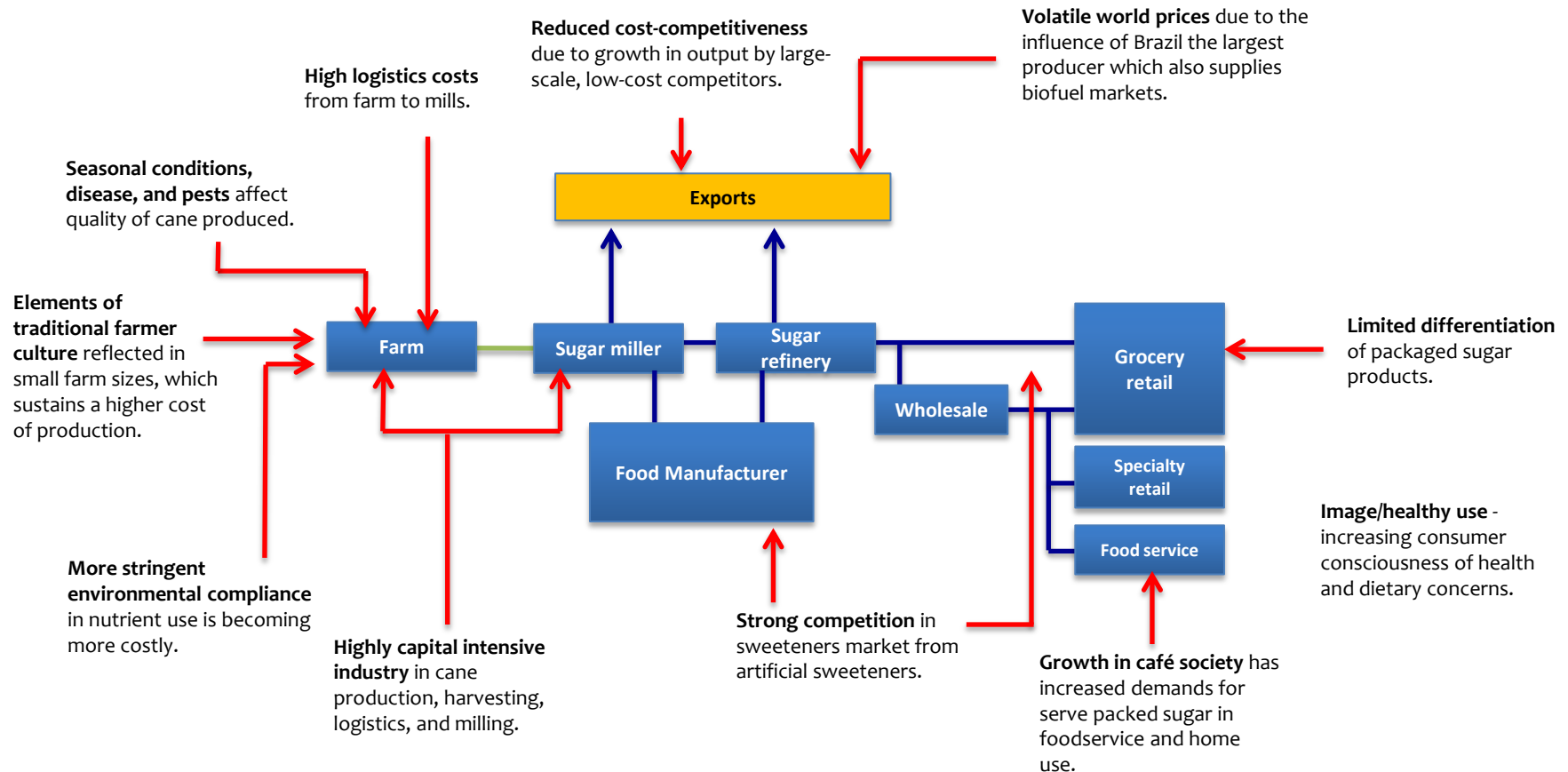
* this includes use in food manufacturing and sales into food service

Source: ABARES and retail data

4.12 Sugar

4.12.2 Factors affecting cane and sugar pricing

Sugar value chain: The sugar value chain shows there is a high-level of self-sufficiency and stability of supply within the sugar industry. Factors influencing the short-term volatility of price and supply include import competition and currency movements, and the influences of climate, supply chain logistics, and nature of production on sugarcane production.



4.12 Sugar

4.12.3 Sugar and cane pricing over time

World prices drive farm returns

- The close relationship between export sugar returns, as reflected in pool prices declared by Queensland Sugar Limited (QSL), and the prices paid for cane are shown in the chart on the right.
- Pool prices are declared annually by QSL based on export market sales.
- Cane prices are set by formula which is based on the commercial sugar content (CCS) in cane supplied to mills. There is on average about 14% sugar content in cane.
- A valid high-level comparison of the returns to farm with returns from industrial and export markets converts cane prices to a sugar equivalent based on the annual CCS. Over the 5 years to 2012/13, the cane price effectively represents 58% of the export return.
- The costs of transport, milling and storage represent the difference between market returns and farm prices.
- There is no available data on industrial sugar prices within the Australian food industry between millers and commercial users such as food manufacturers and processors.
- Average prices of retail sugar products have remained very stable in recent years despite the movements in international sugar prices, given the disconnect between global and retail pack products.

Farmgate share of retail

- As indicated earlier in this section, the domestic retail market represents a small portion of the total sugar market.
- We have calculated an average retail selling price of \$1.40/kg across the retail category in 2012/13, which has changed little over recent years. **Based on cane pricing formulae, the average sugar value in the industry's average cane price over the 5 years to 2014 represents a range of 19-27% share of the average retail value.**

Figure 4.12.3.1 – Australian average export sugar and cane prices (\$/t)

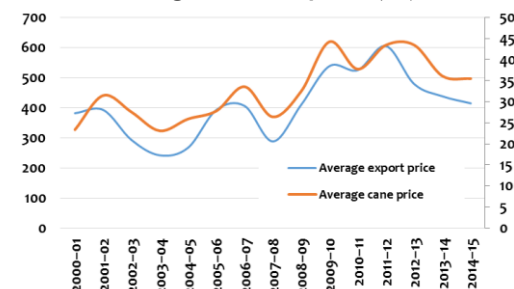
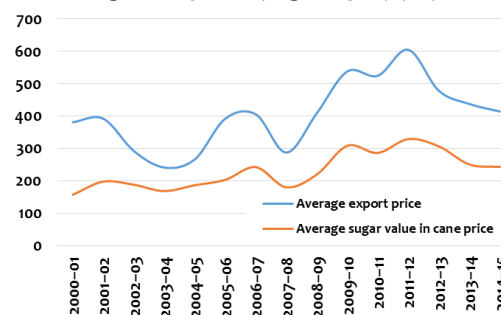


Figure 4.12.3.2 – Comparison of export prices and grower prices (sugar equiv) (\$/t)

Source: ABARES



Source: ABARES

Figure 4.12.3.4 – Cane farmgate value as a share of retail sugar prices

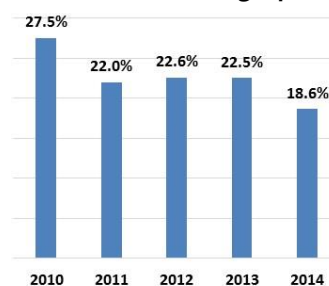
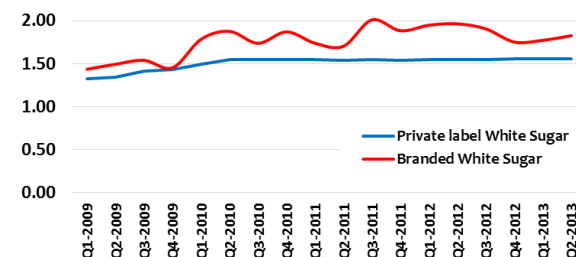


Figure 4.12.3.3 – Quarterly retail sugar prices (1kg pack - \$/t)



Source: Retail sales data

4.13 Eggs

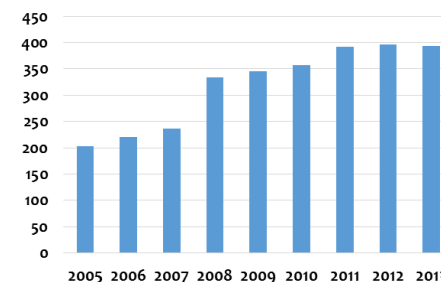
4.13.1 Egg industry overview

- The industry has been undergoing structural change in production systems, with increased importance of ethical/bird welfare issues demanded by customers and consumers, and changes in the product mix sold in retail markets. The egg industry output has grown considerably in recent years (by 68% since 2005) in response to increased domestic market demand.
- The industry has repositioned the category and reversed perceptions of the role of eggs, promoting them as a protein source. Other sectors of consumption – food service and industrial/commercial uses – are exhibiting slow growth.
- There is a small volume of international trade in egg products (both imports and exports), limited to processed eggs sold as an ingredients into food service uses. It is estimated that 91% of eggs available to the domestic market are sold as fresh eggs with the remainder processed.
- The competitive tension in the domestic fresh egg market remains strong with growth in sales of free-range and cage-free products, and the reduction in relative premium available for free-range products.
- The major expense faced by egg producers is feed, representing approximately 50-65% of costs of production in normal conditions.

Changes in production systems

- The largest issue facing the future of the industry is the evolving change in production systems, as consumers increase demands for products from systems which provide improved bird welfare, greater freedom in their movement, and higher cost for producers.
- State governments have in the past implemented regulations to require cage-egg production to switch over time to larger cages, while major food companies and retailers have announced phasing out the use of eggs from such systems over various periods in coming years.
- Consumer preference for non-caged eggs continues to grow. Over the 10 years to 2013, free range share of sales grew from 14% to 37%.

Figure 4.13.1.1 – Egg production (million dozen)



Source: AECL

Figure 4.13.1.2 – Channel share of fresh egg sales in 2012/13

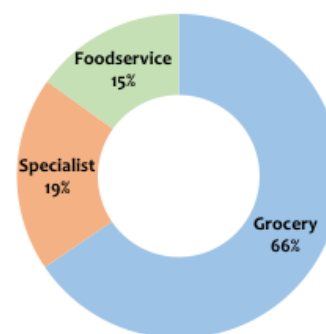


Figure 4.13.1.3 – Share of egg retail volume sales

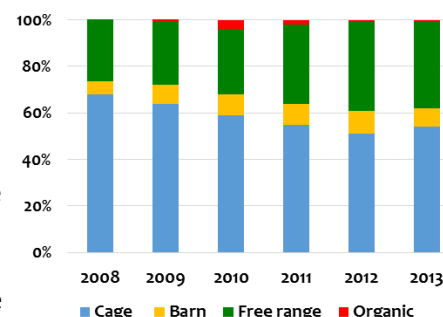
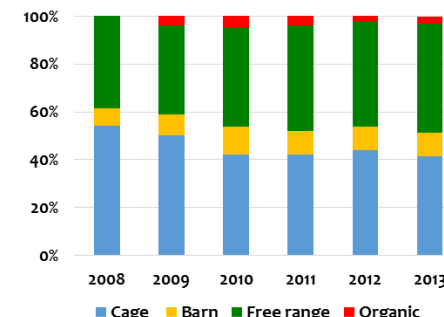


Figure 4.13.1.4 – Share of egg retail value sales

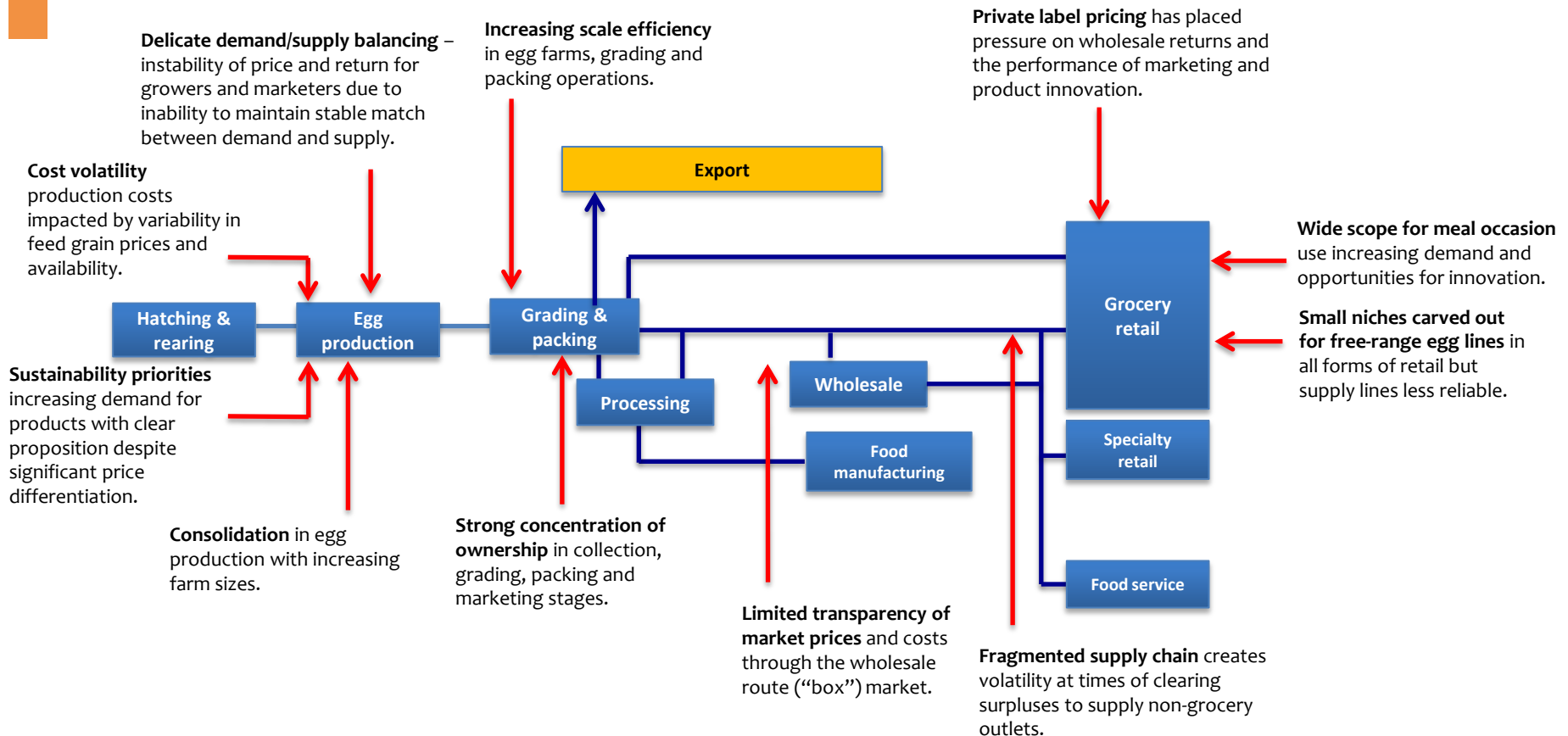


Source: AECL

4.13 Eggs

4.13.2 Factors affecting egg pricing

The domestic egg supply chain has benefited from growth in per-capita consumption in recent years, but remains finely balanced in terms of short-term demand and supply of shell eggs. Australia is self-sufficient in the production of eggs and has a relatively stable supply.



4.13 Eggs

4.13.3 Egg pricing over time

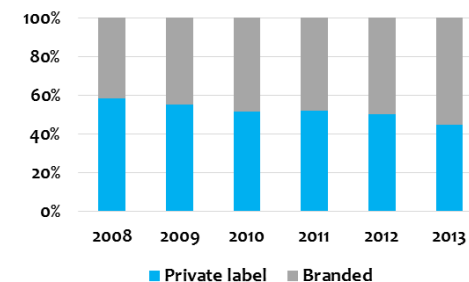
Changing product mix

- Egg prices have improved over time with a shift in product mix and greater consumer acceptance of higher prices. Prices in the past tended to move with changes in feed input costs which is estimated to comprise 60-70% of on-farm costs.
- Higher prices are achieved for eggs produced in free-range and barn systems, compared to conventional cage systems.
- Over time as more sales have moved towards these higher priced lines, the unit value achieved by cage eggs has remained flat, resulting in a slow gain in total average prices.
- With the reduction in the price differential between private label free range and other products in the grocery channel and the strong price-based competition between grocers and brands, average retail prices achieved in the category have been flat for the past 5 years. This has placed considerable pressure on the value chain as the cost of grain inputs and other inputs have risen.

Farmgate share of retail

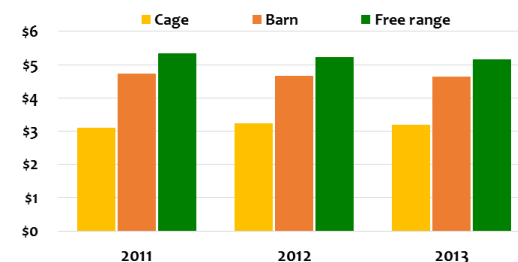
- The concept of a “farmgate” is less applicable in egg production as there is no stand-alone sector in the larger scale end of the industry.
- This is due to the greater incidence of integrated production, grading and packing operations, which are seeing more use of in-line systems that reduce egg handling.
- There is no industry-aggregated data or reliable objective measures in time-series of the “farmgate” value of eggs sold from producers to packing/distribution enterprises. There are a relatively small number of egg producers, yet a high portion of volumes are passed through these integrated value chains.

Figure 4.13.3.1 – Share of egg retail volumes (PL v branded)



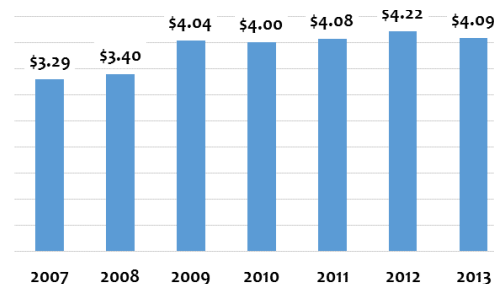
Source: AECL

Figure 4.13.3.2 – Retail egg price of dozen eggs by production system



Source: AECL

Figure 4.13.3.3 – Average grocery selling prices (\$/doz)



Source: AECL

SECTION 5: PERFORMANCE OF PARTICIPANTS

5.0 Introduction to this section

5.0.1 Approach

Introduction

- We have gathered published information on the performance of farm sectors and food companies across various categories and channels covered in this report.
- Where possible, we have obtained Australian public companies or separately reported divisions of Australian-based businesses in this analysis.
- Comparable foreign companies have been contrasted with the local companies.
- This analysis has focussed on two key performance measures which are universally applied across financial reporting:
 - EBITDA % of sales – which is the reported Earnings Before Interest, Tax, Depreciation and Amortisation as a percentage of the sale revenue
 - ROA – Return on Assets, defined as Earnings before Interest and Tax (EBIT) as a percentage of the total assets employed.
- It is not valid to draw general implications for the pricing of food products from the reported performance of participants along value chains in the various sectors.
- There is insufficient information available in farm sector performance that might allow market conditions to be separated from factors such as climate and risk-management decisions as a cause of a performance outcome.
- At a food processor level, there are a small number of company analyses available given the sector is largely foreign-owned without disclosure of local results. Trends are apparent however in terms of cost factors that might impact results over time.

Performance of participants

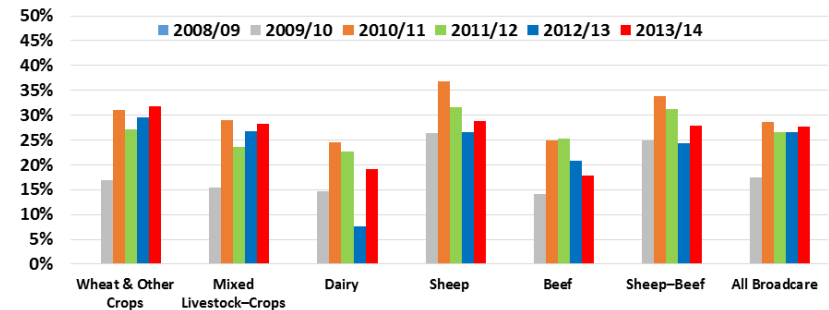
- This section compares available data on the performance of participants in the farm sector, food processing and food retail, measured in terms of profit margins and returns on assets.
- Typically the available data shows the farm sector generates a wide range of margin profitability across sectors, heavily influenced by seasonal variation, but this translates to low rates of return on asset values over time. Some sectors (such as beef) consistently perform below others.
- Downstream participants typically generate higher returns on asset investments, but business models vary in their employment of capital, especially in the retail sector, where it is common for stores to be located on leased land, reducing the invested capital to short-term working capital, making comparisons between sectors on returns on assets or invested capital misleading.
- The analysis indicates however that while retailers have performed at or better than their international peers, Australian food processors (in the cases where data is available) have tended to generate returns weaker than overseas counterparts, although the performance range varies widely across sectors.

5.1 Performance of the farm sector

5.1.1 Overview

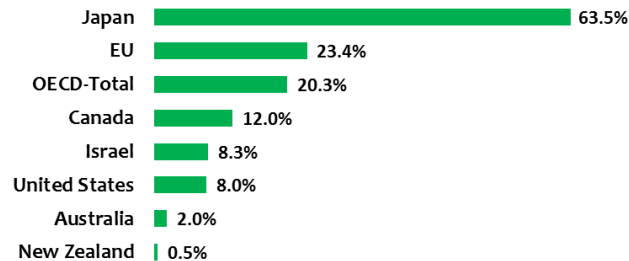
- We have gathered publicly available information undertaken by ABARES and other industry-funded projects on the performance of farm enterprises in the food sectors.
- This is available for broadacre livestock, cropping, mixed production vegetable farms, and dairy. The data indicates income and return on capital for Australian primary producers is highly variable from year to year.
- Incomes for the Australian farm sector tend to be more directly linked to international commodity price movements than in some other developed countries - particularly northern hemisphere competitors.
- While support for farmer incomes is under budgetary pressure in regions such as the EU, farmers in the EU and in North America still receive quite high rates of support, as indicated by the comparison of OECD producer support estimates – in the form of tariff protection, direct income support and market instruments.

Figure 5.1.1.1 – Australian broadacre farms, average/farm total cash receipts as a share of farm cash income



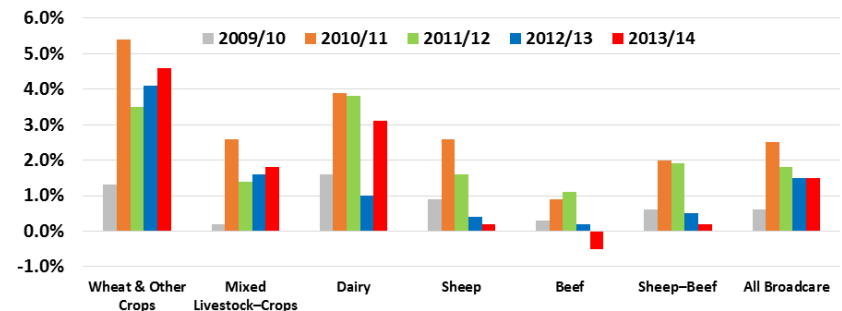
Source: ABARES

Figure 5.1.1.3 – Producer support estimate as a share of farmgate production value (2013)



Source: OECD

Figure 5.1.1.2 – Australian broadacre farms, average/farm rate of return (excluding capital appreciation)



Source: ABARES

5.1 Performance of the farm sector

5.1.2 Beef

- The available data on beef production separates producers into southern systems and northern pastoral systems.
- Cash margins appear stable across southern regions, but northern producers, more exposed to harsher climates, experience fluctuation in margins.
- Rates of return across these groups are small but volatile. Smaller producers in northern regions, unable to manage risk across larger and more diverse properties, show consistently poor returns on capital invested.

Figure 5.1.2.1 – Northern Australia beef cattle producing farms by herd size – Cash income as a % of total cash receipts

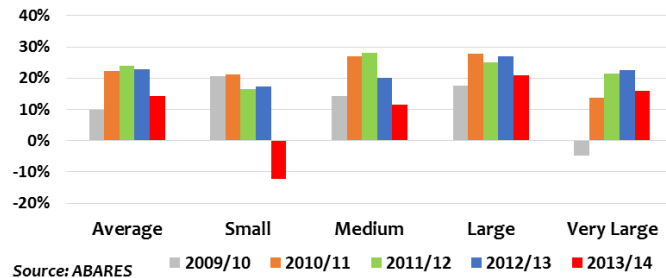


Figure 5.1.2.2 – Northern Australia beef cattle producing farms by herd size – ROC (Excl. capital appreciation)

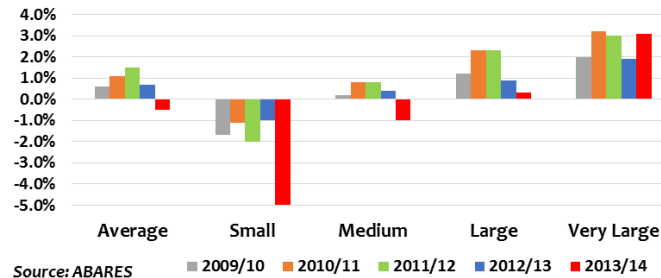


Figure 5.1.2.3 – Southern Australia beef cattle producing farms by herd size – Cash income as a % of total cash receipts

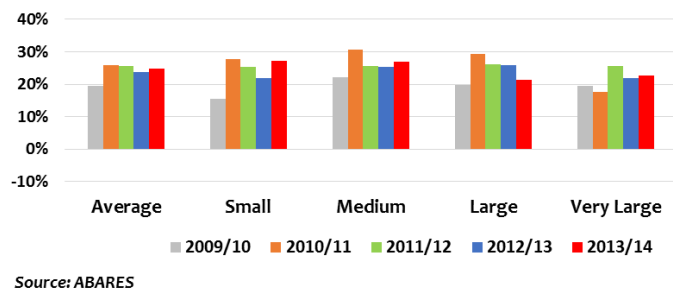
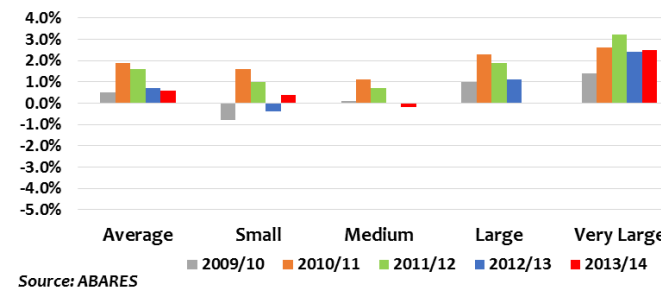


Figure 5.1.2.4 – Southern Australia beef cattle producing farms by herd size – ROC (Excl. capital appreciation)

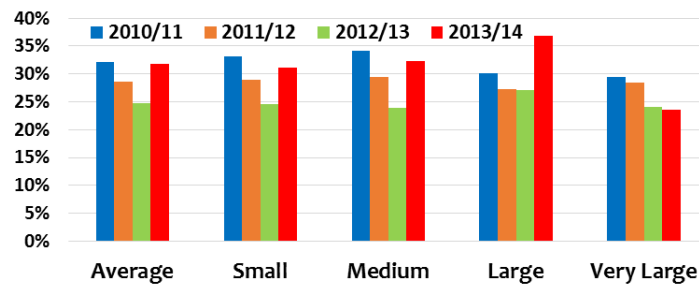


5.1 Performance of the farm sector

5.1.3 Lamb

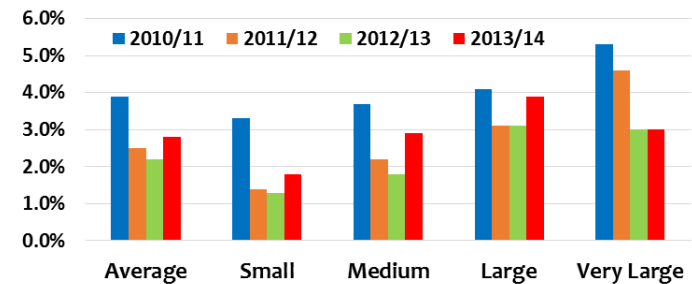
- The available data on specialist lamb production separates producers into different business sizes.
- Cash margins appear stable across different enterprise sizes, but overall returns improve with larger producers due to the economies of scale.

Figure 5.1.3.1 – Australian slaughter lamb producers by size – Farm cash income as share of total cash receipts



Source: ABARES

Figure 5.1.3.2 – Australian slaughter lamb producers by size – Rate of return (Excl. capital appreciation)



Source: ABARES

5.1 Performance of the farm sector

5.1.4 Dairy

- There are several financial and physical benchmarking systems in use across the industry, with separate systems in major regions due to the differences in production systems in use.
- Each of these systems uses a consistent reporting format.
- Margins and returns across southern regions are volatile due to the fluctuations in milk prices received by producers from export markets, which tends to influence most southern milk prices received by farmers.
- Northern systems offer greater stability in milk prices due to the high proportion of milk use in fresh processing, but the results from these systems reflect rising feed and overhead costs of production, especially in the case of the Queensland industry.
- The NSW series has been operating for two years, whereas the other series are longer.

Figure 5.1.4.1 – Qld dairy farm margins and returns*

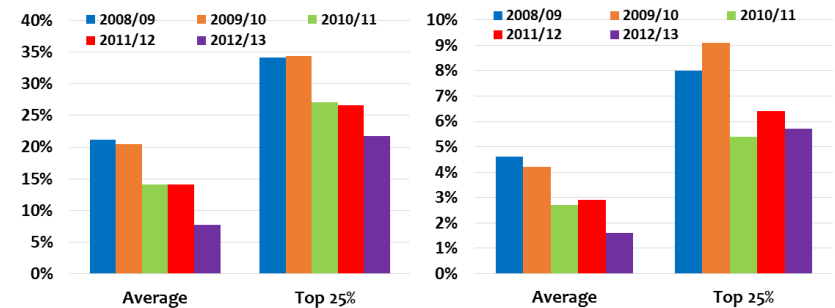
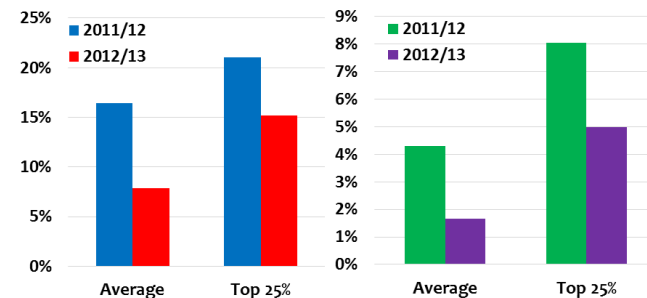


Figure 5.1.4.2 – NSW dairy farm margins and returns*



Source: Dairy Australia

Figure 5.1.4.3 – Victorian dairy farm margins

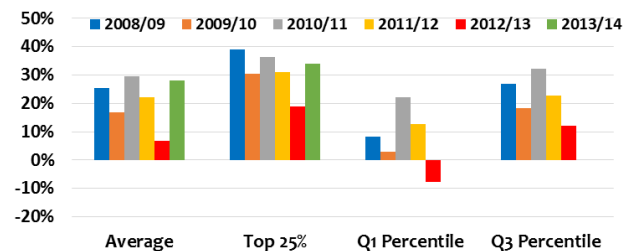
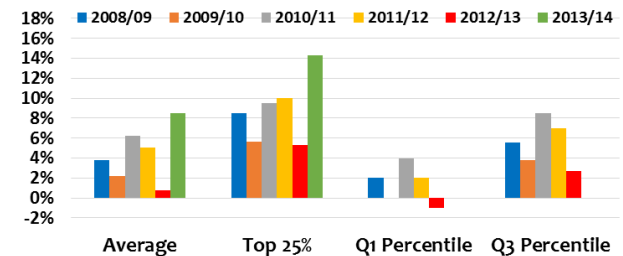


Figure 5.1.4.4 – Victorian dairy farm returns*



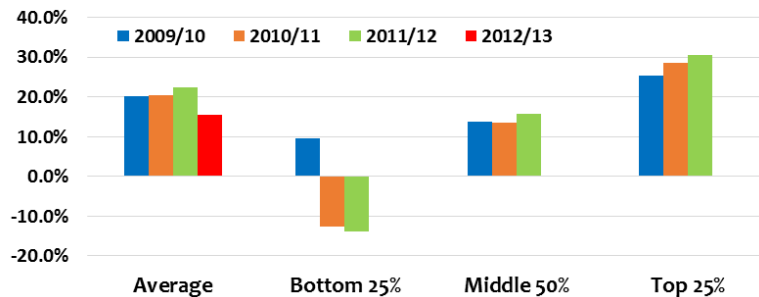
Source: DEPI; Dairy Australia

5.1 Performance of the farm sector

5.1.5 Vegetables

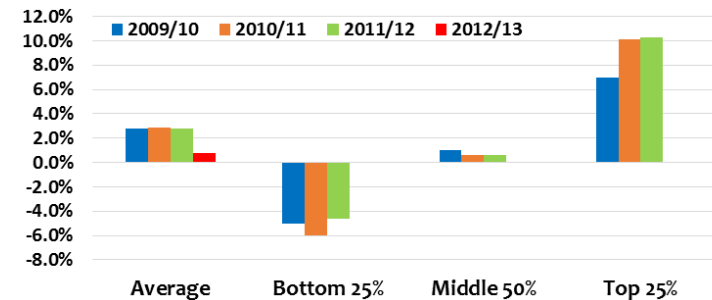
- The available data on vegetable production separates producers into different performance bands.
- These have shown a wide range of results, especially in terms of the returns on investment.
- The analysis of results indicates a rising cost of production across the board for producers, with larger operations better able to cover those costs due to scale advantages.
- The top performers in the sector gradually increased their results in margins and returns on capital over the period of the survey, while the worst performers got worse.

Figure 5.1.5.1 – Australian vegetable growing farms – Farm cash income as share of total cash receipts



Source: ABARES

Figure 5.1.5.2 – Australian vegetable growing farms – Rate of return (Excl. capital appreciation)



Source: ABARES

5.2 Performance of food processors

5.2.0 Overview

Structure of food processing

- The high level data on this page shows the contribution of enterprises by sector to the overall revenue and value-added by the food processing sector.
- Food processing turnover is dominated by protein, dairy and bakery operations, yet the contribution to value-added is more diversely spread due to the limited processing associated with meat industries.
- There has been limited overall increase in the total value-added by the food processing sector in recent years.
- This section looks at some of the common factors affecting costs and profit margins of food manufacturing companies.
- The sub-sections that follow compare reported earnings and returns across a number of food processing sectors.

Figure 5.2.0.1 – Relative revenue and value-added by sectors of the food processing industry

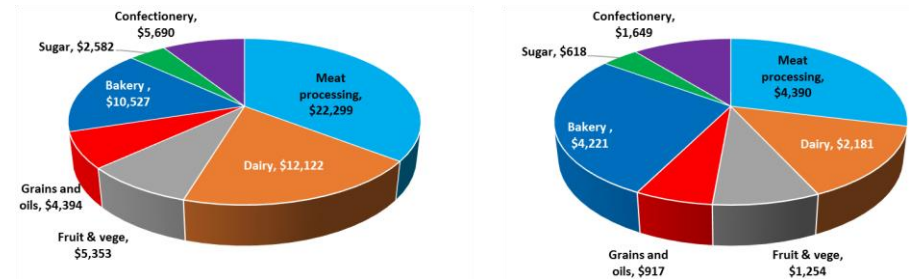
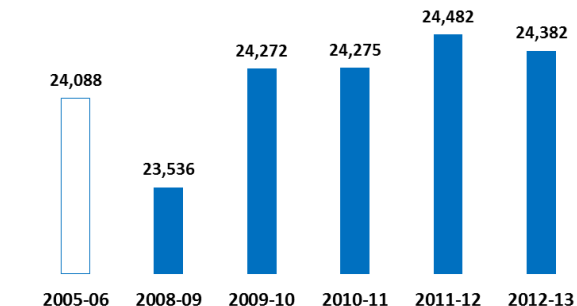


Figure 5.2.0.2 – Total value-added by the food processing industry



Source: ABS

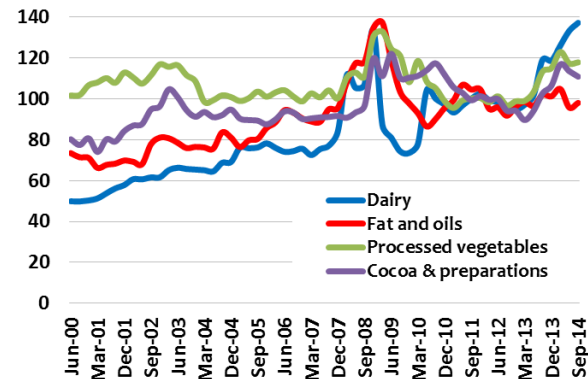
5.2 Performance of food processors

5.2.0 Overview

Recent influences

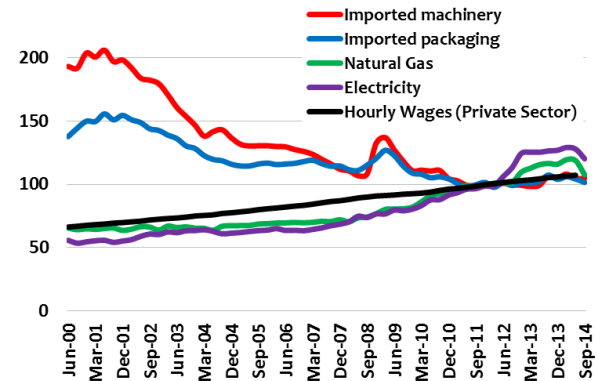
- Input cost pressures for energy and wages have built for food processors in recent years, however in other respects the costs of imported ingredients, packaging and machinery have fallen due to the strength of the \$A.
- Australia's food processing sector has generally increased its imports of food ingredients across a range of food categories in the past decade, as processors have gradually replaced more locally-sourced processed food inputs with lower cost alternatives from overseas suppliers.
- Figure 5.2.0.3 shows a mixed history of cost factors from a range of food ingredients, which have broadly been lower in the four years following a peak in 2008/09, but all have recently risen sharply in 2013/14 with the fall in the value of the \$A.
- These effects have impacted different food processors in different ways, and it is difficult to generalise about the effects on companies in each sector.

Figure 5.2.0.3 – Indices of costs of imported ingredients



Source: ABS

Figure 5.2.0.4 – Indices of input costs to manufacturing



Source: ABS

5.2 Performance of food processors

5.2.0 Overview

Recent performance

- There is little analysis of the performance of the food processing sector, as a high proportion of the larger enterprises in the sector are foreign-owned subsidiaries or divisions without separate public reporting of results.
- Those reported results that are available across various sectors are shown on the following pages.
- In 2014, the Australian Food and Grocery Council (AFGC) commissioned a survey by KPMG of grocery manufacturers. This survey was published and summarised results from 17 participant enterprises which represent about 25% of AFGC's members. The survey includes results from members which are manufacturers of non-food groceries, but the food/non-food portions were not disclosed.
- The results showed the average earnings before interest and tax (EBIT) as a percentage of gross sales had fallen over the four years to the 2013 financial year, but also that the achieved earnings showed wide variation.
- Returns on assets and capital showed variable results over time, each rising in the final year covered by the survey.
- A number of interesting insights were drawn from the AFGC survey.
- The companies indicate an increasing portion of gross sales – rising from 22% to 26% from 2010 to 2013 - is invested in “trade spend” to support sales through grocery.
- Companies have spent progressively larger amounts of capital over the survey period, with the largest (and expanding) portion invested to “stay in business”, followed by growth investments.

Figure 5.2.0.5 – Average EBIT % of gross sales for grocery manufacturers (AFGC survey)

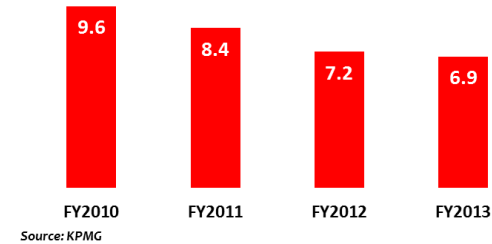


Figure 5.2.0.6 – Average returns for grocery manufacturers
Return on Assets Return on capital employed

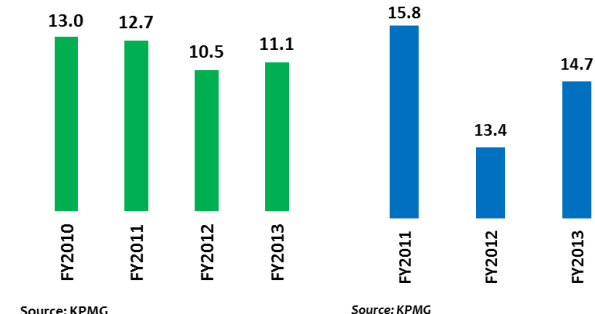
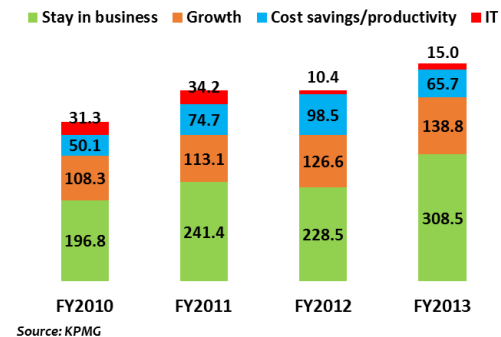


Figure 5.2.0.7 – Reasons for capital expenditure of grocery manufacturers



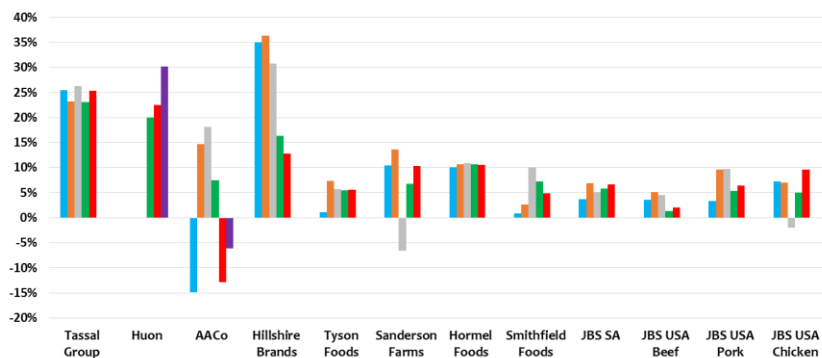
5.2 Performance of food processors

5.2.1 Meat and seafood processors

Limited local examples

- There are no listed meat processing companies operating in Australia.
- AACo, an Australian beef pastoral and feedlot production company, has only recently invested in a meat processing facility. Other major facilities operating in Australia engaged in
 - beef processing,
 - sheepmeat processing,
 - pork and smallgoods processing and
 - integrated poultry production and processing,
 are either divisions of overseas companies, or privately operated groups.
- There are two public companies engaged in seafood production and early stage processing – Tassal and Huon (which is in the process of gaining a public listing at the time of writing this report). Whilst engaged in protein, these enterprises are not directly comparable to integrated processors in red meat, chicken and pork processing.

Figure 5.2.1.1 – EBITDA margin of meat and seafood processors

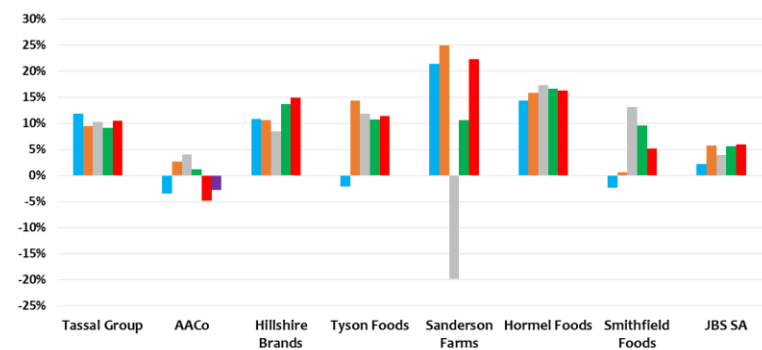


Source: Annual reports

Main points from the comparison

- Overseas beef and poultry processors operate on thin margins.
- The largest beef processor in Australia – JBS – is part of the US Beef division of its parent group JBS SA.

Figure 5.2.1.2 – Return on assets of meat and seafood processors



Source: Annual reports

5.2 Performance of food processors

5.2.2 Dairy companies

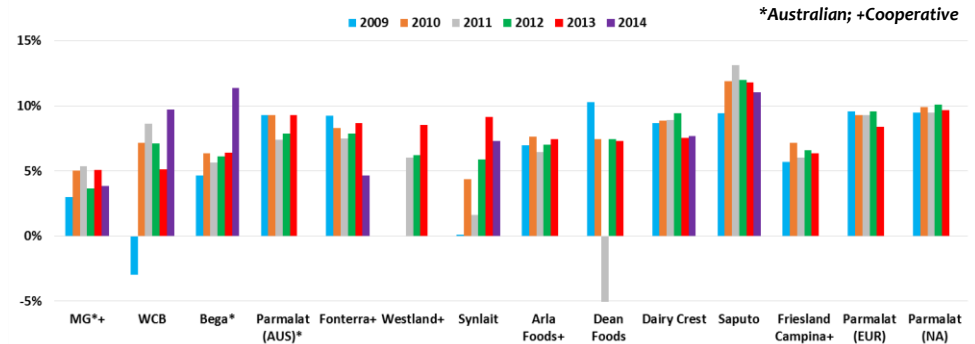
Large number of comparables

- There are a number of dairy companies available for comparison in Australia, New Zealand and overseas countries.

Main points from the comparison

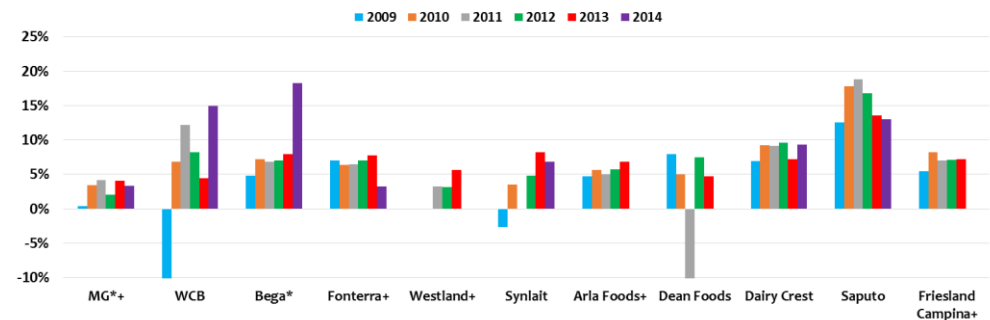
- Co-operative dairy companies are compared with a number of listed companies in this analysis.
- Co-operatives operate to maximize the milk price payout to farmers, and hence do not tend to operate with the same level of profitability as measured by EBITDA and ROA.
- This is apparent in the results of major groups Murray Goulburn (MG), Fonterra, Arla, and Friesland. These groups are in various stages of altering their capital structures over time, which in each case has required a greater delineation between business profitability and the underlying market value of milk.

Figure 5.2.2.1 – EBITDA margin of dairy companies



Source: Annual reports

Figure 5.2.2.2 – Return on assets of dairy companies



Source: Annual reports

*Australian; +Cooperative

5.2 Performance of food processors

5.2.3 Food manufacturers

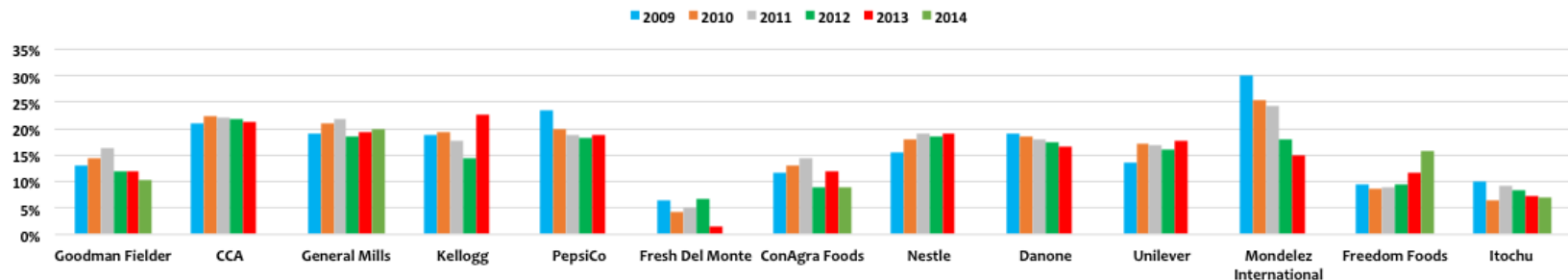
Limited domestic comparables

- There are a limited number of Australian-based food processors and marketers that remain as stand-alone public companies.
- Australian businesses are included within the divisions of many of the groups shown below.

Main points from the comparison

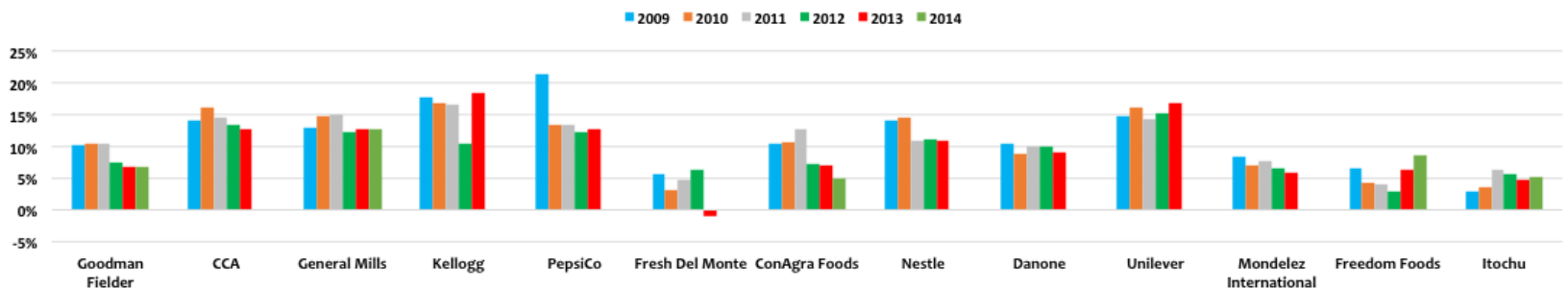
- Major food groups operate on similar profit margins, but the only major Australian food processor – Goodman Fielder – has consistently earned lower margins than most in recent years.

Figure 5.2.3.1 – EBITDA margin of food manufacturers



Source: Annual reports

Figure 5.2.3.2 – Return on assets of food manufacturers



Source: Annual reports

5.2 Performance of food processors

5.2.4 Sugar millers and marketers

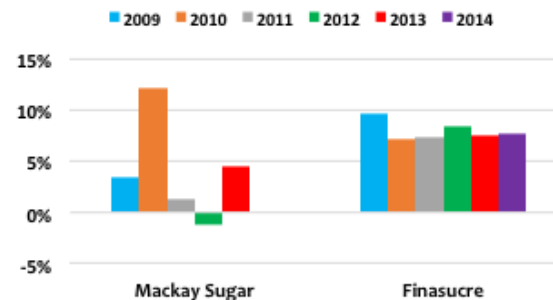
Few comparable companies

- There is one Australian-owned sugar processing operation, Mackay Sugar, which is a grower-owned operation. Other major millers and marketers are now owned by larger commodity or sugar groups.
- The results below have extracted the relevant sugar divisions of the groups involved.

Main points from the comparison

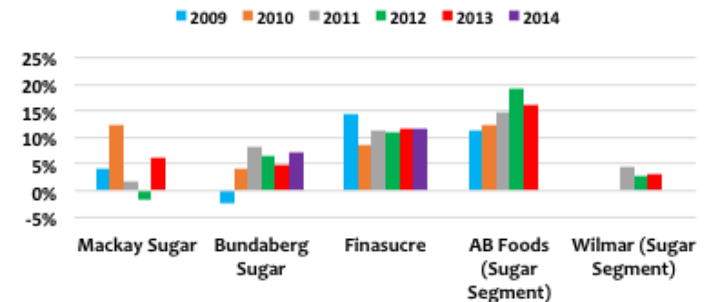
- Australian millers perform below the average of overseas divisions.
- The poor production conditions in Queensland in recent years due to crop damage from major rain events will have contributed to this outcome.

Figure 5.2.4.1 – Return on assets of sugar millers and marketers



Source: Annual reports

Figure 5.2.4.2 – EBIT margin of sugar millers and marketers



Source: Annual reports

5.3 Grains, oilseeds and rice

5.3.1 Commodity marketers

Few comparable companies

- Few of the major companies engaged in the grains and oilseeds sector in Australia are separately listed or reported. Many of the groups engaged in this market are divisions of multinational groups, and many of these groups are privately-owned.
- The chart below shows separate analyses for rice processors and marketers, from other commodity handling and trading groups.
- Australia's Graincorp which is engaged in grain handling, grain and oilseeds processing, marketing, and oilseed crushing, operates with healthier margins and returns compared to others in the comparison set.

Figure 5.3.1.1 – EBITDA margin of commodity marketers

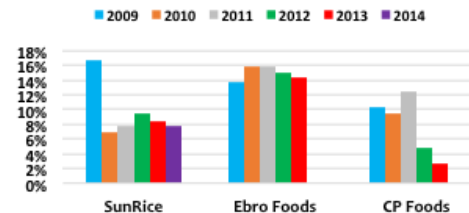


Figure 5.3.1.2 – Return on assets of commodity marketers

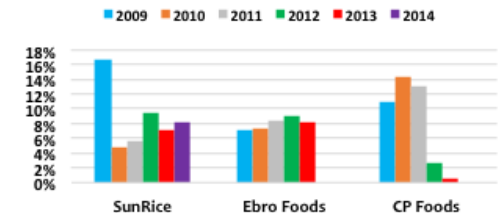


Figure 5.3.1.3 – EBITDA margin of commodity marketers

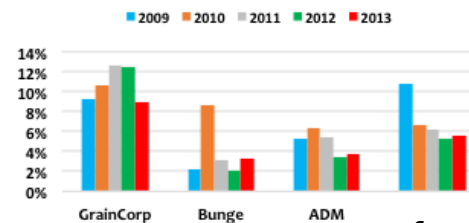
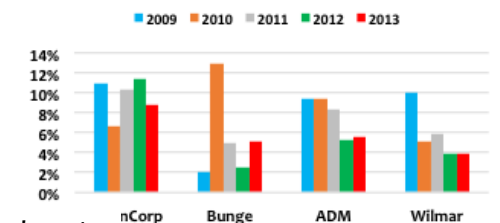


Figure 5.3.1.4 – Return on assets of commodity marketers



Source: Annual reports

5.4 Grocery retail

5.4.1 Supermarket chains

Range of business models

- There are a large number of comparable and relevant grocery retailers in developed markets of the US, UK and Europe.
- These groups include a diverse mix of retailing portfolios and geographies, with a number of these groups operating across regions outside their domiciled base.
- Where possible we have separated their reported results into different territories to exclude emerging regions (such as Latin America, China and South East Asia), where performance varies considerably.
- Retailers have vastly different funding models for the ownership of store networks within their groups, which means a comparison of returns on assets can be misleading.

Main points from the comparison

- Australia's largest retailer (Woolworths) is a strong performer in global terms on profitability and other return measures. When the margins of the two major groups are weighted together, they are similar to best-performing UK and US groups.
- Australian retailers have improved performance in recent years while a number, especially in Europe where recessionary impacts on consumer spending and retail has been more severe, are struggling. Performance of US retailers, where market shares of individual groups are smaller and the operations are more regionally based, is far patchier compared to those in other countries.

Figure 5.4.1.1 – Operating profit margin (%) of supermarket chains



Source: Annual reports

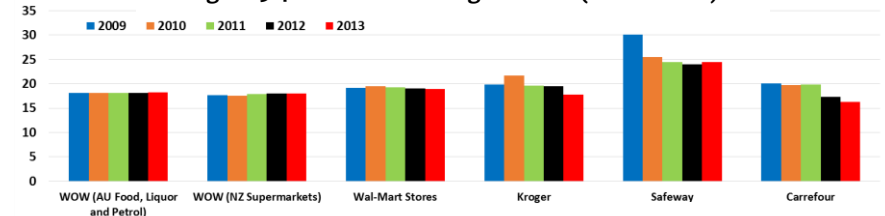
5.4 Grocery retail

5.4.1 Supermarket chains

Other relevant indicators

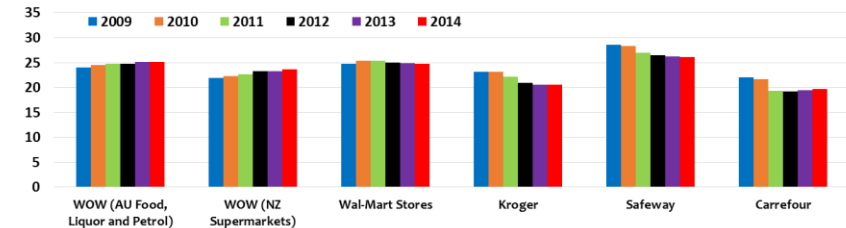
- Other measures of retailer performance are relevant in this comparison.
- Australian retailers are as efficient in terms of the “cost of doing business” as other leading groups, whereas gross margins (reported by only a few groups on a similar basis) are close to the best.
- Due to the generally higher traffic associated with greater urban density, best performing UK retail groups achieve highest store productivity in terms of sales per selling area in stores, while US groups are significantly lower. Further analysis in the Australian industry suggests Coles is close to the level achieved in this indicator by Woolworths.

Figure 5.4.1.2 – Cost of doing business (as % of sales)



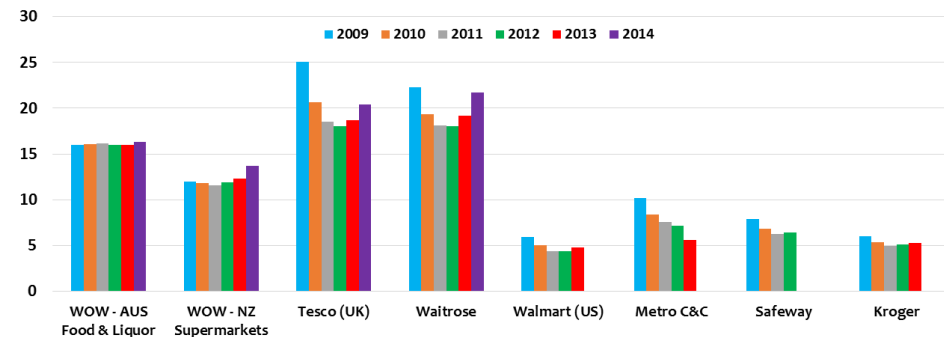
Source: Annual reports

Figure 5.4.1.3 – Annual and forecast gross margin (% of sales)



Source: Annual reports

Figure 5.4.1.4 – Sales per average square metre (A\$ '000)



Source: Annual reports

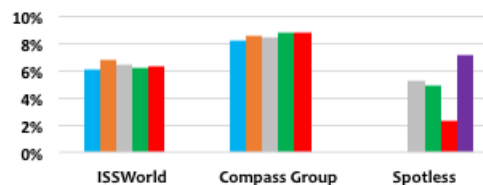
5.5 Food service

5.5.1 Food service retailers and caterers

Limited domestic comparables

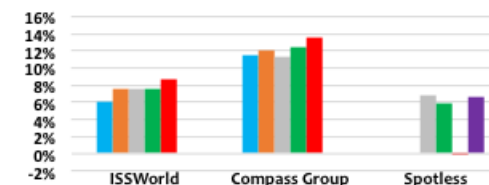
- There are few major locally-owned public food service enterprises operating in the Australian market
- Business models vary across the fast-food or quick-serve restaurant (QSR) sector, with a mix of outlet ownership and franchising models in use, which restricts ready comparability across these examples.
- Australian QSR chains have tended to operate at slightly lower margins than their US-based counterparts.
- Food service caterers are also compared on this page, with one local company (Spotless) recently becoming a public entity. It also earns lower margins compared to its overseas counterparts.

Figure 5.5.1.1 – EBITDA margin of food service retailers and caterers



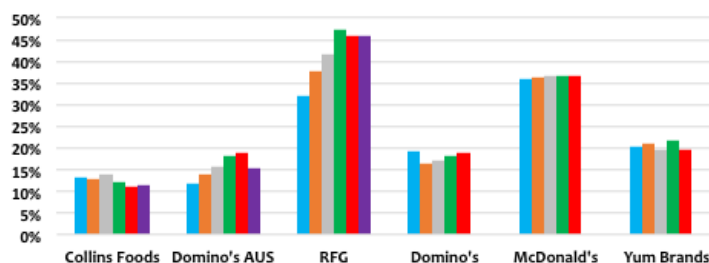
Source: Annual reports

Figure 5.5.1.2 – Return on assets of food service retailers and caterers



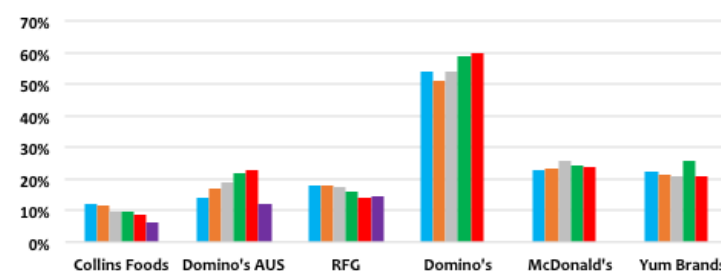
Source: Annual reports

Figure 5.5.1.3 – EBITDA margin of food service retailers and caterers



Source: Annual reports

Figure 5.5.1.4 – Return on assets of food service retailers and caterers



Source: Annual reports

SECTION 6: PRICE TRANSPARENCY

6.1 How much transparency?

6.1.1 What do we mean by transparency

Introduction

- A number of recent inquiries into the food and grocery sectors have called for greater price transparency, but what does that really mean?
- In this context, transparency generally refers to a state where all market participants have access to information on the prices achieved and costs incurred at each point along the supply chain – from farmgate through to retail, as well as the market conditions that influence pricing.
- Economic theory holds that markets are less effective when there is limited information on which to base supply and demand decisions. Perfect information is the ideal situation where all buyers and sellers have all the information they require to effectively manage supply and demand and determine price.
- In most markets, however, there is less than perfect information. In fact information asymmetry – that is when one participant in a market has less information than another – is more the norm and this can lead to distinct disadvantages for players who may already have limited market power – such as primary producers.
- In the food industry the link between retail and farmgate price is not always obvious, particularly where primary produce is substantially transformed post-farmgate. In many instances price signals that can inform a primary producer about consumer demand for specific attributes or quality issues are less than effective. This tends to reduce market efficiency and can add to supply chain costs.
- There is also a level of mistrust that is heightened when information about costs and prices along supply chains is lacking. There is a perception that someone is taking more than their “fair share” of value, particularly when the relationship between the prices consumers pay and the returns to primary producers is not clear.

Barriers to greater transparency

- If transparency could achieve greater market efficiency and build trust, why isn't it a feature of food supply chains?
- **Commercial interests** – greater transparency is not in the interests of everyone. In fact, information asymmetry is often an advantage for supply chain participants. Those who have a greater understanding of market conditions and supply chain margins can leverage this superior knowledge in their transactions with supply chain partners. Often this superior knowledge is the result of significant investment and/or market power, and there is little incentive to change the status quo.
- **Investment cost** – food supply chains are complex with many suppliers, multiple channels to consumer and product variants. The investment required to develop and maintain systems to collect, analyse and distribute data that is comprehensive and timely is significant. Increasingly this investment has fallen to industry organisations with varying abilities to resource the activity.
- **Enforceability** - regulations that demand transparency are difficult to enforce since they can often be avoided by supply chain participants. As industries have been deregulated in many cases, market information provision has passed to industry organisations. As a result, there is even less ability to compel supply chain participants to submit information without the legislated powers of the ABS or other regulatory bodies.
- **Ability to collaborate** – the propensity of supply chain participants to collaborate in the sharing of cost and price data is highly variable, both between and within food supply chains. While in general primary producers of similar products may be willing to share data, the collection may be onerous. On the other hand, wholesalers and retailers who are in direct competition could access the data but may be unwilling or even precluded from sharing it. For example, the ACCC has recently taken action against petrol retailers for sharing close to real time data on the grounds that it facilitates price collusion.

6.1 How much transparency?

6.1.2 How do the sectors compare?

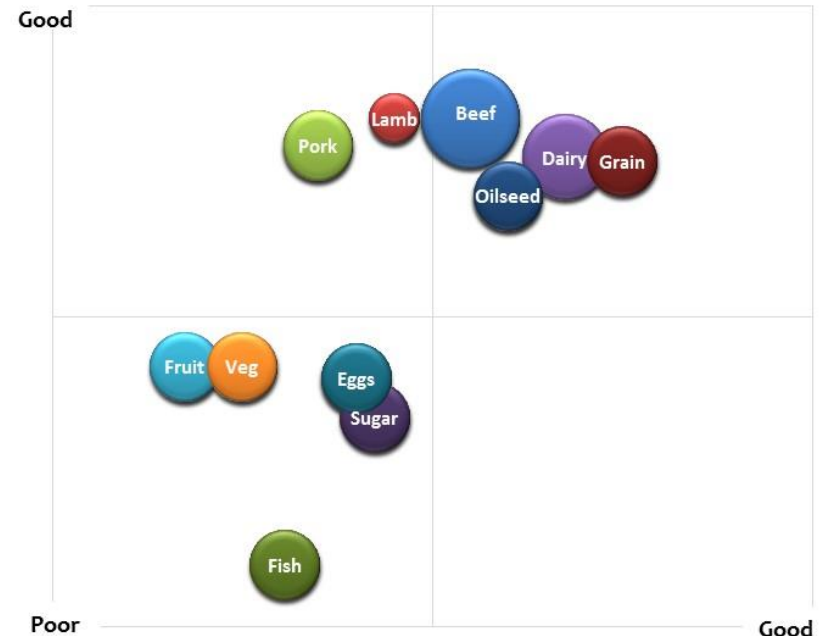
Introduction

- Food sectors exhibit differing degrees of price transparency. This can be attributed to many factors including the nature of the product and market, and the degree of integration of supply chains.
- In assessing the transparency of food sectors we have applied criteria to two major aspects that influence the ability of primary producers to access information:
 - Market data** - the **availability** and **quality** of information across supply chains
 - Effective price signals** - the mechanisms in place that provide signals on current and future pricing that aid supply chain decisions
- Each of the sectors were assessed against the criteria detailed in the table below.

| Market data - availability | Market data - quality | Effective price signals |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> Regular collection Coverage – farm to retail Cost of and access to information Distribution – how widely? Sources – one or several | <ul style="list-style-type: none"> Timeliness Credible – in terms of coverage and relevance Forward-looking | <ul style="list-style-type: none"> Prevalence of supply contracts Relevant futures market |

- The results of this analysis are summarised on the chart below, which shows the relative transparency of the nominated sectors. While none of these sectors have achieved absolute transparency across supply chains, the ranking gives some insight into how they perform against these two aspects.
- It indicates that the seafood sector is ranked lowest in terms of market data and in particular effective price signals.
- The broadacre grains and livestock industries were ranked highest, mostly on the basis that futures markets and or supply contracts are available.

Figure 6.1.2.1 – Price transparency – how do the sectors compare?



6.1 How much transparency?

6.1.2 How do the sectors compare?

| | Farmgate | Wholesale | Issues/comments |
|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Beef & lamb | Good – sale-yard, carcass and OTH hooks prices monitored and reported weekly. The overall transparency of cattle values (including the use of indices) is more developed than for lamb. | Good – wholesale market data from MLA for major portions. Export prices reported through MLA. | The complexities of carcass use in retail products and co-products limits linkage to farmgate price. |
| Pork | Good – market prices for carcass and OTH sales. | Good – wholesale prices reported weekly for selected cuts by APL. | Complexity of carcass use in a variety of retail products limits linkage, imports have significant influence on pricing. |
| Dairy | Moderate – confidential contracts, complex pricing systems make comparisons difficult. | Limited – export spot prices provide guidance as to product market conditions which strongly influence most milk prices. | Volatility of international markets and a still fledgling futures market make price determination difficult. Product mix and market exposures are highly variable. |
| Fresh produce | Mixed – derived from wholesale data and selected industry reporting of market conditions. Direct supply contracts exist but with mixed terms and price signals, strongly influenced by wholesale markets. | Limited – wholesale data is widely reported and accessible. Limited overall industry intelligence on supply and demand. | A Horticulture Code of Conduct has been implemented and is overseen by the ACCC. The code aims to encourage greater clarity and commercial transparency in transactions. |
| Oilseed products | Good - daily prices offered by GrainCorp and other buyers. | Mixed – export/world oilseed prices available from multiple sources, limited information on processed products. | Limited linkages between often highly transformed retail products and farmgate prices. |
| Grains | Good - daily prices offered from AWB and other buyers, a number of commercial intelligence providers. | Mixed – export/world grain prices available from multiple sources, limited information on processed products. | Limited linkages between highly transformed retail products and farmgate prices. |
| Rice | Good – pool estimates and forecasts from SunRice. | Limited – international prices available, limited information on products. | Integrated supply chain through SunRice monopoly. |
| Sugar | Good – pool prices are offered with variable terms. | Mixed – international market prices and futures available, limited information on domestic use. | |
| Eggs | Good – producer contracts provide price signals, industry reporting of production forecasts assists with short-term forward expectations. | Limited – wholesale prices vary widely due to the unstructured nature of the “box market”. | Pricing linked to production systems that are not uniformly defined by industry crates confusion . |
| Fish | Poor – no coordinated collection of fish price information available. | Limited – wholesale prices available from Sydney Fish market for registered suppliers. | Large number of commercial species, most trade through markets to specialist sellers. |

6.2 How does Australia compare?

6.2.1 Examples of practices used overseas

- This table provides some international examples of government and private sector activities aimed at improving price transparency.

| | Sector/commodity group | System | Issues and observations |
|---------------|-------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| United States | Livestock sector – cattle, sheep and pigs | Mandatory Price Reporting (MPR) - The Mandatory Price Reporting Act was established in 1999 and has subsequently been amended to cover additional wholesale meat transactions. The data is collected and reported by the USDA's Agricultural Marketing Service. | The US agriculture remains highly regulated, creating the impetus for collection of detailed market data by government. This comes at a considerable cost, the Agricultural Marketing Service has an annual budget of US\$1.3bn. |
| | Dairy | The US dairy sector is highly regulated with Federal Marketing orders governing almost all the milk produced and the government involved in purchasing product. In order to administer regulation, data is collected on farmgate, wholesale and retail prices. | In addition to government regulation to monitor and regulate prices, a futures market is well established within the US. Nevertheless there is considerable volatility in products and farmgate prices, as the futures market has been subject to manipulation by large players. |
| Europe | Food – EU Commission | Food prices monitoring tool – in response to the volatility in food prices of 2008, the EU Commission instituted a study into price transparency. A price monitoring tool was implemented across the EU with the aim of improving price transparency (primarily for consumers and policy makers) and market function. | In developing the tool covering 26 food product, retail price variation of 34% was identified across the member states and that a direct comparison of consumer prices of final retail and of unit prices of agricultural input gave very different results across countries. |
| | UK- mySupermarket | A website that allows consumers to find the best deals of the day and compare baskets across 11 supermarket chains and shop online. | The mySupermarket site has been operating since 2006 and attracts an estimated 4 million visitors a month in the UK. The tool has tended to make prices across different outlets more consistent. |
| New Zealand | Dairy – Fonterra Cooperative | Global Dairy Trade (GDT) auction and Farmgate price manual – farmgate prices are calculated using a formula that links commodity returns achieved in regular online auctions (GDT) and Fonterra's production of reference products minus associated costs. | The methodology was developed to improve transparency for both farmers and investors in Fonterra's listed fund. In the 2013/14 the Fonterra Board elected to pay less than the price prescribed by the Manual, drawing criticism from the Commerce Commission which is required to review Fonterra's farmgate price setting each year. |

6.3 Scope for improvement

6.3.1 Potential improvements

Introduction

- In considering improvements in the area it is important to be clear about the issues that increased price transparency is seeking to address.

| Issue | Response | Considerations |
|--------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| No apparent link between retail and farmgate prices | <ul style="list-style-type: none"> There is a lack of understanding about what actually drives farmgate prices. The development of credible and accessible information that describes how food supply chains work . | <ul style="list-style-type: none"> In most instances retail and farmgate data is publically available – the missing links are the supply chain costs associated with processing and distribution. These are unlikely to be disclosed due to commercial considerations. Consideration needs to be given to the nature of the data required and the appropriate channels and influencers for messages to be effective. Not all stakeholders wish to be educated and perceptions are likely to be hard to shift. |
| Price volatility and a limited ability to predict future direction | <ul style="list-style-type: none"> This is an issue for primary producers and their ability to manage risk exposures within their operations. Support the development and use of risk management tools such as futures products. Facilitate the adoption of longer-term contracts that provide greater certainty of returns. | <ul style="list-style-type: none"> The issue for primary producers is income volatility, with both prices received and input costs highly variable. In this case bolstering the efficacy and flexibility of tools such as farm management deposits may be more effective. Futures market need to be relevant to the farmgate market. This is problematic when the products futures are based on are transformed or represent only a segment of farmgate production. Futures can also be subject to speculation and manipulation from non-sellers and buyers. |
| Lack of trust in supply chain partners | <ul style="list-style-type: none"> The fostering of long term relationships would be the most effective way of improving trust. Long term relationships enhance and enable improved supply chain signals about market requirements. | <ul style="list-style-type: none"> There remains a need for a credible mechanism for price discovery that can be trusted and relied on to be representative. Collaboration and investment needs to be fostered in supply chain relationships to develop robust systems for gathering and sharing information that informs price negotiations. Issues of market power and long complex supply chains will remain in these negotiations, with or without increased transparency. |

6.3 Scope for improvement

6.3.1 Potential improvements

Approaches to greater transparency

- While it's clear that price transparency alone will not address all the issues stakeholders might have with the way prices are determined, given the interest in improving transparency and the international examples, here are some possible approaches for improvement, as well as some considerations

| Approach | Response | Considerations |
|---------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Regulate the reporting of transactions along the supply chain | <ul style="list-style-type: none"> Resource an appropriate government organisation such as the Australian Bureau of Statistics or ABARES to collect price information. | <ul style="list-style-type: none"> Mandatory reporting would ensure that all identified supply chain players would report transactions. Enforcement, collection and reporting costs are likely to be considerable. |
| Targetted industry-based investment | <ul style="list-style-type: none"> Fund and support relevant R & D and industry organisations to develop market information systems. | <ul style="list-style-type: none"> This approach is on the basis that industry organisations are best-placed to build on existing systems and relationships to ensure data is adapted to industry conditions, credible and relevant to stakeholders. In some instances agri-political concerns can get in the way of these efforts, depending on the industry structures in place. The resource requirement will vary significantly for different industries. Industry organisations would need to rely on collaboration and may not be able to engage all supply chain participants. |
| Market delivery | <ul style="list-style-type: none"> Support commercial players to develop information systems that deliver transparency for interested parties. These types of commercial providers are prominent in the grains industry where there is limited industry-produced data. | <ul style="list-style-type: none"> Some industries do not have the market size and customer base to warrant commercial providers investing in price monitoring, so market responses are likely to be highly variable. In more highly complex markets and concentrated sectors, commercial provision may not be financially viable. |

6.4 Transparency considerations

6.4.1 Transparency and fairness

- Calls for greater transparency in pricing are often linked to the need for greater “fairness” in pricing – particularly with respect to primary producers.
- Discussions of fair prices in this context are often emotive and highly subjective, referring to the need to “cover the cost of production” or deliver a “fair share” of the retail price for food.
- Better understanding and transparency of pricing through supply chains and at retail could assist to provide better insight to suppliers.
- As highlighted in this analysis this approach is problematic given the significant range in farm performance and therefore costs of production within and across commodity sectors. Furthermore, the farmer share of retail price can be significantly affected by the nature of the end product and its level of transformation as well as seasonal factors.
- While “fair price” has a specific meaning in respect of futures trading and asset valuation, there is no robust and common definition of fair price in relation to other general market transactions.
- According to accounting and economic definitions, fair value is a rational and unbiased estimate of the potential market price of a good, service, or asset. It takes into account such objective factors as:
 - supply vs. demand;
 - acquisition/production/distribution costs, replacement costs, or costs of close substitutes;
 - actual utility at a given level of development of social productive capability;and a number of subjective factors such as;
 - risk characteristics;
 - cost of and return on capital;
 - individually perceived utility.
- These are the types of concepts that could be relevant in a discussion of fair pricing with respect to food markets, and many of them rely on a degree of transparency regarding demand, supply and market requirements - key determinants of pricing - which are lacking in a number of food supply chains.
- The nature of this information and analysis is critical in addressing the issues of transparency and fairness. Simplified comparisons of financial measures or shares without recognition and understanding of market context and reality can be misleading.
- For example, a simple comparison of return on assets for supply chain participants without recognising differences in the available alternative uses and financing options available for capital employed in primary production (land) versus food processing or retailing (shareholder funds) is unlikely to improve perceptions of fairness or improve the decision making of primary producers.
- However ensuring the market conditions and returns are such that a normal return on assets **can be achieved** over the long term would be seen by most of the community as “fair”.
- Access to analysis that addresses the information asymmetry that undoubtedly exists across food value chains in ways that help primary producers understand the critical future drivers of supply and demand, consumer preferences and value chain pressures will facilitate those with the skills and capability to negotiate contracts and more successfully navigate the volatility inherent in food markets.
- The ability of all supply chain participants to make choices based on accessible and credible market information that can identify and articulate where value is embodied and extracted is likely to increase the effectiveness of markets and improve perceptions of fairness for all supply chain participants – from farmers to consumers.

6.4 Transparency considerations

6.4.2 Some conclusions

- This analysis indicates there is considerable variation in the transparency of prices within and between food sectors.
- Generally, wholesale prices are the least transparent. Farmgate prices are often reported by industry organisations but are strongly influenced by export returns. Retail price data is available at a high level from industry organisations, the ABS and in detail through the purchase of supermarket scan data.
- While it would seem greater transparency would be beneficial to all supply chain players, allowing for more efficient market operation, there are a number of barriers to price transparency.
- Commercial interests are a key consideration. Some supply chain players have little interest in improving the transparency of pricing, as their superior knowledge, and in some cases, market complexity allows them to leverage price negotiations in their favour.
- It is notable that in its 2008 enquiry report, the ACCC did not make a recommendation on greater transparency through the supply chain, despite receiving a number of submissions that called for it, stating:
 - *“confidentiality in transactions can lower the likelihood of tacit collusion or explicit cartelisation;*
 - *regulations that demand transparency are very difficult to enforce since they can often be avoided by parties having undisclosed side-agreements.”*
- These issues remain valid in regards to transparency and underline the issues around enforceability and some of the regulatory issues that might effect the ability for companies to collaborate.
- Greater transparency can be achieved in highly regulated agri-food markets. However, it is unclear that volatility is reduced, decision-making improved or prices to farmers increased as a result.
- In developing recommendations to improve transparency it is important to be clear about what the issues to be addressed are, what is to be achieved, and who would benefit.

Recommendations

1. Undertake a detailed study to identify:
 - where the greatest information and reporting gaps exist which impair effective price discovery and affect timely decision-making;
 - key reasons for those gaps;
 - options that provide practical solutions in each sector;
 - the net benefits of addressing the gaps.
2. In addition to the above, identify opportunities at a sector level for improved forward-looking intelligence affecting prices, and the relevant costs and benefits of implementing such systems.
3. Undertake an assessment to improve the transparency of retail data in certain categories (including meat and fresh produce) to improve the understanding of the relationship between farmgate, supply chain dynamics and retail prices.
4. Undertake an assessment of the scope for improved risk management and education as to market realities and price determinants.
5. Identify and undertake effective ongoing initiatives that improve the understanding of the drivers of prices and margins, credible ongoing analysis of the market context, and the development of longer term supply relationships based on well-articulated customer requirements and terms that recognise the realities of food production.
6. In addressing the collection and delivery options available in 1 and 2, consult and collaborate closely with appropriate industry organisations as to the scope for improved resourcing of development, implementation and maintenance of systems for collecting price data and providing credible contextual information on future price drivers.
7. In each sector, identify the business case and scope for co-investment between industry, government and commercial participants.

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Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 13

Division/Agency: Agricultural Policy Division

Topic: Mr Hogan

Proof Hansard page: 32

Senator CAMERON asked:

Senator CAMERON: Can you provide details of who the relevant people in the department were? Can you provide details of the timing of these couple of occasions that discussions took place—where they took place and when they took place? Can you provide copies of those seven responses?

Answer: Mr Andrew McDonald, Assistant Secretary, and a Director of the Food, Competition and Investment Branch of the department met with Mr Kevin Hogan MP on 13 October, 26 November and 3 December 2015 at Parliament House.

Copies of the responses received at the meeting with Mr Kevin Hogan MP are attached. An additional piece of correspondence, separately addressed to the minister but relevant to the consultation process, is also attached.

Highfield, Mark (K. Hogan, MP)

From: Weekes, Peter (K. Hogan, MP)
Sent: Wednesday, 2 December 2015 3:31 PM
To: Highfield, Mark (K. Hogan, MP)
Subject: FW: Agricultural supply chains

From: John Power [<mailto:JohnP@batlow.com.au>]
Sent: Wednesday, 25 November 2015 10:47 AM
To: Hogan, Kevin (MP)
Subject: Agricultural supply chains

Kevin,

I refer to a letter from The Minister for Agriculture and Water Resources and yourself about the above project.

I have managed large agricultural Co-operatives for around 8 years, in Queensland - Proserpine Sugar and NSW - Batlow Apples.

After reading the document attached to the letter I have a few key points I would add so that the farmers that are approached under the Pilot are provided some insight into what makes a Co-operative work. Most farmers are highly individualistic and many of these people will find it very difficult to work in a Co-operative. Most Agricultural Co-operatives were formed due to either a significant capital cost for facilities where joint investment is the only way to achieve scale and to reduce capital cost of the facilities, or to provide a single selling desk for their produce.

My observations of what is needed to form a Co-operative are as follows:

- Growers must have a long term commitment to the business;
- They must accept that there will be some bad with the good, so they must commit to not pursuing a single opportunity at the expense of the other grower/members;
- They must commence with a deep assessment of the risks and achieve a common understanding of these risks;
- They must invest real cash into the business, there is opportunity for Treasury Corp finance, however the new Co-op will require adequate cash to purchase at least 70% of the assets;
- Their cash invested cannot be recovered, they leave the business "dry", this is unless all members agree to say de-mutualise or there is a restructuring event;
- Some of the grower/members must be prepared to commit significant time, for low paid positions as Directors;
- They should include the need for at least two Independent Directors, this provides sound support to the grower Directors;
- The Co-operative must achieve adequate scale to be viable;
- The business plan must include growth strategies, unless the Co-operative can increase volume it will have to increase charges in line with CPI as costs increase over time, reducing the attractiveness of the Co-op as a service provider;
- They need to employ skilled management.

I trust this assists you in developing the Pilot program.

Regards, john

John Power

B. Bus, GAICD, FAMI, CPM

General Manager

P. +61 2 6941 4207 | F. +61 2 6949 1286 | M. 0458464282 | E. johnp@batlow.com.au

Batlow office: PO Box 42, Batlow NSW 2730

www.batlow.com.au

www.toughnet.com.au

www.producegroup.com.au

www.batlowcider.com.au





Subject **Delivering a CO-OP program to deliver on the five pillars of the Agricultural Competitiveness White Paper**

Thank you for the opportunity to provide a catalytic role in the design of Collaboration, Co-operatives, Collectives, the Pilot Initiative to explore the role of "Co-operatives and Innovative Business Models" as a response to the Agricultural Competitiveness White Paper and to provide comment on the "Draft Program Framework".

The concepts presented in this paper are an outcome of a joint effort. The foundations have been formulated by Chris Sounness, CEO of Birchip Cropping Group (BCG) and Cindy Cassidy, CEO of FarmLink. John Noonan of Curtin University, Andrea Koch of the United States Studies Centre at Sydney University and Mark Pawsey from SST Software have also contributed. Our aim is to ensure that family farms can grow their profitability and productivity. Through various undertakings we have identified that Co-Ops can underpin improved profitability and resilience.

Together BCG and FarmLink have membership of 780 plus predominantly family farm enterprises based in the sheep wheat belt of South Eastern Australia. Both groups focus on ensuring innovation is paddock and farm ready and that research gets into the hands of farmers. The organisations share many common values and excellence in governance as a key component. The governing boards of both are a mixture of family farmers and external skill based appointments. Our organisations represent the 'heartland' of Australian broadacre agricultural enterprises combined with a truly corporate approach and structure.

Feedback and recommendations are given around six key areas:

1. Targeting the Co-op Program towards Farmer Grower Groups
2. The importance of trust and Government's role in creating trust environments
3. Strengthening the five key pillars of the White Paper
4. Learning from past failure and last success
5. Utilising a co-design approach
6. Creating a lasting legacy

Finally, a pilot concept for a Farmer Data Co-Op is outlined, as a potential project to explore and demonstrate the value of the Federal Government Co-Op initiative.

1. Targeting the Co-op Program towards Farmer Grower Groups

The Australian family farmer has a history of working cooperatively with others farmers, particularly in their region and/or industry. Farmer Grower Groups are very successful examples of Co-ops and have achieved a great deal of RDE adoption because they are based on a high level of trust and common goals.

An important factor is that successful Grower Groups have developed trust over time (and often across generations) between their members, therefore enabling them to explore the extra value that can be gained by working together through identified common issues they wish to address. These groups also develop a deepened recognition of shared common values. 'Lack of trust' has been identified as a major blocker to the uptake of new ideas in agriculture (for example see Vanclay 2004).

A well designed co-op program would encourage existing groups of farms, with established trusting relationships and demonstrated ability to work together successfully, to further grow their success. Better knowledge and understanding of Co-op's could address perceived and real impediments that are limiting the willingness to take 'next steps'.

Currently, the proposed programme framework appears 'top down', suggesting that farmers need a catalyst to get together. A successful Co-op programme should rather take a 'bottom-up' approach and engage with progressive Grower Groups with a record of taking proactive steps. Such an approach can deliver less costly and faster outcomes. These existing groups will have clear insights into the opportunities that exist for cooperative efforts for themselves, and the drive and determination to bring those efforts into a formal cooperative arrangement.

RECOMMENDATION: Investing in resources and materials that leverages existing capacity within Farmer Grower Groups, highlighting their journeys and creating opportunities for them to mentor other groups of growers, may be highly beneficial and an appropriate use of resources to reduce cost.

2. Importance of trust and Government's role in creating trusting environments

Government has an important role in enabling a trusting environment. Such a role is manifest in ensuring that legal and business structures are framed to operate in the 21 century, where not only common law is taken into account, but emerging fields such as copyright, moral rights and IP law are increasingly important. Increasingly the family farm entity will be copyright and IP law, with the associated moral rights, which will be a foundation to many new generation, '21st century', farming activities, including dealing with corporate entities. Acquiring skills in critical thinking, problem solving and strategic planning around new generation activities has been demonstrated to enhance the management capacity of farmers. Enhanced management capacity will allow farmer to better prepare for the broader and more complex management challenges that they are likely to face in the future. Co-ops can have a major role to play in addressing the challenges outlined to this point.

RECOMMENDATION: Government investment would best be targeted at ensuring any proposed solution has appropriate legal and business guidance, in addition to developing growers understanding and competence in governance and risk management principals, which is needed to create an enduring capacity.

3. The five pillars of the White Paper and Co-ops

The White Paper clearly identifies how Agriculture and the family farm are key to ensuring Australia's continued national prosperity and that the dividends of such prosperity flows to all. The White Paper identifies five key pillars and the Draft Programme Framework for Co-ops could better reflect the intended outcomes of the pillars. The five pillars identified are:

- A fairer go for farm businesses
- Building the infrastructure of the 21st century
- Strengthening our approach to drought and risk management

- Farming smarter
- Accessing premium markets.

3.1 A fairer go for farm businesses

One of the challenges the family farm currently faces is inequity in dealing with large multinationals at both the input and output ends of the value chain. A co-op program can encourage and enable farmers to identify how they create and operationalise a fairer relationship.

3.2 Building the infrastructure of the 21st century

An important role of any co-op is identifying what infrastructure is best invested in collectively and ensuring appropriate business structures are chosen. The program as designed focus very much on the value chain opportunities for farmers produce. It is important any program looks at all opportunities and is structured around maximising value for a family farm in the 21 century.

3.3 Strengthening our approach to drought and risk management

The current program as designed does not explore how a cooperative program will assist in building this pillar. The program should ensure that any government interventions builds into opportunities to decrease either production volatility and or price volatility as well where possible provide evidence to government on appropriate government inventions if required.

3.4 Farming smarter

Ensuring farmers capture value for all elements of what they produce is essential to 'farming smarter', enabling sustainability and resilience, and sharing of prosperity. An estimated US 4 billion of funds are being invested in farming smarter in 2015. Much of this investment is based around 'precision agriculture' and the use of innovative data collection and analytics. Innovation often leads to improvement in meeting customer needs or lowering risk, therefore increasing value. The premise that the family farmer see's value in contributing data is fundamental. We believe that much of the investment is failing to encourage farmers to contribute data, even though if adopted, value will be created.

3.5 Accessing premium markets.

The fifth pillar around ensuring access to premium markets will be based on 'track and trace' capability to provide assurances to the value chain on traceability, biosecurity and safety. Track and trace capability through the value chain is complex, can be complicated, and is often costly (Storer and Noonan 2012). In meeting market expectations, co-operative data sharing can result in the collection and analysis of data at lower costs, with less complexity and simpler process. Delivering on demanded quality parameters is an important component. The enabling of concise and effective mechanisms to facilitate quality compliance and maximising profitability on farm is paramount. The compliance burden and 'paper work' to maintain market access and overcome trade barriers is another component; collaborative systems, based around low cost data collection, can ensure that traceability, biosecurity and safety requirements are met without compromising integrity. A well designed co-op program, which delivers an enduring legacy, can reduce cost and improve market outcomes.

RECOMMENDATION: Design the Co-op program to best demonstrate how Co-ops can help to facilitate the delivery of the five pillars of the White Paper to the family farmer.

4. Learning from Past Failure and Last Success

Stakeholder consultation correctly identifies that at a high level, the key barriers to adoption of cooperative business models centres around farmers' lack of awareness, legal and financial capability and resources along with a lack of administrative consistency and/or clarity around pathways for establishment.

However a more detailed consideration of the impediments to adoption would identify that past cooperative failures and lack of trust are also significant barriers to adoption. It is likely that these two factors have a bigger impact on adoption of cooperative business models than does awareness and skill - especially in the short term. This means that a 'standard' approach to raise awareness and develop capacity is unlikely to deliver outcomes until the issues of the past failure and establishment of a trust relationship are addressed:

- Past failures have a bigger impact on future adoption than last success
- Cooperation and collaboration require trust between the parties

The challenge is to create a program that positively addresses past failures and highlights last successes, works with existing trust relationships while fostering the creation of new trust relationships and facilitates adoption of appropriate collective and collaborative business models.

RECOMMENDATION: Ensure that program content reflects and informs recipients about the causes of past failures for Co-ops, as well as the hallmarks of successful Co-ops, in addition to addressing the identified barriers to adoption.

5. Utilising a co-design approach

The proposed program principles are sound but simplistic. We agree that groups of farmers are unique and best positioned to determine their own needs, however they also share many common features that create the potential for peer-to-peer learning and the use of pilot programs to deliver immediate outcomes whilst educating a much larger group of people. Recognising the opportunity to learn from example or through participating in another's process will deliver far greater legacy benefits and more early wins.

The assertions that farmers know their own needs and requirements best has also been used to support the idea that by simply providing access to resources (information, advisors, grants) farmers and groups of farmers will automatically take advantage of the offering. In the short time that the program will run it is unlikely that this approach will generate enough trust and sufficiently overcome past bad experiences to be effective.

We believe a co-design approach will best deliver the desired outcomes of the program - tangible sustainable increase in successful collaborative business models, increased awareness of the opportunities these business models create and increased capacity of farmers and farmer groups to identify and implement cooperative opportunities.

Co-design involves using skilled facilitators, with demonstrated competency, working with the group and together designing a fit for purpose solution. Such approaches are initially based on eliciting the farmers knowledge and skills and then supplementing them with those of 'experts'. We believe that we bring to the table a strong and successful record of delivering farmer focused facilitation.

A co-design approach would include the following features -

- Working with identified farmer groups (trust relationship already established)
- Using past successes and failures as case studies to facilitate learning and manage real and perceived risks (learning from the past and past experiences positively addressed)
- Working in five areas covering traditional and non traditional areas of cooperative business (innovative collaborations explored), specifically:
 - Traditional - collective buying & collective selling
 - Innovative - RDE&T (training) collectives, information & data collectives, risk management collectives
- Working across a range of industries (capture variation and address uniqueness)
- Development of pilot/model cooperatives (create legacies) that can be :
 - Used as templates for farmers in other areas and industries,
 - Scaled up
 - Used as case studies and learning experiences

RECOMMENDATION: Build a co-design approach into delivery of the Co-op Program.

7. Creating a lasting legacy

A successful co-op program should leave a legacy of the measurable differences made and tools and services that can be adopted and utilised by others.

The program also needs to ensure that the investment can demonstrate value for the taxpayer and that both successes and failure are captured and evaluated. Finally the program needs to think beyond the next 18 months and that the products created are designed in a way which leaves a legacy which could mean that the products are designed as an ongoing service rather than as a standalone product that collects digital dust once the program finishes.

RIRDC has been charged with building farmer capacity in relation to cooperative, collective and innovative business models in order to help farmers to establish business models that better position them in the supply chain. Creating businesses, family farming enterprises that are more resilient and sustainable into the future.

To ensure a lasting legacy, the proposed objectives of the program - increasing awareness & understanding of structures and opportunities and enhancing availability of resources should be expanded to include -

- Exploration of innovative/non traditional approaches for/to cooperatives and collaborative business models (ie cooperatives for activities outside traditional collective purchasing and collective marketing)
- Fostering the creation of capacity within existing farmer groups and to support farmer groups to establish and deliver cooperative business models
- Overcoming rake and perceived risks associated with cooperative business models (ie trust and experience /knowledge of previous coop failures)

RECOMMENDATION: Create a lasting legacy with the program, by expanding the objectives to include a wider and longer lasting set of outcomes.

A pilot concept to explore and demonstrate the value of the Federal government Co-Op initiative

Pixel Farming –Developing a Farmer Data Co-Op

BCG and FarmLink are two grower groups exploring the challenges around adoption of Precision Agriculture and ensuring the innovation adds value to the family farm. One of the biggest impediments identified is quality of on-farm data sets to enable the many products, services and innovations to create value.

The key barrier we have identified is trust and ensuring there are the appropriate protections and infrastructure for farmers to work both together and with government, small innovative businesses and also multinational agribusiness service and product providers.

The following identifies the value a data co-op might bring. BCG and FarmLink would be keen to work with the Federal Government to pilot the concept.

Data collected through the efforts of farmers (eg with sensors or manual record keeping) and data created by the leveraging of these data collections by third parties such as farm business advisers need to be seen as farmer's property. Individually these data sets have little value except for the individual farmer or adviser. However when data sets are combined they have great value For both research and agribusiness.

The opportunity exists for farmers to create a collaboration or co-op and combine emerging technology to make this data available to people that the farmer/s chooses. .

A single entity such as a co-op will lower costs and increase the attractiveness for multinationals to engage which is not currently possible.

A well designed co-op program will create the educational opportunities around IP and copyright law ensuring family farms keep control of the data they paid to be collected in their ownership. Federal government could invest funds to design checklists that ensure data purchasers and farmers understand how the law works around sensor technology and ownership before data is shared. This will ensure the program delivers family farms increased profitability and the confidence to farm smarter.

If farmers keep ownership of their data, whilst encouraging its use and making it available to other farmers, they could be rewarded in three ways.

- As a collective, farmers can be in control of their information.
- Secondly, farmers can create an income stream by sharing and harvesting data from farm records which will over time increase in usefulness to their individual business, researchers and agribusiness.
- Finally, farmers will have the opportunity to enter IP agreements to create income with companies and individuals, to create new products and services, some of which can be sold back to the farmer.

Better value for RDE investment

Farmers who identify opportunities in this space and build on existing collaborations will be well placed to capture the value from their existing farm record keeping. Currently farmers pay levies to RDC's who fund scientists to undertake research to improve on farm profitability. A significant portion of the research dollar is used collecting farmer data when needed as there is no other way of getting the data without expending a lot of dollars and effort. Farmers who work together could monetarise data sets by lowering the cost of data collection meaning more money is invested in the research and analytics rather than the slog work which returns nothing to the levy payer. Farmers being rewarded as a collective by the research community due to having appropriate structures around business and legal agreements will create better value for the whole of Ag RDE investment.

Improving risk management

A major challenge for those operating in agricultural and agribusiness risk management and government agriculture policy is the paucity of high quality data sets. In the absence of any specific catalyst, the quality of data sets may improve over time. However, farmers who work together through collectives, with appropriate structures, have a real opportunity to garner the rewards for analysing and curating the data to improve farm practice and management. Improving risk management is arguably a data rich pursuit. Without high quality data sets, large margins are invariably built in by value chain participants to ensure downside risk exposure is minimised, (eg multi-peril insurance products). Government at all levels also has a paucity of data to design optimal policy interventions.

The opportunity to create 'real time' data streams from farmer's data collection activities, (for which the farmers are rewarded) creates an opportunity for Government to source high quality data without the expense and inherent inaccuracies of manual data collection activities such as the Agricultural Census. Government investments can therefore be more effectively targeted to where it is potentially most needed or can have great impact.

BCG and FarmLink, and our partners, would appreciate an opportunity for face to face discussion. We are confident that the concept of a farmer data driven cooperative can deliver a foundation upon which to build the Five Pillars identified in the White Paper. The opportunity for collaborative groups of family farm businesses to derive value from their data and knowledge is now achievable and real; a successful co-operative framework can play a key role in de-risking Australian Agriculture and making it more resilient.

Cited Publications:

Storer, C.E. and Noonan, J.D, (2012). Network Change Catalysts and Perceived Value: Track and Trace capabilities in Australian agribusiness. 10th Wageningen International Conference on Chain and Network Management, 'Multi-Stakeholder Dynamics in Chains and Networks'. The Netherlands. 23-25 May 2012.

Vanclay, F. (2004). "Social principles for agricultural extension to assist in the promotion of natural resource management." Australian Journal of Experimental Agriculture **44**(3): 213-222.



Chris Sounness
CEO
Birchip Cropping Group
73 Cumming Ave
Birchip Vic 3483

24th November 2015

Mr Kevin Hogan MP
Parliament House
Canberra

Dear Mr Hogan

Thank you for the opportunity to provide feedback on the proposed programme approach for the \$13.8M pilot program as outlined in the Agricultural Competitiveness White Paper.

We are very pleased the Federal Government has placed such a high priority on the agricultural sector, and recognised the need for it to become more efficient, profitable and sustainable. You may be aware that myself and Bec Lanham from Collaborative Farming Australia, were involved in the initial roundtable discussions in Canberra on 31st August, facilitated by RIRDC, involving farm businesses, industry groups, educators and government representatives.

Over the past eight years, Collaborative Farming Australia has been working with farmers to set up joint venture operations, and initiate a change in cultural thinking in order to create more efficient and profitable businesses. While there are many benefits throughout the value chain in developing a collaborative approach, our focus has been on farm business operations itself, rather than beyond the farm gate. In a majority of our Australian agricultural industries we are growing commodity products, and while there are certainly opportunities to value add, and collectively bargain through industry groups and cooperatives, we believe there are even greater benefits through implementing structural change in family farming businesses to create entities which are more efficient and profit focussed. An example is the fact that most farming businesses are overcapitalised in machinery, and many use of labour and infrastructure inefficiently. We believe there is a much greater opportunity to change the culture of farm businesses by looking within them for change, rather than beyond.

At the Round Table in Canberra, as reflected in the White Paper and proposed pilot program outline, there is a significant emphasis on cooperatives, collective bargaining and looking beyond the farm gate. While we recognise there are big opportunities in these areas, we are a little disappointed at the lack of emphasis on opportunities to make existing businesses more efficient and robust through structural change. As someone who has developed contacts and networks with farmers across Australia (and overseas), we know there is enormous interest in the concept of collaborative farming, and structural change within farming businesses. There is a need for family farms in particular to become more professional in their approach. However, there is deep scepticism of cooperatives due to past experiences, and very few calls for new cooperatives to be developed as marketing tools for the future.

It is for this reason we believe if the farmer extension workshops, training and advice sessions are implemented, it will draw out the fact that farmers are wanting to look at different operational business models (as opposed to marketing models), and ways to become more professional in their business approach. There is also much greater recognition of the need for board type governance structures with independent input, as well as mentoring services. We believe this will be a real positive of the program, but needs to be recognised early, and advisors trained and resources developed to facilitate this need. In the White Paper it states *"The Government will provide information to help support better decision making on alternative business structures"*. We definitely support this, but see no detail in the proposal as to how the advisors / consultants funded through the program will be educated and resourced so they will be in a position to provide this information and support.

Collaborative Farming Australia have facilitated the setup of five full scale collaborative models in the past eight years, as well as worked with many other farmers and industry groups. This has created enormous interest from across Australia and overseas. Apart from the farmer interest, we regularly have advisors contacting us looking for information and resources to pass onto their clients. If the customised workshops, training and advice sessions are held, we believe these will create even more demand for resources and information from groups like ourselves which to this point have not received funding to be developed.

On page 5 of the working document under 'Advisory Training Roadshow' it states "*Farm advisors in regional areas will be helped to update their knowledge and skills of collaborative and innovative business models...*", which we also applaud. Once again, the question we have is in the detail of how they will be helped to update their knowledge. As the organisation who has created successful collaborative ventures, we are fully aware of the thirst for information on these models, and are asked to share this on a regular basis. However we are further frustrated that the funds earmarked for developing resources for farmers, advisors and industry groups have been allocated elsewhere. With Bulla Burra being the only farm business mentioned in the White Paper, and with case studies presented in forums everywhere, we have both the knowledge and experience to develop the required resources, but have no access to the funds. We had hoped significant funds would be available to develop resources utilising and valuing the experiences of those who have already put successful models in place. It would seem the program endeavours to tell farmers more about what is being done, rather than provide them with the tools to help them do.

In summary, we would like to once again congratulate the government for the initiative. As stated earlier, it is our feeling that there is a much greater desire for knowledge, resources and support in creating more efficient, profitable and professional family farms through structural change, than looking at creating new cooperative marketing and purchasing models. We believe the proposed program can deliver this, but in doing so needs to draw on, and fund, those involved in the successful models which already exist to provide the knowledge, resources and mentoring required in order to create positive results.

Kind Regards



John Gladigau
Managing Director



Collaborative Farming Australia
M: 0428 874 315
E: john@collaborativefarmingaustralia.com.au



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Professor Greg Patmore

Director, Co-operatives Research Group
The University of Sydney School of Business.

03 December 2015

Kevin Hogan MP
Member for Page
Parliament House
CANBERRA ACT 2600

Dear Kevin Hogan,

I refer to your joint letter with The Hon Barnaby Joyce, inviting feedback on the Government's Agricultural Competitiveness White Paper \$13.8 million initiative. This funding is welcome and provides an important boost for the co-operative business model in agriculture.

Reading through the document there are some points that could be made

(i) On p. 11 the document refers to farmers applying for a grant for a feasibility study. This seems ad hoc and the Government should be encouraged to set up an agency similar to the Rural Co-operative Development Grants (RCDG) program in the US to encourage new co-operative businesses in rural areas (see <http://www.rd.usda.gov/programs-services/rural-co-operative-development-grant-program>). The primary objective of the RCDG program is to improve the economic condition of rural areas by assisting individuals and businesses in the start-up, expansion or operational improvement of rural co-operatives and other mutually-owned businesses through Co-operative Development Centres. These grants are provided on a competitive basis. The assistance can also be provided on a matching grant basis and is available for conducting feasibility studies, developing business plans, providing business training and facilitating strategic planning. The cost of the scheme per annum ranges from \$US 5-8 million dollars and the maximum grant amount is \$US 200,000. Initially the Australian version of the scheme could be on a trial basis and then hopefully establish on a more permanent basis.



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(ii) On p. 12 the report does recognize the need to make a more efficient registration process for co-ops - this is a high priority. There is a need for a level playing field in Australia for corporations and co-operatives.

(iii) The discussion of co-operatives and collective bargaining is interesting. Collective bargaining is a method of action not an organisational solution. Individuals and organisations, including co-operatives, collectively bargain. When co-operatives were formed in the US they saw their role to collectively bargain on behalf of members. Collective bargaining is an ad hoc method built around a particular issue and not a permanent solution.

(iv) There should be an audit of current education providers to highlight the failure of education in this area and find ways for more inclusion of co-ops in secondary and tertiary education - this is of benefit for farmers and Australians generally. This will provide a long-term education framework for farmers and others in regard to forming and managing co-operatives. The University of Sydney Business School has developed possibly the first master's level course on co-operatives and mutuals in Australia and it was taught for the first time in the second semester of 2015. I attach an outline of the course for your interest.

Thank you for the opportunity to contribute to this important policy initiative.

Yours Sincerely,

Professor Greg Patmore,
Professor of Business and Labour History,
Director, Co-operatives Research Group





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Unit of Study Outline

Unit Code WORK6036

Unit Title Co-operatives and Mutuals

Semester 2b - 2nd half, 2015

Pre-requisite Units:

Co-requisite Units:

Prohibited Units:

Assumed Knowledge and/or Skills:

Unit Coordinator: Greg Patmore

Address: Room 101, Burren Street - Newtown(C37), The University of Sydney NSW 2006

Email: greg.patmore@sydney.edu.au **Phone:**

Consultation Hours: Please go to Blackboard for details of all staff consultation times.

Class Day(s): Please go to Blackboard for class times and locations

Required Text / Resources:

There is no text. The full list of required and recommended readings can be found in learning resources on blackboard. Where possible all readings have been placed on closed reserve in Fisher Library.

This unit of study outline MUST be read in conjunction with

The Business School Unit of Study Common Policy and implementation information that applies to every unit of study offered by the Business School (<http://sydney.edu.au/business/currentstudents/policy>). All assessment rules, such as standards used, penalties etc, are covered.

The Business School Student Administration Manual - for information about all processes such as illness, appeals etc (http://sydney.edu.au/business/currentstudents/student_information/student_administration_manual) When deciding applications and appeals relating to these matters it will be assumed that every student has taken the time to familiarise themselves with these key policies and procedures.

The Business School seeks feedback from students and staff in order to continually improve all units offered. For information on previously collected feedback and innovations made in response to this feedback, please see http://sydney.edu.au/business/learning/planning_and_quality/feedback/student

1. Unit of Study Information

This postgraduate unit introduces students to the unique challenges involved in the management of co-operatives and mutuals and equips them with skills and knowledge necessary to take these value-driven organisations to the digital future of tomorrow. The unit will help students develop an understanding of co-operatives and mutuals as a viable alternative model of business to traditional firms, as well as connect them with an Australia-wide network of industry practitioners. The unit will provide a conceptual and historical framework for understanding co-operatives and mutual. It then focus on the methods by which mainstream governance, accounting, capital formation, legal, labour management and marketing practices can be adapted to fit the co-operative and mutual model. It will also look at the public policy and political issues relating to co-operatives and mutuals. Students will learn about Australia's co-operatives and mutuals as well as the international state of play for co-operatives and mutuals. Students will also undertake an industry case study as part of their assessment.

2. Program Learning Outcomes and Unit Learning Outcomes

The Program Learning Outcomes for this Program are located at

<http://sydney.edu.au/business/about/accreditations-and-quality-assurance/AoL/outcomes>

Unit Learning Outcomes

| Unit Learning Outcomes | Program Learning Outcomes |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|
| On the successful completion of the Unit you should be able to: | |
| Use investigative skills to identify, define and analyse complex business and professional problems. | 1. Business Knowledge |
| Critically analyse and question knowledge claims in one or more disciplinary areas and to offer independent and creative solutions to related conceptual debates. | 2. Critical Thinking |
| Address business and professional challenges effectively and in a manner that demonstrates an advanced understanding of disciplinary knowledge and ethical, social and global awareness. | 6. Ethical and Social Responsibility |
| Communicate information, ideas, findings, arguments effectively to an advanced professional standard. | 4. Communication |
| Access, integrate and utilise diverse information sources and knowledge within one or more disciplinary areas to make sound judgements and propose insightful and creative solutions to complex business and professional problems. | 3. Business Analysis and Problem-Solving |

3. Assessment

| Assessment Name | Individual/Group | Assessment Conditions | Program Learning Outcomes Assessed | Length | Weight | Due Time | Due Date | Closing Date |
|-----------------------------|------------------|-----------------------|------------------------------------|--------|--------|----------|-------------------|-------------------|
| Seminar Participation | Individual | Compulsory | 1, 2, 4, 5 | N/A | 10% | | Weekly | Weekly |
| Industry Engagement Project | Individual | Compulsory | 1, 2, 3, 5 | 2,500 | 50% | 16:00 | 19-Oct-2015 | 23-Oct-2015 |
| Final Exam | Individual | Compulsory | 1, 2, 4 | N/A | 40% | | Final Exam Period | Final Exam Period |
| Academic Honesty | | | | | | | Week 4 | |

For the meaning and operation of this table, see policy information in the box on the front page or click [here](#)

Assessment details

Seminar Participation

• Task Description

Seminars will enable students to discuss key theories, debates and arguments from the lectures and weekly readings in more depth. These are intended as active collaborative learning experiences where their input will be both expected and supported. There will be a general question for discussion each week and there will be group exercises such as a debate around a key question, with students either directly participating in the debate or assessing the performance of the debaters on an assessment form. Questions will also be asked throughout the seminars to determine their level of understanding of the material from lectures and the weekly readings. This enables students to demonstrate knowledge of concepts, theories and empirical examples relating to co-operatives and mutuals in multiple contexts.

• Assessment Criteria

Students are assessed on their ability to explain and critically analyse key relevant information, concepts, theories and arguments. There is an emphasis on the ability of students to effectively communicate orally to the tutor and their fellow students, to work with other students, particularly in the debates, and build on the ideas of others in the seminar group. Grades relate to the standard at which students demonstrate these criteria.

- Feedback - What, when and how feedback will be provided for this assessment

Students will receive grades on their contributions after the completion of the seminars against stated criteria. If they require further feedback then they can meet with the tutor/lecturer. Additionally, some learning activities will include opportunities for students to provide feedback to each other, further enhancing their understanding.

Industry Engagement Project

- Task Description

The students will be placed into groups of up to 5 students. The students are then assigned to a particular co-operative and mutual, which have agreed to be involved prior to the commencement of course. There is also a provision for students to be allowed to choose co-operatives and mutuals. Students will then focus on particular issues relating to the co-operative or mutual such as accounting practices, marketing strategies, community engagement, internal governance, labour relations or service improvements. Students will examine these dimensions of the co-operative or mutual and suggest possible improvements, using the concepts covered in class. The students will individually submit a 2,500 word essay based on the project.

- Assessment Criteria

Students are assessed on written communication skills and ability to construct a coherent argument. The student's written work should demonstrate initiative and ingenuity in research and reading, pointed and critical analysis of material, innovative interpretation of evidence. Moreover, students should aim to make an insightful contribution to relevant debates, engage in the values, assumptions and contested meanings contained within sources, and develop abstract or theoretical arguments on the strength of detailed research and interpretation. They will also be assessed on their ability to select and apply relevant concepts to a real-life scenario, the quality of problem analysis, and the quality of any proposed solution and its evaluation. The work should be properly sourced and documented and the writing characterised by creativity, style and precision. Grades relate to the standard at which students demonstrate these criteria.

- Feedback - What, when and how feedback will be provided for this assessment

Students will receive a grade for their essay and written comments on how they could improve their essay in accordance with the assessment guidelines. If they require further feedback then they can meet with the lecturer. Barring unforeseen circumstances, the essays will be handed back at the final lecture.

Final Exam

- Task Description

The exam will be of two hours duration, with an additional 10 minutes reading time. There will be a compulsory question in Part A and students will be given a choice of two out of four questions in Part B. All answers are of equal value and should draw - upon lecture, seminar, the reading list and other relevant material from the students' own research. Students are expected to critically engage with the question, the relevant course information and the theoretical literature and provide their own analysis. The best essays will demonstrate both depth and breadth of knowledge pertaining to the question and the unit.

- **Assessment Criteria**

Students are assessed on written communication skills and ability to construct a coherent argument. The student's written work should demonstrate initiative and ingenuity in research and reading, pointed and critical analysis of material, innovative interpretation of evidence, thereby making an insightful contribution to relevant debates, engaging in the values, assumptions and contested meanings contained within sources, and developing abstract or theoretical arguments on the strength of detailed research and interpretation. The writing should be characterised by creativity, style and precision. Grades relate to the standard at which students demonstrate these criteria.

- **Feedback - What, when and how feedback will be provided for this assessment**

Students will receive a grade for their exam, which is based on the assessment criteria. If they require further feedback then they can meet with the lecturer.

4. Other Resources for Students

All lectures and seminars are recorded and will be available within Blackboard for student use. Please note the Business School does not own the system and cannot guarantee that the system will operate or that every class will be recorded. Students should ensure they attend and participate in all classes.

All lectures and seminars are recorded and will be available within Blackboard for student use. Please note the Business School does not own the system and cannot guarantee that the system will operate or that every class will be recorded. Students should ensure they attend and participate in all classes.

Blackboard

Copies of handouts, lecture summaries and other material will be available on Blackboard- the Faculty's online learning service.

Library resources

The University of Sydney library is increasingly concentrating on providing online resources for students. Students are encouraged to contact the library directly for more detailed information about these sources (<http://www.library.usyd.edu.au/>) but the following resources are useful for this course.

a. Catalogue Searching on the Web

You can search the library's holdings of books, photocopies and journals online. URL:
<http://opac.library.usyd.edu.au/screens/opacmenu.html> Search results can be exported using email.

b. Database searches

You can also access a number of databases, increasingly with full text facilities, through the University system. To access the databases go to <http://www.library.usyd.edu.au/Databases>. The library provides a number of introductory and more advanced sessions on database searching. For this course there are three databases which are very useful: Expanded Academic Index, Business Source Premier and JSTOR.

c. Newspaper Archives

Students are encouraged to make use of various newspapers available through the Library such as the New York Times, Times (London), Chicago Tribune.

Readings

From 2015 the reading list should be made available on your Blackboard site

5. Unit Schedule

| Week | List of Topics | Assessments Due |
|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|
| 1 12 Sep 2015 | Lectures - Introduction - What is a Co-operative and Mutual? - Historical Perspectives No Seminar | Seminar Participation Weekly |
| 2 19 Sep 2015 | Lectures - What is the current state of play in Australia and Overseas? - The Legal Framework Seminar - What are the factors that have led to the growth and decline of co-operatives? (Discussion) | Seminar Participation Weekly |
| 3 26 Sep 2015 | Lectures - Governance - Raising Capital Seminar - Can the law help or hinder co-operatives and mutuals? (Discussion) | Seminar Participation Weekly |
| 4 10 Oct 2015 | Lectures - Accounting Issues - Managing Labour Seminar - Co-operatives are too difficult to manage (Debate) | Seminar Participation Weekly |
| 5 17 Oct 2015 | Lectures - Co-operatives and Mutuals in a Digital World - Public Policy and Politics Seminar - Starting a Co-operative (Class Exercise) | Industry engagement project - 19 Oct 2015 Seminar Participation Weekly |
| 6 24 Oct 2015 | Lectures - Industry Case Studies - Conclusion Seminar - Co-operatives and Mutuals should not engage in politics (Debate) | Seminar Participation Weekly |

Ben Roach

Regional Centre for Collaborative Business

25 November 2015

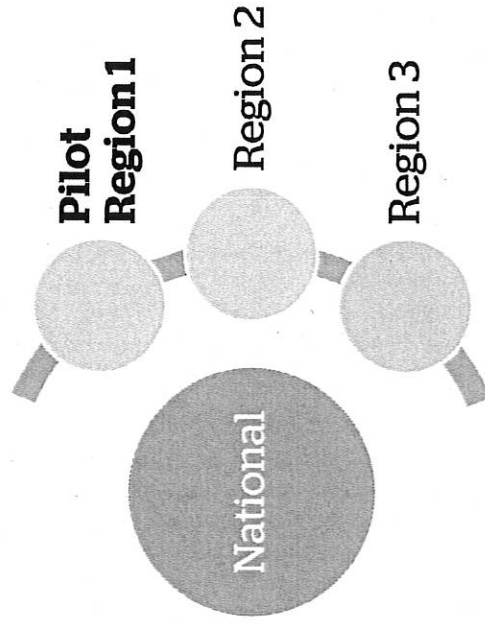


A regional approach to building **collaborative business** in regions by **regions, for farmers by farmers.**



A regional model for a national program

- ▶ **A hub and spoke national program model**
- ▶ **National focus:** enabling structures and drivers. E.g. consistent rules, regulation, legal structures etc.
- ▶ **Regional centres:** link, leverage and grow on-ground activity
- ▶ **Staged approach:** pilot region to develop and evaluate transferable model
- ▶ **Overtime build national network of regional centres**



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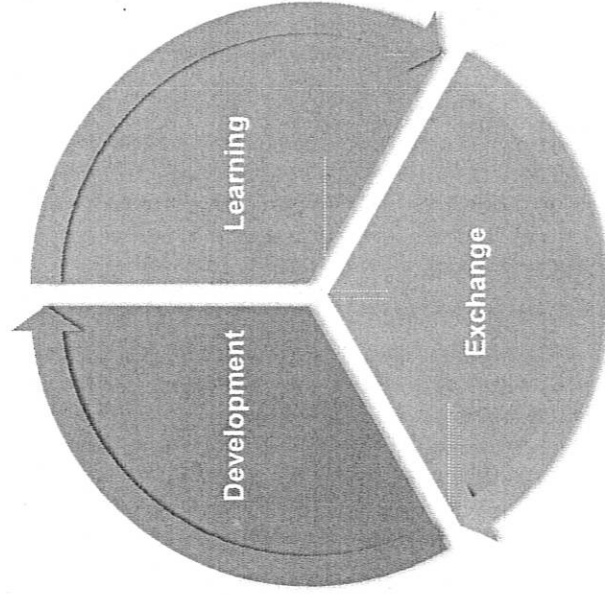
A proposal to establish the pilot centre in the **Northern Rivers**.

Regional Centre for Collaborative Business



Regional Centre for Collaborative Business

- ▶ Partnership between Southern Cross University, the Northern Rivers Cooperatives Alliance and Regional Development Australia - Northern Rivers.
- ▶ Develops knowledge-based solutions to needs identified by co-operatives
- ▶ Fosters exchange, learning and development of collaborative forms of business and enterprise
- ▶ Forms self-supporting regional networks of farmers



Outcomes

- ▶ Increase the numbers of agricultural co-operatives
- ▶ Build capacity in existing collaborative businesses
- ▶ Develop self-supporting networks to connect new and existing collaborative businesses
- ▶ Harness the experience and knowledge of established co-operatives
- ▶ Link to other co-operatives and mutual to support the development of the collaborative business approaches
- ▶ Create on-the-ground tools and resources to address needs of collaborative businesses

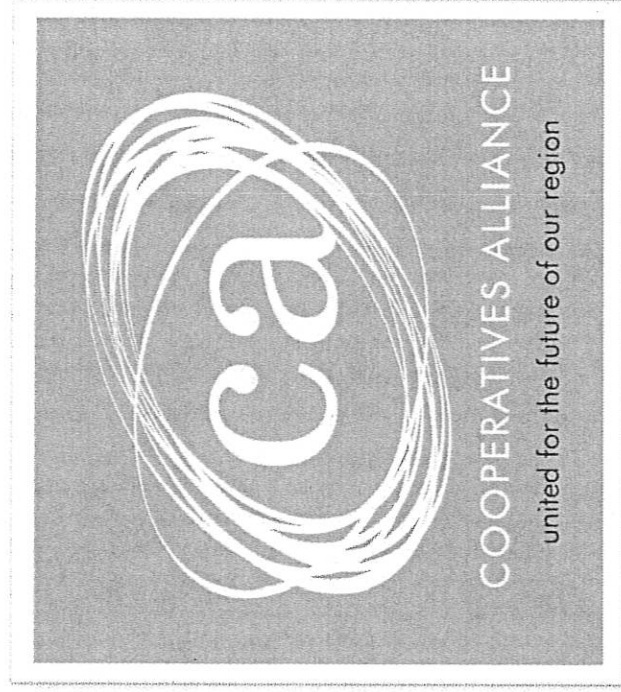
Why the Northern Rivers?

- ▶ **Experience:** home of some of the oldest and most successful agricultural co-operatives in Australia
- ▶ **Networks:** already formed around Northern Rivers Co-operatives Alliance with a strong commitment to act
- ▶ **Reputation:** the Northern Rivers is synonymous with collaborative forms of business, particularly co-operatives and collectives
- ▶ **Partnerships:** knowledge creation and transfer at regional scale that is nationally significant.
- ▶ **Diversity:** the region has a range of collaborative businesses from early phase collective start ups to long established large scale co-operatives



Northern Rivers Cooperatives Alliance

- ▲ Formed in 2014: experience, momentum and partnerships to harness.
- ▲ Founding members: NORCO, Northern Cooperative Meat Company, Summerland Credit Union, NSW Sugar Milling Cooperative, Clarence River Fisherman's Cooperative and Ballina Fisherman's Cooperative
- ▲ Represents: a combined turnover of greater than \$900 million, a membership base of over 28,500 members and employs 2,500 people locally



Drivers: learning, connection and support

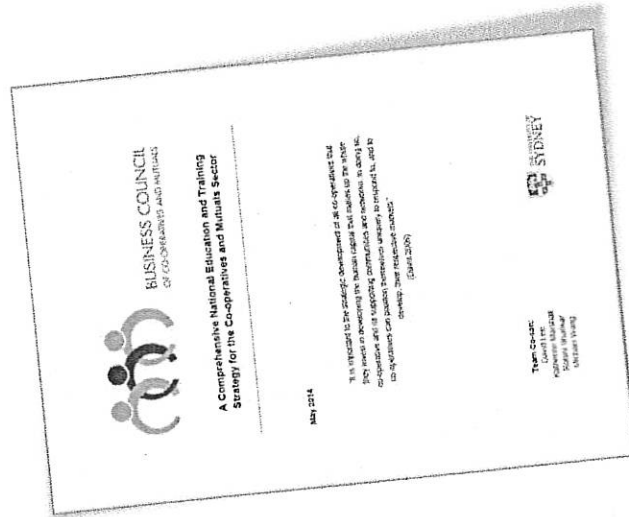
Business Council of Co-operatives and Mutuals (2014) identified education as a critical gap in collaborative business development:

- ▶ Gap in course provision by universities and other providers
- ▶ Specific need to focus on co-operative business philosophy and value
- ▶ Lack of connection with other university activities: research and education



“It is important to the strategic development of all co-operatives that they invest in developing the human capital that makes up the whole co-operative and its supporting communities and networks. In doing so, co-operatives can position themselves uniquely to respond to, and to develop, their respective markets.”

Davis, P. 2006, 'Beyond human resource management in co-operatives', Cross Cultural Management: An International Journal, vol.13, no.1, pp. 69-95.



National needs: activated regionally

Consultations through the scoping of the two year pilot program framework have identified the need to:

- ▶ Better understand opportunities in the supply chain to derive greater value and improved outcomes
- ▶ Develop legal and financial knowledge of collaborative business practices
- ▶ Address regulatory and administrative barriers to registration
- ▶ Access information on legal pathways and management practices
- ▶ Utilise resources and enhanced capacity to consider alternate business models.

Objectives: increased returns to farmers

The proposed Centre would focus on responding to farmer requests for assistance to:

- ▶ Strengthen their financial position
- ▶ Increase investor attractiveness
- ▶ Improve bargaining power
- ▶ Operate beyond the farm gate.

“We are creating a more competitive business environment for a stronger economy and stronger agriculture sector.”

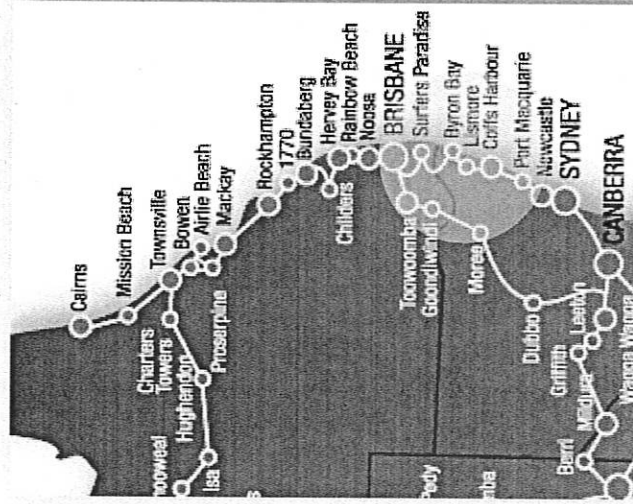
Commonwealth Agricultural Competitiveness Whitepaper 2015



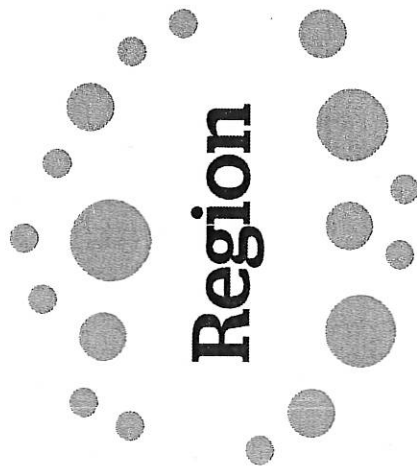
Developing a transferable regional model

The Regional Centre for Collaborative Business will:

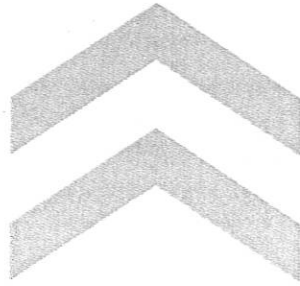
- ▶ Establish proof of concept for a localised distributed model for supporting farmers
- ▶ Situate national priorities and resources with a region's priority needs and strengths
- ▶ Coordinate and connect in-region stakeholders and support mechanisms across all tiers of government, education providers and business.



Approach: harness the region's assets



Experience, needs, assets,
expertise, extension,
research, internship,
networks, education.



Coordinated, place-based,
self-generating,
practice oriented,
farmer centric.

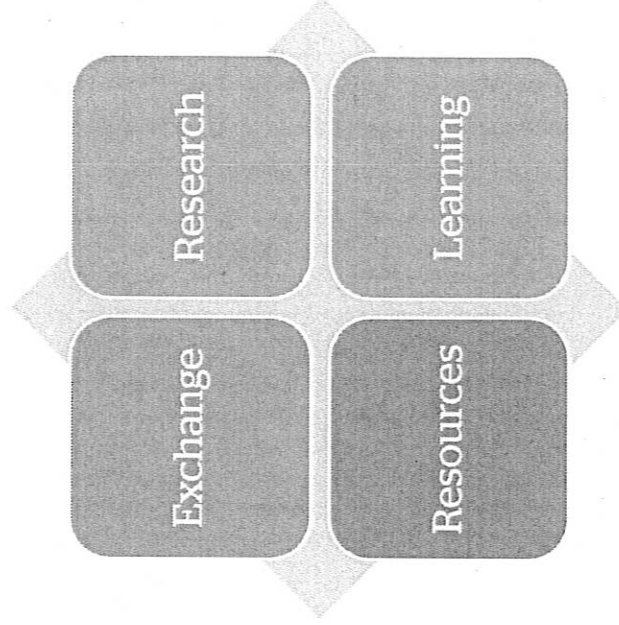


Focus areas: regional centre pilot

| | |
|--------------------------------------|-----------------------------------------------------------------------------------------------------------|
| Awareness & Understanding | <ul style="list-style-type: none">• Merit & Availability• Alternate models |
| Capacity & Networks | <ul style="list-style-type: none">• Supply chain returns• Growth opportunities |
| Expertise & Resources | <ul style="list-style-type: none">• Mentors & advisors• Templates & Guides |
| | |
| | |

Program overview: interconnected streams

- ▶ **Exchange:** regional peer networks, connect to national and international case studies, share expertise, connect existing regional support mechanisms
- ▶ **Research:** identify success factors, critical barriers, priority needs, effectiveness and appropriateness of model
- ▶ **Resources** hub for guides, information and tools for collaborative business
- ▶ **Learning:** learning communities to leverage experience, translate best practice, specialist advisors and mentors.



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Phases of development Regional Centre for Collaborative Business

Phase 1: Needs

- Understand farmer needs & experiences
- Identify critical success factors

Phase 2: Networks

- Form practice-based regional networks
- Connect mentors & specialist advisors

Phase 3: Resources

- Develop resources to meet needs & gaps
- Create learning materials for networks

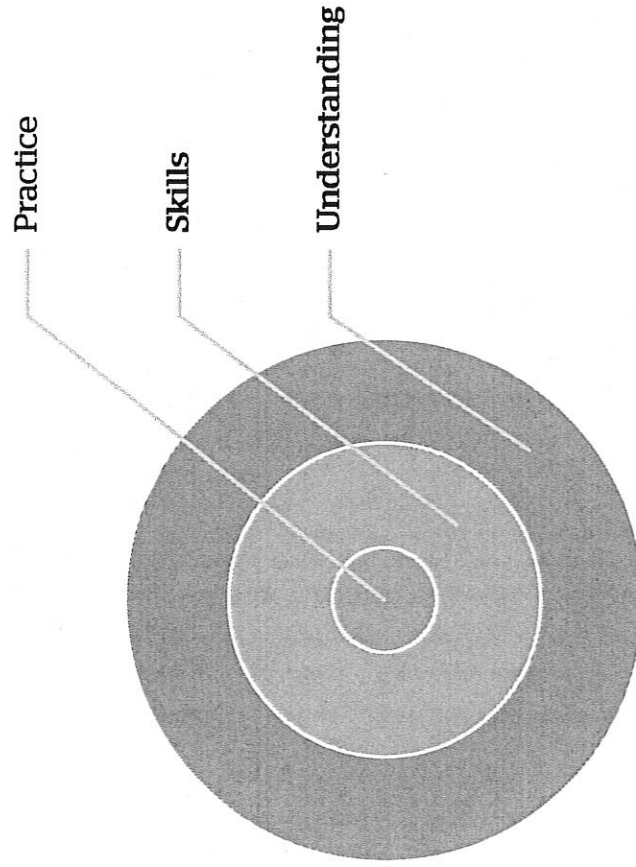
Phase 4: Evaluate

- Evaluate model effectiveness & impact
- Liaise to establish new Regional Centres

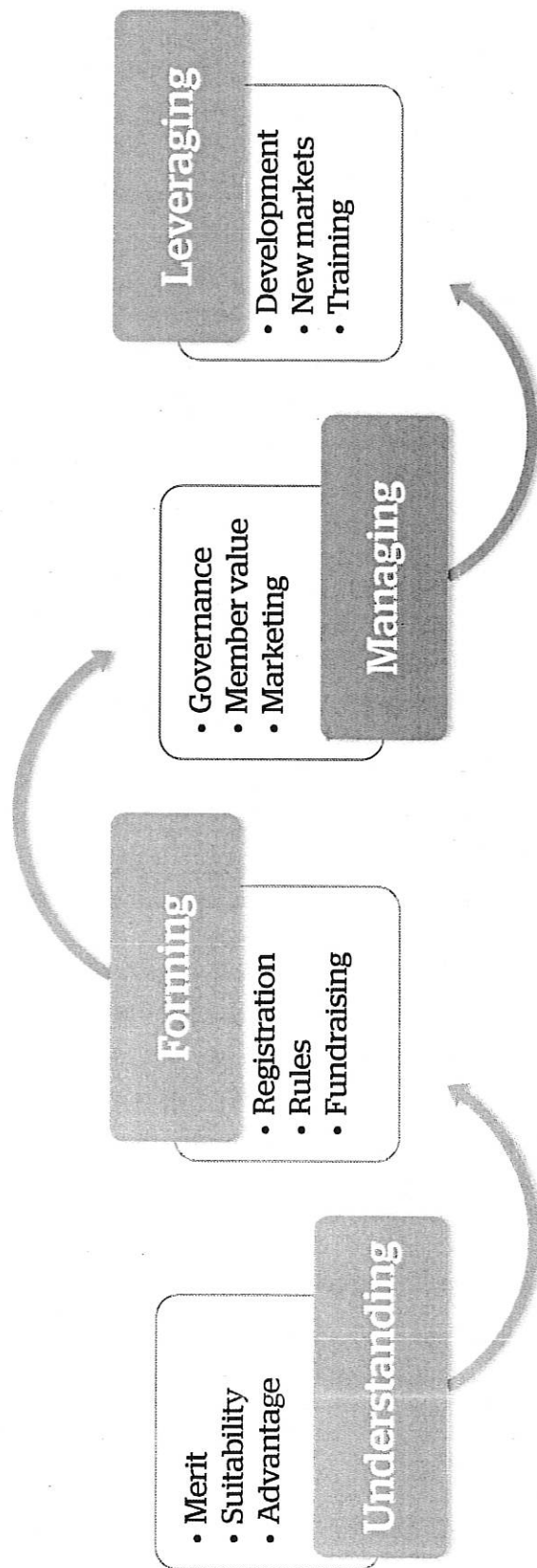
Regional networks: centred on practice

Learning and capacity developed through 'Communities of Practice' methodologies:

- ▶ Social and experiential learning
- ▶ On farm and in situ application
- ▶ Multiple entry points: interested (increase understanding) through to very experienced (refine and share practice)
- ▶ Networks self supporting
- ▶ As learning and capacity increases farmers move towards the centre of the community of practice



Supporting all phases of the Collaborative Business Lifecycle



Establishment funding Regional Centre for Collaborative Business

| | |
|---------------------------|-----------|
| Phase 1 - needs | \$200,000 |
| Phase 2 - networks | \$540,000 |
| Phase 3 - resources | \$460,000 |
| Phase 4 - evaluate | \$280,000 |
| Staffing & administration | \$480,000 |

Total funding required: \$1.96M



Return on Investment: funding outcomes

- ▶ Series of research reports to inform collaborative business development focused on regional Australia
- ▶ Guides and education materials to support the development of practice-based regional networks
- ▶ Establishment and evaluation of a place-based regional centre model
- ▶ Dedicated access for farmers to specialist advisors and mentors
- ▶ Knowledge exchange within and beyond region to farmers
- ▶ Profile and understanding of the role and value of alternate business models



Contact

Ben Roche

Head

Sustainability, Partnerships and Community Engagement
Southern Cross University

(02) 6620 3150 or ben.roche@scu.edu.au





Co-operatives WA
Suite 1, Peer House
2 Canning Highway
South Perth WA 6151
Phone: (08) 9368 5155
Fax: (08) 9368 5680
ABN 36 154 246 364
info@cooperativeswa.coop
www.cooperativeswa.coop

24 November 2015

By Email kevin.hogan.mp@aph.gov.au

Mr K Hogan MP
Member for Page
Parliament House
CANBERRA ACT 2600

Dear Mr Hogan

We refer to your joint letter with The Hon Barnaby Joyce, inviting feedback on the Government's Agricultural Competitiveness White Paper \$13.8 million initiative.

Co-operatives WA congratulates the Minister for securing this funding and looks forward to seeing outcomes that deliver benefits to primary producers across Australia. We also appreciate the opportunity to comment on the draft programme framework.

We endorse many of the findings of the consultations to-date. They mostly reflect our experience and observations as a state peak industry body.

We support the concept of the programme being "catalytic". However, the qualification we attach to our support is that the programme must be aligned with the incubator period for new business concepts and practices to be embraced at the primary producer level. We understand the White Paper outcome to be a trial over 2 years which we believe to be incongruous with the desired and expected deliverables from the not insignificant government funding.

The initial consultation findings have identified a dearth of professional knowledge and/or experience in the advisory sector as a key inhibiting feature of the sector. That combined with individual circumstances and the need to engage more widely than in the case of a sole trader or Pty Ltd entity, unavoidably leads to a more time consuming business planning and decision making process. We are therefore concerned that the framework appears to be focused on exhausting the budget within a 2 year timeline, whereas producer engagement is unlikely to manifest until late in trial period and then increase in the 12 to 18 months following that.

We believe a critical component to achieving the desired economic, and political, outcome from the funding allocation is to ensure "catalytic" support is available when it will deliver maximum benefit to the intended beneficiaries.

We see a definite risk in the draft framework of there being a timing mismatch/disconnect between capacity building within the advisory sector and the readiness of producer businesses with whom they need to engage.

The programme needs to recognise, and accommodate, the lag time from education to the application of that newly acquired knowledge. The advisory sector will potentially up-skill but will quickly redirect resources if their service offering languishes due to mismatched timing.

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There is clearly a need to deliver long-term legacy benefits from the programme. However the programme delivery principles appear to be approaching matters from a terminal perspective over a relatively short window of activity. This approach will make measuring the benefits delivered from the budget outlay more difficult.

There is a real risk, due to mismatched timing and the relatively short window of the trial, that primary producers will not be the major beneficiaries of the programme.

In our view, that risk can be mitigated.

First, the designers of the programme need to understand fully and allow for a longer gestation period for innovation and change to what they would experience in other business environments.

Second, funding should be applied based on merit and economic return and not simply spent according to the government's budget cycle.

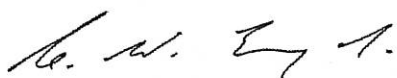
Third, credible industry sector custodians need to be identified, empowered and resourced to exploit, post the trial, all IP created from public money.

We look forward to the roll out of the programme.

Co-operatives WA is recognised in Western Australia for its on-the-ground support of the co-operative business model. We are member based and can act as a conduit into very successful local co-operatives. As a full member of the Business Council of Co-operatives and Mutuals we direct matters that come to our attention with a national footprint to the BCCM, working with them as the sector's national body.

Please keep us on the distribution list for up-dates and announcements. If more convenient we are happy to receive emails to admin@cooperativeswa.coop

Yours sincerely



Chris Enright
Chairman

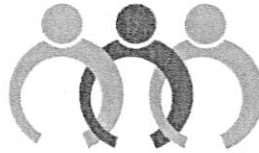
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BUSINESS COUNCIL
OF CO-OPERATIVES AND MUTUALS

Mr K Hogan MP
Member for Page
Parliament House
CANBERRA ACT 2600
By email to peter.weekes@aph.gov.au

Dear Mr Hogan,

I refer to your joint letter with The Hon Barnaby Joyce, inviting feedback on the Government's Agricultural Competitiveness White Paper \$13.8 million initiative.

The Business Council of Co-operatives and Mutuals congratulates the Minister for securing this funding and looks forward to the outcomes that deliver benefits to primary producers across Australia. The BCCM also wishes to thank you for the opportunity to comment on the Draft Programme Framework.

We endorse the findings of the Agricultural White Paper and strongly support the ambitions of this co-operative development programme. We believe a well designed and implemented programme can help farmers capture more value from the supply chain to reward their hard work, strengthen Australia's family farming base and support the five pillars of the White Paper including: A fairer go for farm businesses; Farming smarter; and Accessing premium markets.

We have welcomed the opportunity to work with Department of Agriculture and RIRDC representatives over the past few months to assist them to design a programme that meets the needs of existing and aspiring groups of farmers who wish to collaborate.

As the peak body for co-operative and mutual enterprises, the BCCM produces the primary mapping research for the sector. The 2015 National Mutual Economy Report shows agriculture co-operatives were the third largest sector of businesses represented in the Australian Top 100 co-operative and mutual firms, after banking and health insurance.

The combined turnover of agricultural co-operatives however was higher than for either of those other categories, showing agriculture co-operatives punch above their weight, in part due to many of Australia's largest agribusinesses being co-operatives.

CBH Group and Murray Goulburn, both members of the BCCM, were in the Top 5 privately owned firms according to the IBIS World 2015 Top 500 list.

The co-operative model is as powerful in helping farmers compete at any level. That's why co-operatives are especially important in the fight to retain the integrity of family farming in Australia. A sustainable, competitive agricultural economy can also be one where family farming can thrive, where domestically owned business can compete and survive alongside multinational interests and where Australian producers have a genuine 'fairer go' to invest in and compete in global markets.

The White Paper recognises the ways that co-operatives and collaborative bargaining can manifest this fairer, balanced, domestically based agricultural economy and the funding secured to enable for Australian producers to gain access to education and training on co-operative models and collaborative bargaining as well as useful information and suitably qualified advisors, is unprecedented.

The BCCM welcomes the opportunity to continue to provide the Government and its advisors with its resources, networks, advice and expertise.

In providing feedback on the draft programme framework we note the feedback which has already been provided by our co-operative sector colleagues. We endorse the feedback provided by Professor Greg Patmore, co-operative lawyers Robyn Donnelly and Jeremy Fisher and co-operative peak body Co-operatives WA.

Please find attached to this letter, our collated feedback on the Draft Programme Framework. We have made comments directly into the Framework document however here follows some general comments. We are happy to expand on these if required.

Yours sincerely



Melina Morrison,
Chief Executive Officer
Business Council of Co-operatives and Mutuals

Draft Programme Framework – General comments and overview:

1. Legacy versus terminating outcomes.

We recommend that the Programme has a stronger balance of activities that deliver legacy outcomes, as many of the activities outlined appear to be terminating. We also suggest the need to clearly outline how the Programme can support 'industry ownership' to help deliver on the legacy goals and for a less 'top down' (by government to farmers) and more 'bottom up' (with farmers, for farmers) approach.

Recommend an industry working group or 'reference committee' is established to steer the development and implementation of the Programme. The BCCM welcomes the opportunity to recommend representatives to a steering group.

2. Levering existing resources and activities.

We recommend clearer articulation in the Framework about how the Programme will leverage existing resources and opportunities to create lasting legacies and mutual ownership of the Programme objectives going forward.

For example the BCCM has an information portal on how to form a co-operative (www.getmutual.coop). The Programme could include an audit of existing resources, courses, and initiatives that could be leveraged. If this work was carried out as part of the current consultation, these resources should be added as an appendix to the draft Programme.

Please see comments and track edits in the attached document for more ideas about how this 'leverage' can occur.

3. Connecting the Programme to White Paper pillars and objectives.

We recommend that the Framework clearly outline how the Programme can deliver the on the objectives of the White Paper to generate lasting resources and deep impact over time. This may have the result of requiring a rethink of the Framework in terms of the order in which activities are rolled out.

For example the consultation process clearly identified the lack of professional expertise along with regulatory barriers that impacted the formation of co-operative business models. The proposal to hold workshops to enable farmer groups to explore ways of collaborating presupposes that there are advisers with sufficient expertise to provide information about the

full range of business models available to support co-operative or collaborative enterprise. If it is accepted that there is a lack of relevant advisers, then perhaps this part of the Programme needs to occur after Stage 2, which seeks to provide training to farm advisers about the business model options.

4. Evaluate the legacy deliverables against the White Paper recommendations.

The Programme should be able to articulate how it will deliver (measure success) against key recommendations in the White Paper including.

“Operating as a two-year pilot from 2015–16, \$13.8 million will be provided to Rural Industries Research and Development Corporation (RIRDC) to work with other Research and Development Corporation’s (RDCs) to develop and deliver training and materials. Where possible, this will complement training available in the Vocational Education and Training (VET) system. Topics could include establishing cooperatives, negotiating with suppliers, attracting external investment and competing more effectively in the supply chain. Farmers will also have access to specialist advisers who can further assist them in putting their plans into practice.

The Framework should also clearly describe its brief from the White Paper by reference to economic indicators like sectors, farm models, regions and demographics, and by referring to RIRDC published works, which would take forward the White Paper’s policy-setting in a meaningful way.

5. Support Federal government reforms to improve the legislative and operating environment for co-operatives.

The BCCM strongly agrees with the need articulated in the Draft Framework to improve the registration process for co-operatives. This is a high priority for a level playing field in Australia for corporations and co-operatives. On this point, the feedback provided by Robyn Donnelly is relevant. The current Senate inquiry into co-operatives, mutuals and member owned firms will hand down recommendations on the legislative barriers for co-operatives that will be relevant to this Programme.

Recommend adopting the recommendations of Mrs Robyn Donnelly to place pressure on State and Territory registrars to adopt consistent registration processes via the COAG process; and adopt and implement relevant recommendations in the final report of the Senate Inquiry into Co-operatives, Mutuals and Member-owned Firms (hand-down in March 2016).

6. Address systemic barriers to collaboration not limited to legislation, including capital needs.

We recommend that the Framework should also look at ways to leverage investment (eg from superannuation funds and other investors) to increase investment in agriculture and leverage the collective bargaining activity of co-operatives and other models. Working with industry task force representatives the Programme could provide opportunities to bring innovative capital raising to the sector.

7. Include more definition of the problem and define 'indicators of success'.

The objectives of the Programme are sensible aspirations but could be supported by clearer definitions for actions and measurement. The Programme is about business performance, competition and the value chain and therefore 'barriers' as a meaningful target of the Programme could be unpacked and addressed more. This could help provide clarity around Programme elements like objectives, outputs, outcomes, inputs, processes, and indicators of success.

8. Establish the benchmark metrics and Programme accountability

The Draft Framework does not have metrics for either costs or success, although this might be to come in the final draft.

The final draft should set out timeframes, budgets and costs (at least indicative or proportional allocations). Direct and indirect costs, overhead and variable costs would need to be indicated. Equally important is the process for accounting for funds, procurement/tendering rules and protocols for participation; and evaluation, improvement and distilling and dissemination of lessons learned.

**Agricultural Competitiveness White Paper
Co-operatives and Innovative Business Models
Pilot Initiative**

Collaboration, Co-operatives, Collectives

-- Draft Program Framework --

Context

In July 2015 the Government released the Agricultural Competitiveness White Paper (White Paper), to help build stronger farmers and a stronger Australian economy. The White Paper outlines the commitments and initiatives of the Australian Government to the agricultural sector over coming years.

A component of the White Paper is a two year pilot program with a budget of \$13.8 million to provide farmers with knowledge and materials on co-operatives, collective bargaining and innovative business models. This comes in response to farmers' requests for more information to assist them in strengthening their financial position, be more attractive to investors, improve their bargaining power, and operate beyond the farm gate.

Proposed Program Objectives:

To position farmers to increase returns through collaboration by:

- Increasing awareness and understanding of the availability and relative merits of a range of collaborative and innovative business approaches for primary industries (including approaches such as co-operatives and collective bargaining)
- Increasing understanding of opportunities for realising greater returns along the supply chain
- Enhancing the availability of resources, expertise and the operating environment for co-operatives, collaborative bargaining and innovative business approaches suitable for primary industries.

Comment [MH1]: Collective bargaining is a method of action not an organisational solution. Individuals and organisations bargain including co-operatives. When co-operatives were formed in the US they saw their role to collectively bargain on behalf of members. Collective bargaining is an adhoc method built around a particular issue and not a permanent solution.

Comment [MH2]: The White Paper says "Farmers are asking for more information about cooperatives and other innovative business models to assist them to strengthen their financial position, be more attractive to investors, improve their bargaining position and operate beyond the farm gate. The Government will provide farmers with knowledge and materials on cooperatives, collective bargaining and innovative business models.

Consultation Findings

Consultations to date with existing co-operatives, farmers and other relevant stakeholders have identified several barriers that are preventing farmers' adoption of certain business models and strategies including:

- a lack of understanding of opportunities in the supply chain for farmers to derive greater value and improved outcomes
- a lack of legal and financial knowledge of co-operative and collective bargaining practices among farmers and advisers
- regulatory and administrative barriers to registering alternative business models
- a lack of information about the legal pathways to, financing and management requirements of, alternative business practices
- a lack of resources and capacity to consider alternative business models
- chronic lack of education and training about co-operative business models (secondary, tertiary and VET).
- lack of access to start-up capital, working capital, seed funding and advice on alternative funding models.

There is an opportunity for the government to play a catalytic role through this program to address these barriers.

There is an opportunity for the co-operative/collaborative businesses sector to play a catalytic role through supporting this program to accept carriage and stewardship beyond the pilot window.

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Comment [MH3]: - more inclusion of co-operatives in secondary and tertiary education would benefit farmers and Australians generally.

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Comment [MH4]: This is good – so how can the programme also be catalytic ie produce legacy not terminal outcomes?

Proposed Program Overview

Collaboration, Cooperatives, Collectives

Proposed Program Delivery Principles

The principles underpinning the design and operation of the program are:

- each farmer group has its own unique set of attributes, needs and goals, and as such, farmers will
- The systemic barriers to establishing and financing co-operative and collaborative ventures will be addressed to ensure farmers have the best opportunity to succeed in their collaboration have the flexibility to consider and choose from a range of business options to determine the approach that best suit their needs
- activities are intended to be catalytic in nature, leverage off existing resources and industry initiatives and aim to generate legacy benefits beyond the life of the pilot program
- the program is government enabled, industry owned to create a legacy motivation.
- the government itself will not be providing advice under the program; any advice funded under the program is a transaction between the farmer/s and the relevant adviser.
-
- advisers and trainers to be selected on a combination of skill and commitment to providing realistically priced services beyond the pilot program
- program funded IP in information, systems, data files, websites and the like that vests in RIRDC and/or DAFF to be transferred to an industry body/s

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Comment [MH5]: Need more detail demonstrating what legacy benefits will be or can be expected. Program elements 1-3 appear to be terminal. Element 4 will essentially happen through the CNL.

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Comment [MH6]: Eg of a legacy outcome.

Comment [MH7]: Important there is a legacy outcome. Need to protect against advisers and trainers extracting fees from the program and not being around for the longer term.

Comment [MH8]: Eg of a legacy outcome.

Comment [MH9]: Things need to carry on beyond the pilot. The demand will extend beyond 2 years. Not realistic to expect everything to be done in 24 months. This is where industry could be asked to co-invest.

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1) Farmer Extension - *empowering farmers through collaboration*

Workshops for farmer groups to explore ways to capture beyond farm gate opportunities. Expertise and advice brought to regional areas to discuss ideas and options. Customised.

Short courses for industries and regions to help farmers achieve better outcomes (e.g. negotiation tactics and how to position with different suppliers or markets)

Dedicated people who can link farmers with relevant advisors, information and other farmers who can share experiences

Customised resources and decision support tools for farmers

2) Advisory Training Roadshow - *laying foundations for the future*

Farm advisors in regional areas will be helped to upskill and better able to provide information on the different options for farmer groups.

3) Enabling Action - *achieving benefits for farmers*

For farmer groups to help make improvements to business approaches to help capture on farm benefits:

- Access expertise
- Develop business plan/ legal agreements
- Engage people with skills to keep momentum going
- Analysis on particular options and explore costs and requirements for these options

4) Nationally consistent operating environment *for farm businesses*

Policy leadership to promote national consistency for collaborative businesses (eg consistent regulatory processes and guides, a single co-op registry)

Description of the Proposed Program Elements

It is proposed that the program comprises the following four key strategies to achieve its objectives:

1. Farmer Extension

Farmers will be provided with opportunities to explore the supply chain and co-operatives, collaborative bargaining and innovative business models and capital raising -through customised workshops, training and advice sessions delivered locally by qualified professionals. Quality, primary production-focussed information and resources will be developed to underpin extension activities, and dedicated people will be available to help farmers link with relevant advisors, information and other farmers who can share their experiences.

2. Advisory Training Roadshow

Farm advisors in regional areas will be helped to update their knowledge and skills of collaborative and innovative business models to ensure they are better able to provide information and advice on different business options, and different capital raising options -to farmers locally.

3. Enabling Action

Farmer groups will have access to grant funding to help them take positive action toward capturing greater supply chain value by accessing the required skills and expertise to further consider their business options or adopt their preferred business strategy. Selection of the grant recipients will give due consideration to the program catalysing working examples that can provide exemplars in a range of agriculture sectors and situations (eg horticulture, meat, fishery, region-wide labelling, marketing and trade facilitation, processing, packaging and handling, farm improvement) and are likely to succeed groups, for example they have an existing ecosystem of support.

4. Nationally Consistent Operating Environment

The Commonwealth will continue to work in partnership with the states and territories and with peak bodies -to pursue nationally consistent regulations and approaches that are easy to understand and apply. The

Senate inquiry into cooperatives, mutuals and member-owned firms will hand down its report in March 2016 including recommendations on the implementation of the Co-operatives National Law regime and uniform regulatory guides.

5. Tested Legacy Platform

Pilot program will have long lasting presence through refined/proven platform for ongoing planning and industry innovation.

Distributed model, sharing IP created in practice during the program with relevant industry bodies, education and training bodies for ongoing planning and industry innovation.

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Comment [MH10]: Chance for Minister to have long term involvement with success flowing from the pilot.

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1 Farmer Extension - Customised, locally delivered workshops and advice

Possible Scenarios

- A group of farmers is interested in finding out more about what options are available to them to collaborate to reduce the costs of business inputs. Having successfully applied to participate in the workshop process, a facilitator (in conjunction with relevant advisers and industry representatives) would step the group through an initial workshop where together they explore their supply chain and opportunities for capturing greater value, including through collective purchasing of inputs. Their strategy is refined and a range of business models are discussed and their suitability for the group's purposes and preferences are examined.

The group is provided several weeks to consider and discuss the options presented, during which time professional advisors visit the farmers' region to offer individual advice to farmers interested in better understanding the implications for their business. The advisor seeks to put the farmers in touch with other like groups which may be more advanced in their collaborative venture, to share industry knowledge and IP.

After considering their individual circumstances, the group comes back together with the facilitator to explore whether there is a clear option that they support further pursuing. An action plan is developed to map out what actions are required to progress adoption of the business strategy, including a business feasibility study and the provision of legal advice to establish the business structure, and the provision of finance advice to establish the finance options. The group applies for an enabling grant to implement these actions and progress the adoption of their preferred strategy.

- The Australian Carob Industry is working to create a product that will put it on the world map as a primary health product (low sugar, insulin regulating), but currently has no coordination to manufacture the product at a world scale. While the industry association can see the benefit of a coordinated and collaborative approach, it doesn't have the capacity to assist interested growers into a coordinated operation, either in regions or nationally. The workshop process could assist interested growers to explore and decide on what is the best collaborative model to make the manufactured product a success, and expedite action to ensure opportunities for capturing market value are realised sooner.
- An established group is considering setting up a collaborative business model for the co-ordinated supply of its product. Their preferred business approach is explored through the workshop process, and evaluated against other business options. The supply chain is also examined to identify if there are further opportunities for capturing value not yet considered by the group. Having confirmed their preferred business approach as a group, and considered the implications on their individual businesses through the advice sessions, the group is confident in moving forward with a shared goal and is able to mobilise action more quickly.

1.2 Farmer Extension - Targeted Short Courses

Possible Scenarios

- The dairy industry has identified that it has a number of members who could benefit from a short course in negotiation skills to improve their ability to capture value in transactions with suppliers and buyers. Dairy Australia submits an expression of interest to deliver negotiation training to a specified number of dairy farmers. Dairy Australia organise the venue and attracts the farmer participants. A training provider would be sourced by a government agency and arrangements made for them to deliver in locations specified by Dairy Australia.
- An established grain growers' co-operative has identified the need to improve governance processes within the co-operative. The co-operative submits an expression of interest. The co-operative arranges venue and attracts participants for the course. A government agency will contract the service provider and arrange for them to deliver the course in required location.
- Several farmer groups in new and emerging industries have identified a need to develop leadership skills among members. A government agency would coordinate and organise the delivery of this cross-sectoral training.

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1.3 Farmer Extension - Dedicated People

Possible Scenarios

- A group of farmers is interested in finding out more about the program. They phone the provided 1800 number and the broker provides them with information about alternative business models and available assistance. The broker organises for an advisor and some farmers who have explored or adopted similar models to speak at a meeting of the farmer group.
- A group of farmers have a need for specific training in negotiation skills. The broker links the group with a relevant training provider to deliver the training.
- The broker would attend industry field days to promote the availability of collaborative business models and assistance under the program to farmers, advisers and educators.

1.4 Farmer Extension - Foundation Resources

Possible Scenarios

- A farmer becomes aware of the program and opportunities for collaboration following a conversation with a dedicated collaboration broker at the local field day. He is provided the website address, and he and other members of his farming group access a range of information on collaborative business approaches and assistance under the program at their own time and convenience. The farmers are able to consider the information to enable a more informed discussion to be held at their next meeting.
- A farm adviser wishes to learn more about how other groups have benefitted from collaborative business approaches before meeting with a local group he is working with. He accesses the portal and finds a range of factual information and case studies, as well as a factorial matrix and checklists that he can work through with the local farming group.

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2. Advisory Training Roadshow

Possible Scenarios

- Dedicated collaboration brokers in each state talk to local advisers and gauge interest in the professional development workshops. The brokers assist in the scheduling of workshops to match supply with demand.
- Local legal and accounting advisers come together with industry representatives and farmers drawn from an Australia-wide resource pool who have experienced in seeking advice on establishing collaborative business models for a facilitated workshop discussion to share information and ideas, and highlight service and expertise gaps experienced by farmers.
- An online community of practice may be established to enable advisers to ask questions and seek information from their peers in relation to collaborative business strategies for farmers. Existing information portals might be leveraged.

Comment [MH11]: Dot point 2: Also note the need to draw on the widest possible resource. The greatest benefit from "cross fertilisation" of new ideas is likely to come from outside the immediate local area. Within agricultural industries local ideas and experiences are usually well known. The need is more likely for ideas experiences and information from further afield. The further removed, geographically, greater openness and sharing would be expected with less likelihood of information being withheld in fear of losing an advantage in a highly competitive marketplace. Need to go to the best resource not the cheapest/lowest cost so a travel budget should be put in place.

3. Enabling Action

Possible Scenarios

- A group of farmers have completed the workshop process and decided to progress to the next stage of exploring the formation of a farmer co-operative. Using the action plan developed through the workshop process, the farmer group applies for a grant to undertake a feasibility study for the proposed co-operative and obtain legal advice regarding its formation and governance structures.
- An established co-operative undertakes the facilitated workshop process and identifies a further market opportunity in their supply chain. The grant is used to obtain a detailed supply chain and market analysis.
- Through the workshop process, a group of farmers have agreed to collectively bargain for the supply of their produce. They use the grant to employ a skilled negotiator to negotiate contract arrangements on their behalf.

4. Nationally Consistent Operating Environment

Possible Scenarios

- The Commonwealth engages a consultant to develop national regulatory guidance material and administrative processes for the registration of co-operatives in each state and territory. This will ensure a more efficient registration process for co-operatives operating in more than one jurisdiction, saving co-operative businesses time and money.
- Depending on the outcomes of the senate inquiry, the Minister may consult with other federal and state government ministers (with responsibility for taxation, corporations law, industry, and consumer protection - Australian Consumer Law) and seek to influence policy and approaches that are currently resulting in impediments to the efficient operation of collective and co-operative business models.
- The Minister may seek to influence a particular policy outcome through relevant forums to improve the operating environment for co-operatives (e.g. the establishment of a single register of co-operatives).

5. Tested Legacy Platform

Possible Scenarios

- Program funded IP in information, systems, data files, websites and the like relating to co-operative, mutual or collaborative business models that vests in RIRDC and/or DAFF to be transferred to relevant peak/NFP/advocacy body/s with at least three years realistic care and maintenance funding (BCCM, Law Society, CPA).
- National Farmers' Federation to oversee/monitor/report to industry on professional adviser and trainer activity for three years beyond the pilot program.

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25th November 2015

The Hon. Barnaby Joyce MP
Minister for Agriculture & Water Resources
PO Box 963
Tamworth NSW 2340

RECEIVED
02 DEC 2015

BY: EO

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RECEIVED
7 DEC 2015
Minister for Agriculture

Dear Minister,

I refer to your recent letter in which you seek input into the proposed program to improve the ability of farmers to work collaboratively.

As you are aware NCMC is an established Co-operative which has long advocated the advantages of Co-operatives and collaborative business models for agriculture.

I attended the RIRDC Roundtable on Co-operatives and Innovative Business Models in Canberra in August this year where the participants discussed issues relating to developing a framework for a program. The draft program as received, captures the basic sentiments expressed and is listed in page 3 of the document. I did appreciate the opportunity to attend this Roundtable which has the potential to shape the way the agricultural community engages well into the future, in a collaborative sense to achieve improvements in on-farm productivity and sustainability within their own businesses. I stated at the Roundtable workshop that the program should be multi-faceted in that it addresses the benefits of the Co-operative business model, removes the road block to establishing a Co-operative, promotes a cross Departmental approach, and targets meaningful on-ground projects that are aimed at promoting the benefits of collaborative business models and which ultimately supports the core needs of agriculture – Productivity, Capacity, Profitability and Sustainability.

We at NCMC believe that:

- Co-operatives offer their members scale with processing/marketing their product. It does not need to be vertically integrated but can offer similar benefits to a collaborative group with common vision;
- Co-operatives have a definite community focus;
- Co-operatives offer a real opportunity to drive change in their members' businesses;
- Co-operatives have a vested interest in improving the capacity of their members' on-farm capacity and can incentivize this process;
- Co-operatives are in a position to offer collective bargaining outcomes for member discounts on farm inputs;
- It is in the interest of Co-operatives that members be positioned to accept and adopt innovation/research that will improve productivity and sustainability. Co-operatives would then drive education/extension programs.

In light of the above we joined with 5 other Co-operatives (NORCO, NSW Sugar Growers Co-op, Ballina and Maclean Fisherman's Co-ops and the Summerland Credit Union) in the northern rivers region to establish the "Co-op Alliance". The Co-op Alliance has a shared vision of improving the profitability of our members own businesses, to create employment opportunities in our region and, to address infrastructure requirements to allow for business development and growth.

NORTHERN CO-OPERATIVE MEAT COMPANY LTD
ABN: 42 060 208 366
Phone: (02) 6662 2444

10615 SUMMERLAND WAY
PO Box 379
CASINO NSW 2470 (AUSTRALIA)
www.ncmc-co.com.au



People, Service, Community

Over the past 12 months the Co-op Alliance members with the assistance of Southern Cross University and Northern Rivers Regional Development Australia have been developing a project to address these issues and which consequently fall in line with the Draft Program Framework. We believe that this submission which is initially a locally based hub, but can be replicated throughout regional Australia, will meet the objectives and deliver measurable outcomes.

I believe we are to meet with Kevin Hogan and your Chief of Staff to present this project for your consideration; the Co-op Alliance would welcome the opportunity to discuss this project and to explore the potential for a national footprint.

Thank you for your letter and the invitation to add comment on what could be and should be a new era in the Australian agricultural sector where farmers (especially family farming units) work together for a common outcome.

I trust this has been of assistance and would be pleased to address any queries you may have on these matters.

Yours Sincerely,

John Seccombe
Chairman of the Board

cc Kevin Hogan



BUSINESS COUNCIL
OF CO-OPERATIVES AND MUTUALS

Mr Simon Stahl
CEO Northern Cooperative Meat Company
10615 Summerland Way
Cassino NSW 2470

Dear Simon

It gives me great pleasure to write to you on behalf of the Business Council of Co-operatives and Mutuals to congratulate you on the proposal for the **Regional Centre for Collaborative Business** which you have been working on with the members of the Northern Rivers Cooperatives Alliance, Southern Cross University and Regional Development Australia - Northern Rivers NSW.

The Council wishes to extend its full support for the project and endorsement of its key objectives.

In responding to the critical gap in collaborative business development identified in the BCCM's needs audit – that of education and the holistic development of human capital, the proposal for a centre of excellence and learning is an exciting opportunity to respond directly to the issues raised in the Commonwealth Agricultural Competitiveness White Paper (2015) including the need for farmers' to use collaboration to derive greater value and improve outcomes from the supply chain.

If proof of concept funding is achieved, the proposed place-based centres model, which could be replicated in other regions, would also ensure a local approach to national needs for a bottom up rather than top down delivery model which is more sustainable and effective over time.

As your partnership shows, the Northern Rivers region is a stronghold of co-operative business and your proposal harnesses the knowledge and experience of established co-operatives in the region. The partnership approach to this proposal is a first-class example of self-help, collaboration, private sector co-investment and co-operative values and the Council looks forward to the opportunity to assist with links to other co-operatives and mutuals to support the development of the collaborative business models and in any other way.

Yours sincerely,

Melina Morrison
Chief Executive Officer
26th November 2015



National Centre for **Collaborative Enterprise**

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Proposal to establish the National Centre for Collaborative Enterprise

Overview

This paper details the proposed National Centre for Collaborative Enterprise (NCCE) to be hosted by Southern Cross University in partnership with the Northern Rivers Cooperatives Alliance and Regional Development Australia – Northern Rivers. It will be a flagship partnership between the Australian Government, universities, regional development agencies and importantly, farmers. The proposal outlines a four year program of funded activity that will result in the establishment of a strong national entity, effective programs and coordinated delivery mechanisms.

The NCCE would be based in regional Australia, yet achieve national consistency by harnessing key national networks: the Regional Universities Network (69 campuses and learning centres across all states except Tasmania) and the Regional Development Australia network (55 regions across all states and territories). This national reach would be further strengthened through program-level strategic partnerships with key industry and professional associations, research organisations, education providers and representative bodies.

A key foundation of the NCCE is that it is driven by farmers in collaborative agricultural enterprises and enabled through a long held strategic partnership between a leading regional university and regional development agency. It draws on the significant experience of collaborative farming and enterprise in the Northern Rivers region.

Objectives

The NCCE aligns directly with the Agricultural Competitiveness Whitepaper to equip farmers to increase returns through collaboration by:

- Increasing awareness and understanding of the appropriateness of collaborative and innovative business approaches for primary industries;
- Increasing understanding of opportunities for realising greater returns along the supply chain;
- Enhancing the availability of resources, expertise and the operating environment for collaborative and innovative business approaches suitable for primary industries.

Responding to national needs

Scoping consultations for the two-year pilot program identified the need to:

- Better understand opportunities in the supply chain to derive greater value and improved outcomes;
- Develop legal and financial knowledge of collaborative business practices;
- Address regulatory and administrative barriers to registration;
- Access information on legal pathways and management practices;
- Utilise resources and enhanced capacity to consider alternate business models.

Business Council of Co-operatives and Mutuals (2014) identified education as a critical gap in collaborative enterprise development, it specifically identified a:

- Gap in appropriate course provision by universities and other education providers;
- Specific need to focus on cooperative business philosophy and value in order to build culture and leadership;
- Strong potential to leverage other university activities, particularly student oriented professional practice and collaborative research.

The NCCE would focus on strategically responding to farmer requests for assistance to:

- Strengthen their financial position;
- Increase investor attractiveness;
- Improve bargaining power;
- Operate beyond the farm gate.

Core principles

Underpinning the strategic approach of the NCCE are a set of core guiding principles:

- **Farmer centred:** ensure current farmers will have a strong voice in all activities from NCCE governance to program delivery mechanisms;
- **Strengths-based:** leverage significant experience, knowledge and insight that exists in the Australian agricultural community around collaborative approaches to farming;
- **Collaborative and resilient:** encourage alliances and networks in order to build resilience, sustainability and longevity;
- **Flexible:** ensure multiple pathways for support and assistance are available and appropriate to all stages of the collaborative enterprise lifecycle;
- **Coordinated:** facilitate ease of access and interface with all activities to ensure appropriate uptake, support and impact.

Deliverables

Over four years the NCCE will:

- Establish strong national awareness and profile for collaborative approaches to agriculture in Australia;
- Increase the volume and capacity of collaborative enterprise activity in the Australian agriculture sector;
- Increase the understanding, knowledge and evidence-based practice of farmers in a range of collaborative enterprise activities;
- Develop a comprehensive set of practice-based education tools and resources that address identified learning needs;
- Grow the development of alliances and networks between farmers, universities and regional development agencies for long-term impact;
- Create evidence-based reports, fact sheets and templates for use by farmers, advisory services and policy makers.

Program streams

Through a mix of grants focused on collaborative activities on farm to targeted upskilling, expertise and advisory support; the NCCE strategy is focused on forming, enabling and equipping collaborative agricultural enterprises at all stages of development: from assessing suitability and merits of specific business models through to specific expert intervention focused on removing impediments to further expansion of established cooperative businesses.

The legacy of the funding will be achieved through an emphasis across all funded activities on farmer centred partnerships that build productivity and resilience through greater connection, networking and alliance. Funding interventions will be catalytic not operational, to activate ongoing support mechanisms for the growing number of collaborative agricultural enterprises.

The strategic emphasis is on addressing immediate needs for information, expertise and support whilst seeding a more connected and linked system of collaborative enterprise in the agricultural sector. The strategy focuses on supporting the development of materials and structures that underpin ongoing support, by farmers, farm services and their partners.

The NCCE would achieve its stated outcomes through a strategy comprising four streams:

- Developing business acumen;
- Growing skills and capacity;
- Supporting continuous improvement;
- Facilitating knowledge exchange and development.



All streams will be underpinned by an overarching administration and coordination function which will be driven by a collaboration between the University and industry to ensure ongoing industry relevant outcomes are delivered. A detailed overview of all program activities, key outcomes and associated budget is at Appendix A.

Developing business acumen

Increasing the understanding of the merit and value of collaborative enterprise models for primary producers is a critical element of this stream. Farmers across the collaborative enterprise lifecycle need access to dedicated information, expertise and support. This assistance needs to be flexible and harness the existing strengths in Australia, particularly in agricultural co-operatives. Farmers need the flexibility to access relevant expertise or self-organise within their alliances and networks to access grants to fund required specialist assistance.

Program activities will include:

- Development of a set of 'industry best practice' tools for use by advisors and mentors;
- Dedicated specialist advisory service;
- Structured mentoring program;
- Farmer identified extension projects;
- Industry advisory program;
- Targeted funding for expert assistance.

Growing skills and capacity

Education and training has been repeatedly identified as critical to the longer term development of collaborative agricultural enterprise in Australia. This stream will develop and deliver customised learning programs online and on farm to cater for different learners and locations. A capability framework will be developed that articulates the key capabilities and practice areas to guide the planned activities of the NCCE and as a foundation for future sector development. Farmers need access to the right education materials and methods that are explicitly focused on supporting and improving on farm practice.

Program activities will include:

- Comprehensive website and digital resource hub;
- Customised education materials and skills building programs;
- Flexible delivery models that cater for different learners and locations;
- Capability framework to guide education development in Australia.

Supporting continuous improvement

Growing resilience and ensuring sustained improvement is a key focus for this stream. It needs to enable farmers to further develop their networks and alliances to establish strong ongoing support mechanisms. This stream will establish service and support hubs for collaborative agricultural

enterprises that are focused on supporting continuous improvement and have well-articulated sustainable business models. A collaborative enterprise health check tool will be developed to equip farmers with the ability to identify priorities for support and make connections to relevant tools, materials and support. Farmers highly value the opportunity to showcase good practice, learn from peers and gather ideas to take back to their farm. This stream will deliver forums and regional events to further encourage showcase, learning and exchange.

Program activities will include:

- Ongoing service and support hubs;
- Health check tool to help farmers identify priorities and access support;
- Formation of regional networks and alliances;
- Showcase and exchange through regional and national forums.

Facilitating knowledge exchange and development

Knowledge-based partnerships are critical to develop an appropriate evidence-base for on farm decision making, advocating for policy change and implementing better practice. This stream will activate a number of knowledge partnerships between farmers, their alliances and networks, universities and regional development agencies. It will fund collaborative research and development that addresses specific priority areas with tangible on-farm impact. It will leverage and extend existing research to generate direct benefits for farmers. Through a student-focused graduate program it will form partnerships between farmers and recent students from TAFE and universities.

Program activities will include:

- Targeted collaborative research and development projects;
- Audit and compilation of tools and resources;
- Strategic research extension for on-farm impact;
- Graduate partnership program to connect students and farmers
- Feedback systems to ensure best practice is maintained in skills, continuous improvement and business acumen streams.

Administration and coordination

Critical to the success of all NCCE activities is efficient coordination and administration. Farmers are heavily time constrained and need streamlined access through a reliable single point of contact, whether that is in person, on the phone or through internet-based channels. This stream is focused on quality management of all functions to ensure the NCCE delivers as agreed to the satisfaction of all stakeholders, particularly farmers and the Australian Government. The NCCE is focused on building a national system of collaborative enterprise in Australian agriculture and this requires diligent data logging and management, responsive communications, appropriate senior leadership and advocacy, experienced staff that engage with farmers regularly and the stability and support provided by a leading regional university. A well-resourced administration and coordination function is critical to facilitate access and uptake, therefore to maximise the return on investment associated with each program activity.

Funded activities include:

- Establishment of office facilities for all NCCE operations;
- Wages to employ five staff which includes senior leadership and an evaluation expert;
- Travel and accommodation support for NCCE and program participants to ensure on the ground presence and access;
- Content management systems to ensure efficient data management and reporting.

Governance and management

The NCCE would be established as an externally-funded entity of Southern Cross University. It would be subject to regular reporting requirements of a university enacted in New South Wales. Accordingly, the NCCE would be ultimately governed by the Southern Cross University Council, chaired by Chancellor Nick Burton Taylor AM.

The NCCE itself would be governed by an Advisory Board formed with representation from the Northern Rivers Cooperatives Alliance, Regional Development Australia – Northern Rivers, Southern Cross University and key independent experts. A Finance, Audit and Risk sub-committee would oversee all risk management, funding decision making and finances to ensure probity and independence. The Chief Executive Officer of the NCCE would be the primary liaison point for the Australian Government.

Budget

The total funding envelope for the NCCE over four years is \$13.325 million. A deed of agreement would be finalised between the Australian Government and Southern Cross University to ensure provision of funding against agreed milestones for a funding period of up to two years and a delivery period of four years.

Southern Cross University will provide in-kind support to the NCCE:

- Provision of an appropriate physical location within its Enterprise Precinct at its Lismore Campus. This space will provide synergies with other enterprise related activity and provide access to high quality venues for workshops and events;
- Financial accounting and management support services;
- Access to student and staff resources in the form of student internships, honours research and academic advice;
- Strategic advice and oversight to guide the establishment and operation of the NCCE.

The funding allocation includes:

- Developing business acumen (\$2.9M);
- Growing skills and capacity (\$2.99M);
- Supporting continuous improvement (\$1.55M);
- Facilitating knowledge exchange and development (\$1.73M);
- Administration and coordination (\$4.16M).

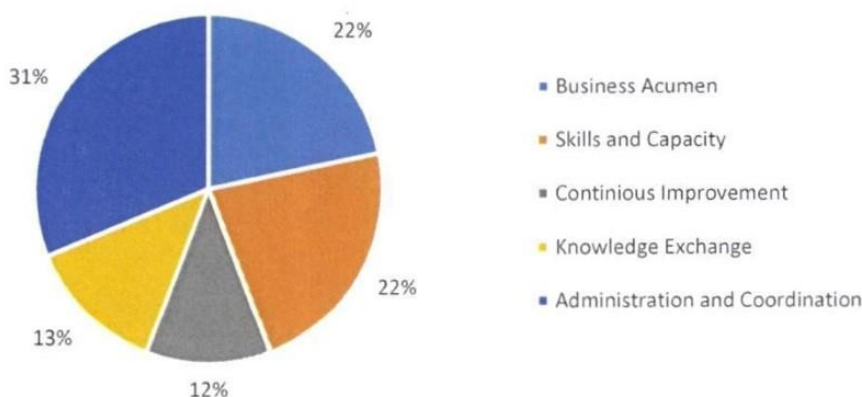


Figure 1: NCCE budget distribution

Contact

The liaison point for the NCCE proposal is:

Ben Roche

Head of Engagement and Partnerships

Southern Cross University

Office: 02 6620 3150

Email: ben.roche@scu.edu.au

Appendix A

| Activity | Description | Outcomes | Allocation |
|------------------------------------------|-----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Developing business acumen | | | |
| Specialist advisory service | Funding specialists to provide advice via coordinated hotline | <ul style="list-style-type: none"> Access to dedicated expertise improved for farmers Specialist advisory network formed Enhanced on-farm decision making | 400,000 |
| Mentoring program | Funding experienced mentors to provide support and guidance | <ul style="list-style-type: none"> Funded mentor time for participating farmers Increased farmer confidence and knowledge | 350,000 |
| Extension and Outreach program | Grants to fund on-farm and on-line strategic extension projects | <ul style="list-style-type: none"> Farmer identified collaborative projects funded Identified barriers to grow collaboration resolved | 1,250,000 |
| Industry advisory program | Funding industry advisors for off farm service providers | <ul style="list-style-type: none"> Increase in skills and knowledge of farm advisors Improved accuracy and quality of advice to farmers | 300,000 |
| Expert assistance program | Small grants for farmers to support access to expertise | <ul style="list-style-type: none"> Funding targeted to identified need for expert assistance Improvements to on-farm enterprises | 600,000 |
| | | Subtotal | 2,900,000 |
| Growing skills and capacity | | | |
| Digital resource hub | Website and integrated social media platform | <ul style="list-style-type: none"> Increased visibility of collaborative farming enterprises Enhanced access to education modules and materials Strong visibility of the Centre and its programs | 120,000 |
| Education and communication materials | Modules, guides, templates and fact sheets | <ul style="list-style-type: none"> Uptake of tailored education materials Development of high quality accessible resources Identified gaps in education materials addressed | 600,000 |
| Capability framework development | Development of education framework | <ul style="list-style-type: none"> Key capabilities of collaborative farming identified Framework guides education material development | 70,000 |
| Short course and workshop delivery | Delivery of online and onsite tailored education activities | <ul style="list-style-type: none"> Increased understanding of the merits of collaboration Increased skills and knowledge of farmers and advisors Enhanced capacity to grow on and off farm enterprise | 2,200,000 |
| | | Subtotal | 2,990,000 |
| Supporting continuous improvement | | | |
| Service and support hubs | Funding the establishment of cooperative farm services hubs | <ul style="list-style-type: none"> Sustainable cooperative support hubs established Increase in self-organised support for farmers Ongoing support mechanisms created | 1,250,000 |
| Self-assessment program | Collaborative Enterprise Health check tool and guide | <ul style="list-style-type: none"> Health Check tool developed Self-assessments completed by Farmers Increased identification of support priorities and pathways for farmers | 180,000 |

| | | | |
|--------------------------------------------------------|------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Annual forums and networking events | Showcase and knowledge exchange events | <ul style="list-style-type: none"> Increased understanding and connections across collaborative enterprises in agriculture Regional networks activated | 120,000 |
| | | Subtotal | 1,550,000 |
| Facilitating knowledge exchange and development | | | |
| Collaborative research and development | Funding for research partnerships to target priority areas | <ul style="list-style-type: none"> Research partnerships between research organisations, farmers and advisory groups funded Increased awareness and understanding of collaborative enterprise system in agriculture Increase in evidence-based on-farm activity | 1,250,000 |
| Resource audit and compilation | Gap analysis, identification and collation of resource materials | <ul style="list-style-type: none"> Existing breadth of relevant resources compiled Gaps identified for new resource development Resources downloaded from Centre website | 80,000 |
| Research extension program | Small grants to increase impact of strategic research | <ul style="list-style-type: none"> Increased application of research findings to benefit farmers Additional value leveraged from funded research | 250,000 |
| Graduate partnership program | Funding for students and graduates to support farm enterprises | <ul style="list-style-type: none"> Students undertake projects to support farmers Increase in student involvement in collaborative enterprises in agriculture | 150,000 |
| | | Subtotal | 1,730,000 |
| Administration and coordination | | | |
| Centre wages | 5 FTE staff – CEO, Program Manager, Communications Manager, Evaluation Manager, Administrative Coordinator | <ul style="list-style-type: none"> Highly capable small team with appropriate senior leader position established Programs are delivered to the highest professional standard Monitoring and evaluation is undertaken within the team and embedded into all activities | 2,440,000 |
| Information and Communication systems | Content management system and associated reporting | <ul style="list-style-type: none"> Comprehensive record and identification of all participants in Centre programs | 115,000 |
| Travel | Funding for centre staff and program delivery | <ul style="list-style-type: none"> Centre staff have national visibility and presence | 400,000 |
| Accommodation | Funding for centre staff and program delivery | <ul style="list-style-type: none"> Centre staff spend appropriate duration in situ | 200,000 |
| Centre facilities | Office fit-out, services, computers, signage, furniture and equipment | <ul style="list-style-type: none"> An appropriate office is established for a National Centre Collaborative working environment supports inreach and outreach activities of the Centre | 500,000 |
| Catering and Venues | Funding to support farmer networks and Centre activities | <ul style="list-style-type: none"> Events are catered appropriately Regional networks are supported to hold catered events | 200,000 |
| General administrative | Telecommunications, printing, postage | <ul style="list-style-type: none"> Publications and communications activities are high quality, accessible and appropriate | 300,000 |
| | | Subtotal | 4,155,000 |

Hallam, Diana

From: Ben Roche [Ben.Roche@scu.edu.au]
Sent: Thursday, 17 December 2015 12:39 PM
To: Hallam, Diana
Subject: Proposal to establish a National Centre for Collaborative Enterprise
[SEC=UNCLASSIFIED]
Attachments: NCCE Proposal - Southern Cross University 171215.pdf
Importance: High

Dear Diana

As discussed, please find attached the proposal to establish a National Centre for Collaborative Enterprise which is focused on optimising the impact of the funding allocated through the whitepaper process. The National Centre would be a flagship collaboration between industry, academia and government to benefit collaborative approaches in Australian agriculture.

Please advise if you require further information in order for this to progress.

Kind regards,
Ben

Ben Roche

Head

Sustainability, Partnerships and Community Engagement

Southern Cross University

T 02 6620 3150 | M 0423 652 233 | S: benroche | W: scu.edu.au/space



SCU respects our environment. Please be green... and read from the screen.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 14

Division/Agency: Agricultural Policy Division

Topic: Mr Hogan

Proof Hansard page: 34

Senator CAMERON asked:

Senator CAMERON: Minister, can you provide all correspondence, all file notes—anything that has transpired between the minister and Mr Hogan in relation to this consultation process?

Answer:

The letter from Mr Kevin Hogan MP to Minister Joyce has been provided in the response to QoN 05. A reply from the minister to Mr Hogan is attached.



The Hon. Barnaby Joyce MP

**Minister for Agriculture and Water Resources
Federal Member for New England**

Ref: MC16-000001

Mr Kevin Hogan MP
Member for Page
PO Box 6022
63 Molesworth Street
LISMORE NSW 2480

Dear Mr Hogan *Kevin*

Thank you for your correspondence of 21 December 2015 about the Farm Co-operatives and Collaboration pilot programme.

I share your concerns about the initial design of this programme and am attracted to your recommendation for there to be a Centre of Co-operative Enterprise hosted by Southern Cross University. I am also keen for this programme to have a legacy effect beyond its term. To address the concerns of various stakeholders you have consulted, I have asked my department to explore the alternative delivery approach proposed by Southern Cross University.

It is vital that the design of the programme draws, in various ways, on the experiences of farmers who have collaborated successfully. I expect the programme to play a catalytic role in helping interested farmers to analyse the range of co-operative and collaborative business options, and enabling them to choose the approach that best suits their business needs.

Thank you again for your leadership and ongoing support on this matter.

Yours sincerely

Barnaby Joyce MP

13 JAN 2016

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 15

Division/Agency: Agricultural Policy Division

Topic: Details on Annual Reports cited expenditure and legal fees

Proof Hansard page: 52-53

Senator CAMERON asked:

Ms Freeman: The total number of the membership fees for all relevant commodity organisations—so not just the FRDC—is \$1.62 million in 2014-15.

Senator CAMERON: For all of them?

Ms Freeman: For all of them.

Senator CAMERON: What about FRDC?

Ms Freeman: Just give me a moment and I will see if I can find it.

Senator CAMERON: Do you know, Dr Hone? Do you know how much you would have to contribute?

Dr Hone: Ours was 1.14, but that was the—

Senator CAMERON: You would be 1.14.

Dr Hone: That was the number for 2014-15. I am not sure what the 2015-16 one would be.

Ms Freeman: There is a number for various international organisations that are attributed back to FRDC. I am happy to provide them to you on notice, if you like.

Answer:

The estimated 2015-16 membership costs of the regional fisheries management organisations are provided in the table below. The actual cost will depend on the exact membership fees set by the organisations and exchange rates at the time of payment.

| International Commodity Organisation | Estimated membership costs 2015-16 |
|-----------------------------------------------------------|-------------------------------------------|
| Commission for the Conservation of Southern Bluefin Tuna* | \$690 008 |
| Indian Ocean Tuna Commission* | \$222 119 |

| | |
|----------------------------------------------------------|--------------------|
| Network of Aquaculture Centres in the Asia-Pacific* | \$79 139 |
| Western and Central Pacific Fisheries Commission* | \$174 210 |
| Southern Indian Ocean Fisheries Agreement | \$35 000 |
| South Pacific Regional Fisheries Management Organisation | \$46 924 |
| Total | \$1 237 400 |

*Membership fees are paid for a calendar year rather than a financial year.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 16

Division/Agency: Agricultural Policy Division

Topic: Packers and Stockyard Act in the US.

Proof Hansard page: 95

Senator BULLOCK asked:

Senator BULLOCK: It was really when I noticed the processes it reminded me of other work that the committee is doing and the concerns in the industry about price transparency and some growers have concerns about the processes. I may be a little bit off the track here, Mr Quinlivan, but I think this might be my last meat opportunity; so I did not want to miss it. In those discussions there had been some submissions about how issues of price transparency were addressed in other jurisdictions and some favourable comment with regard to the Packers and Stockyard Act in the US. I wondered whether the minister had been briefed on the Packers and Stockyard Act.

Mr Quinlivan: I cannot answer that last question with certainty. We can give you a better answer than that on notice. But on the general question about price transparency I know that the minister shares the concern. One of the tasks that the new ACCC commissioner will have when that appointment is made, which we are expecting to happen very soon now, as well as dealing with potential enforcement activity under the competition and consumer act, is to look at some of these underlying transparency issues. There have been a lot of claims and allegations over time, which you are very aware of. Very few of them have found their way to the courts.

Senator BULLOCK: Finding something and proving something appear to be two different things.

Mr Quinlivan: Indeed. I think there is a general view that if there could be more transparency in some of these markets, and I think it is true in horticulture as well, some of the suspicions about anticompetitive behaviour might be unfounded. But the transparency is not there to the degree that we would like and so the new ACCC commissioner will be looking at that as a policy priority rather than a legal priority.

Senator BULLOCK: I am sure that there are a whole range of things that can be investigated in this connection. Just to narrow my question down again so that it is crystal clear, I am interested in whether anyone from the department has briefed the minister with respect to the Packers and Stockyard Act.

Mr Quinlivan: No. I answered that question.

Question: 16 (continued)

Senator BULLOCK: I know you are going to take it on notice. I look forward to the answer. It is a narrow question. And of course probably dates and things like that are ancillary to the question as well.

Mr Quinlivan: Okay.

Answer:

The department has not briefed the Minister on the *Packers and Stockyard Act 1921* (the act). The department briefed the minister on the Senate inquiry into *Industry structures and systems governing levies on grass-fed cattle*, including recommendation seven, which references the act, on 19 December 2014. The minister was briefed on the government's response on 15 April 2015, 25 June 2015 and 10 July 2015. While the department did not provide analysis of the act, in relation to recommendation 7, it did note that Meat & Livestock Australia was undertaking a study on price transparency.

On 5 April 2016, the Australian Competition and Consumer Commission announced that it will commence a market study into the cattle and beef industry in Australia. The study will examine competition, efficiency, transparency and trading issues in the beef and cattle supply chain.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 17

Division/Agency: Agricultural Policy Division

Topic: Impact of reduced RDC funding

Proof Hansard page: 105

Senator STERLE asked:

Senator STERLE: Let me throw just a couple of quick ones at you. You were not in the room—I would like to just get straight through it if we can, Ms Freeman. Has the department provided any advice to the ministry on the impact of reduced RDC funding on the bodies affected by the proposed legislation?

Ms Freeman: I take on notice the specifics, but at the time it was done the costings for 2014-15 were actually, as I understand it, provided, which was \$1.62 million in 2014-15. I would take on notice the specifics of when advice was provided to the minister.

Answer:

The legislation (the *Rural Research and Development Legislation Amendment Bill 2014*) implements a 2014-15 Budget measure. The measure involves recovering the cost of Australia's membership of certain international commodity organisations from the rural research and development corporations (RDCs).

The department provided advice to the government on the impact of the measure on the RDCs during the process to develop the 2014-15 Budget.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 18

Division/Agency: Agricultural Policy Division

Topic: Impact of reduced RDC funding

Proof Hansard page: 105

Senator STERLE asked:

Ms Freeman: When this was done I was not actually in this position. So just to confirm, nothing has happened since I have been in this position, but I will confirm it over the time the bill was introduced.

Senator STERLE: Has the department undertaken any analysis of how this budget measure reduces R&D dollars in real investment terms over the longer period?

Ms Freeman: Again I will take it on notice, but I think it is probably safe to say as a percentage of the total R&D spend it would be a relatively small amount.

Senator STERLE: You can take it on notice. We will be able to come back to it.

Mr Quinlivan: The substance of the question was really dealt with the R&D corporations earlier today. I think we have really covered this ground.

Senator STERLE: Sure. I just wanted to tick off on that final one. If that can be taken on notice, that is fine. I want to talk about the white paper initiatives. Can you provide an update on the implementation of the white paper?

Answer:

The 2014-15 Budget measure involves recovering the cost of Australia's membership of certain international commodity organisations from the rural research and development corporations (RDCs).

The 2014-15 Budget Paper No. 2 indicates that the measure will reduce funding to the RDCs by \$7.0 million over the forward estimates (to 2017-18). This figure is an estimate, as the reduction in funding to the RDCs will depend on the membership fees set by the international commodity organisations in each financial year.

The measure to reduce funding by \$7 million over the forward estimates is more than offset by the government's investment of \$200 million over eight years in the Rural Research and Development for Profit programme.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 19

Division/Agency: Agriculture Productivity Division

Topic: Sweet potato levy

Proof Hansard page: 105

Senator STERLE asked:

Senator STERLE:

1. I understand that the Minister for Agriculture, Barnaby Joyce MP, has recently approved a new marketing levy for Sweet potatoes that has commenced on January 1 this year, with a new Peak Industry Body called The Australian Sweet Potato Growers Association (ASPG) as the eligible industry body under the Primary Industries (Excise) Levies Act 1999. Are you aware of the new levy and could you please outline the process that was undertaken to create the levy?
2. I understand that a vote was undertaken in relation to this levy in 2012 and that in 2014 Minister Joyce said he was unwilling to agree to a new levy at the time, according to the recent ASPG submission to the Senate levies inquiry. Was the Department consulted in relation to the levy following the decision in 2014 and can you shed any light on the reasoning behind the change of mind?
3. Are you aware if the postal vote and proposal in relation to the Sweet potato marketing levy was advertised publicly? Can you provide detail on the specific means by which this was done and what materials were published?
4. What materials were supplied by The Australian Sweet potato Growers Association as part of their proposal to Minister Joyce to support the case for the new marketing levy? Was a marketing plan or business plan provided to you to support the case for the new levy? [Ask for a copy if possible]
5. I understand that the legislation underpinning the levy removes sweet potatoes from the vegetable category and designates them as an entirely new leviable commodity, with marketing and R&D components to the sweet potato levy. ASPG has been named as the eligible industry body for the marketing component. This increases the amount of legislated industry bodies in horticulture, which runs counter to findings of an independent review by ACIL Allen which suggested that smaller industries could amalgamate their interests to provide a more coordinated process. Do you have any information regarding why the Department has decided to establish a new industry body in contradiction of these findings?

Question: 19 (Continued)

6. Can you confirm that the changes made to the levies act (i.e. removing Sweet potatoes from the broader vegetables category) has meant that sweet potatoes are now effectively separated out from vegetables which has created a separate R&D levy for Sweet potatoes as well the new marketing levy for Sweet potatoes?
7. Do you know if any consultation on this matter been conducted with vegetable levy payers, whose overall R&D levy pool will presumably now be diminished if Sweet potato R&D is invested separately from the broader R&D levy investment on vegetables?

Answer

1. Yes. A new marketing levy and export charge on sweet potatoes, at a rate of one per cent of the wholesale price or free-on-board value, was implemented following a proposal from the Australian Sweet Potato Growers Association (ASPG).

ASPG consulted extensively with potential levy payers about the new marketing levy and export charge. A postal ballot of all potential levy payers by the Australian Electoral Commission (voting opened 26 October 2012; closed 19 November 2012) indicated support for the ASPG's proposal, with 80 per cent of all known growers voting in the ballot and 92.5 per cent of those voting in favour.

On 21 December 2012 the ASPG, via Horticulture Australia Limited, submitted its proposal to the then government for consideration. The then government's consideration of the proposal was deferred due to the 2013 federal election. On 14 August 2014 Minister for Agriculture, the Hon. Barnaby Joyce MP, agreed to the levy proposal. However, further implementation was deferred pending the outcome of the Senate Rural and Regional Affairs and Transport Committee's inquiry into industry structures and systems governing the imposition and disbursement of marketing and research and development levies in the agriculture sector.

On 10 December 2015, following the publication of the senate committee's report, the legislative instruments to give effect to the new sweet potato marketing levy and export charge were approved by the Governor General sitting in Federal Executive Council. The instruments commenced on 1 January 2016.

2. See the answer to part 1, above.
3. The ASPG held public consultation meetings (Cudgen, New South Wales, 9 October 2012 and Bundaberg, Queensland, 12 October 2012) to provide information about its proposed marketing levy and its marketing plan. The meetings were advertised directly to all known sweet potato growers and in the *Lismore Northern Star*, *The Tweed Daily* and *Queensland Rural Weekly*.

The postal vote on the levy was not publically advertised. The ASPG developed a register of potential levy payers by using its grower database, consulting with growers, industry services businesses and Queensland, Western Australia and the Northern Territory agriculture departments. On 18 October 2012, the ASPG provided its list of all known

Question: 19 (Continued)

potential levy payers to the Australian Electoral Commission, which used it as the voting register for the postal ballot of levy payers.

4. The ASPG provided a 24-page submission for the introduction of a new sweet potato marketing levy, which addressed the criteria to introduce or amend a primary industry levy established by the Australian Government's *Levy principles and guidelines*. This included the case for the introduction of the levy and export charge, evidence of industry consultation, the outcome of a ballot of all potential levy payers and a marketing plan.
5. The ASPG was established by sweet potato growers many years prior to the introduction of the sweet potato marketing levy. Under the *Primary Industries (Excise) Levies Act 1999* and the *Primary Industries (Customs) Charges Act 1999*, the eligible industry body for a horticultural product under the regulations must be consulted before the rate of a marketing levy/charge is fixed. The ASPG was included in the regulations as the eligible industry body for the sweet potato marketing levy and charge for this purpose.
6. Yes. In order to introduce a new marketing levy and export charge on sweet potatoes, the *Primary Industries Levies and Charges Collection Regulations 1991*, the *Primary Industries (Excise) Levies Regulations 1999*, and the *Primary Industries (Customs) Charges Regulations 2000* were amended to separate sweet potatoes from vegetables to make them a separate leviable/chargeable horticultural commodity. The research and development (R&D) and Plant Health Australia levy and export charge that were already payable on sweet potatoes as a vegetable remained at their existing rates, but as a separate horticultural commodity.
7. Yes. Vegetable growers who did not grow sweet potatoes were not consulted as part of the process to introduce the new marketing levy and export charge on sweet potatoes.

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 20

Division/Agency: Agricultural Policy Division

Topic: Government response to levy senate inquiry

Proof Hansard page: Written

Senator STERLE asked:

1. Where is the Australian Government response to the Levy Senate Inquiry up to?
2. Has the Department consulted with industry on their response? Or will they deliver a response that industry will be unaware of and likely not support?
3. Where are the White Paper initiatives up to?
4. Provide breakdown of spending costs to date on White Paper initiatives?
5. What about the ACCC Ag Commissioner? Is the secretariat working already?
6. What about the agricultural co-operatives program? Where are these funds going and what are is the process? (note: I think something funny happened here, with the funds that were supposed to go to RIRDC, but now not)

Answer:

1. The government is currently considering its response to the report of the Senate Rural and Regional Affairs and Transport References Committee inquiry into *Industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector*.
2. The department has consulted with research and development corporations and levy collection agents on aspects of the Senate report and its recommendations, where appropriate.
3. Please refer to Question on Notice response for QoN 82 (Corporate Strategy and Governance Division) for a summary of the initiatives announced in the Agricultural Competitiveness White Paper.
4. A total of \$592.583 million is available to the white paper measures in 2015–16. A breakdown is at table 1. Actual expenditure will be reported at the end of the financial year.

Question: 20 (Continued)**Table 1.** 2015–16 Agricultural Competitiveness White Paper funds

| White Paper measure | Available funds in 2015-16 (\$m) |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|
| A fairer go for farm businesses | 85.899* |
| \$11.4 million over four years to boost Australian Competition and Consumer Commission (ACCC) engagement with the agricultural sector including a new commissioner dedicated to agriculture | 2.591 [#] |
| \$13.8 million for a two-year pilot programme to provide farmers with knowledge and materials on cooperatives, collective bargaining and innovative business models | 6.908 |
| \$20.4 million to further streamline the approval of agricultural and veterinary chemicals | 20.4* |
| A more simplified accelerated depreciation regime for fencing | 56.0* |
| Building the infrastructure of the 21st Century | 19.079* |
| \$500 million for developing the nation's water infrastructure | 18.079 |
| \$1 million for improvements to the CSIRO's TRANsport Network Strategic Investment Tool (TRANSIT) to support future Government infrastructure investment | 1.0** |
| Strengthening our approach to drought and risk management | 403.327* |
| \$3.3 million for improved seasonal forecasting | 0.978 [#] |
| Immediate tax deduction for new water facilities and depreciation of capital expenditure on fodder storage assets over three years | 86.0* |
| \$29.9 million over four years for farm insurance advice and risk assessment grants | 7.495 |
| Up to \$250 million a year in transitional drought concessional loans | 251.461 |
| \$22.8 million for increasing case management and the activity supplement for recipients in the third year of payment for the Farm Household Allowance | 0.258 [#] |
| \$1.8 million for additional resources for Rural Financial Counselling Service providers in drought-affected areas (for 2015–16) | 1.8 |
| \$20 million for additional mental health and community support services for rural communities in drought-affected areas | 20.0 [#] |
| \$35 million for local projects to provide short-term help to communities that are suffering economic downturn due to drought | 20.0* |
| | 15.335 |

Question: 20 (Continued)

| | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| \$25.8 million over four years to help the State and Territory governments manage pest animals and weeds in drought-affected areas | |
| Farming smarter | 59.379* |
| \$1.4 million over four years to match new agricultural production levies in the export fodder and tea tree oil industries, \$4.7 million over four years to match voluntary contributions to Forest and Wood Products Australia and \$1.2 million over three years in additional funding for the Rural Industries Research and Development Corporation | 0.48 |
| \$50 million to boost our emergency pest and disease eradication and national response capability | 50.0* |
| \$50 million to manage established pest animals and weeds | 8.899 |
| Accessing premium markets | 24.899 |
| \$30.8 million to break down technical barriers to trade, including through the appointment of five new agriculture counsellors in key markets | 5.647 |
| \$200 million to improve biosecurity surveillance and analysis to better target critical biosecurity risks, including in northern Australia | 15.313 |
| \$12.4 million to modernise Australia's traceability systems, verify produce integrity and secure access to overseas markets | 3.939 |
| TOTAL | \$592.583* |

* White paper measures where the 2015–16 funding breakdown is not available and the full four year figure has been included.

White paper measure (or part of the measure) is delivered by another department (CSIRO, Department of Finance, Bureau of Meteorology, Department of Human Services, Department of Social Services, the Australian Competition and Consumer Commission).

- On 24 February 2016 the Deputy Prime Minister and Minister for Agriculture and Water Resources, the Hon. Barnaby Joyce MP and the Treasurer, the Hon. Scott Morrison MP, announced that Mr Mick Keogh OAM, has been appointed as the new Australian Competition and Consumer Commission's (ACCC) Agriculture Commissioner.

The ACCC established the Agriculture Enforcement and Engagement Unit in 2015 to support the Agriculture Commissioner. The Unit has been working to identify competition and fair trading issues in agriculture markets and engaging with a range of key industry groups.

- As at February 2016, the department had expended \$200 000 of programme funds. This was via a grant to the Rural Industries Research and Development Corporation for the purposes of designing a draft framework.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 21

Division/Agency: Agricultural Policy Division

Topic: Agricultural Policy Division

Proof Hansard page: Written

Senator STERLE asked:

Is the department satisfied that Grains Research and Development Corporation advertising with Alan Jones are consistent with the *Primary Industries Research and Development Act*?

How has the department satisfied itself that the actions by the GRDC with regards to commissioning Alan Jones to promote the GRDC are consistent with the *Primary Industries Research and Development Act*?

Answer:

The department is satisfied that the Grains Research and Development Corporation's (GRDC's) sponsorship of grains industry discussion forums featuring broadcaster Alan Jones is consistent with GRDC's obligations under the *Primary Industries Research and Development Act 1989*.

The GRDC's functions under the *Primary Industries Research and Development Act 1989* include reporting on the impact of research and development (R&D) activities on the grains industry and the wider community; and facilitating the dissemination, adoption and commercialisation of the results of R&D.

GRDC has informed the department that its objective in engaging Fairfax Ltd (including the services of Alan Jones) is to raise awareness of the value of the grains sector with a wider audience, including farm enterprise decision-makers. GRDC has identified Mr Jones as a well-known commentator who is likely to attract this audience and therefore assist GRDC in its communication strategy.

Disseminating information via events such as information sessions, field days and crop walks is a key function of the GRDC, which has been supported by successive governments. Attracting the largest audience possible to such events, in order to ensure their success, is therefore, also a key role of the GRDC.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 22

Division/Agency: Agricultural Policy Division

Topic: Relocation of RDCs

Proof Hansard page: Written

Senator STERLE asked:

1. Provide an update on the current state of play on the relocations of the RDCs
2. Has the department provided any advice to the Minister on the impact of reduced RDC funding on the bodies affected by the proposed legislation?
3. As this is a 2014 budget measure and the committee report was tabled on 3 December 2014 – has the Minister sought any advice as to the ongoing financial uncertainty impacting the work undertaken by the RDCs affected by the proposed legislation?
4. Has the department undertaken any analysis as to how this budget measure actually reduces R&D dollars in real investment terms over the longer term?

Answer:

1. On 10 February 2016, the Minister for Agriculture and Water Resources announced the relocation of the Fisheries Research and Development Corporation (FRDC), the Grains Research and Development Corporation (GRDC) and the Rural Industries Research and Development Corporation (RIRDC). GRDC is in the process of transferring functions to Adelaide, Dubbo, Perth and Toowoomba. FRDC is establishing an office in Adelaide. RIRDC's board met on 24 February 2016 to discuss its relocation to Wagga Wagga. As with their other business operations, the corporations are responsible for implementing their relocation.
2. See QoN 17.
3. See QoN 17.
4. The 2014-15 Budget Paper No. 2 indicates that the measure will reduce funding to the RDCs by \$7.0 million over the forward estimates (to 2017-18). This figure is an estimate, as the reduction in funding to the RDCs will depend on the membership fees set by the international commodity organisations in each financial year.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 23

Division/Agency: Agricultural Policy Division

Topic: Report from RIRDC

Proof Hansard page: Written

Senator STERLE asked:

1. The department received a report from RIRDC on 23 October 2015 – has the department considered the report?
2. Has the department made a decision on the framework to deliver the \$13.8 million?
3. What information has been provided to the department by Kevin Hogan on an options paper recommending how to utilise the remaining funds to develop cooperatives arrangements in Australia.
4. Did the Minister seek advice from the department before tasking Kevin Hogan with this task?
5. It clearly states in the White paper on pg 31 that RIRDC will be provided with \$13.8 million to work with other RDCs to deliver this White Paper Initiative? Is this still the case?
6. Were there any costs associated with Kevin Hogan being tasked with developing an options paper?

Answer:

1. Yes.
2. The department is not the decision maker on how programmes are delivered.
3. On 21 December 2015, the minister received a letter from Mr Kevin Hogan MP containing the outcome of his consultations.
4. No.
5. On 14 April 2016, the Acting Prime Minister and Minister for Agriculture and Water Resources, the Hon. Barnaby Joyce MP, announced that Southern Cross University will deliver the co-operatives pilot programme.
6. The department did not bear any direct costs associated with the task, but did meet with Mr Kevin Hogan MP on three occasions.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 24

Division/Agency: Agricultural Policy Division

Topic: Rural R&D for Profit Programme

Proof Hansard page: Written

Senator STERLE asked:

1. Were there any costs associated with the Minister launching round two of the Rural R&D for Profit Programme?
2. Where did the launch take place and who attended the launch?

Answer:

1 & 2. Round two of the Rural Research & Development for Profit Programme was launched by the Minister issuing a media release on 23 September 2015. There was no associated event and no costs beyond departmental costs for supporting ministerial media releases.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 25

Division/Agency: Agricultural Policy Division

Topic: Provision of more funds for RDCs to invest

Proof Hansard page: Written

Senator STERLE asked:

Provide detailed timeline and practical examples of what “over time, improving efficiency and governance is expected to result in reduced administrative costs, effectively providing the RDCs with more funds to invest, and better target their investments in Research, Development and Extensions (RD&E)?

How does this fit in with lengthy wait times for research funding, legislation which effectively takes R&D dollars away from RDCs and duplication of work agendas for white paper initiatives?

Answer:

The Department of Agriculture and Water Resources is working with rural research and development corporations (RDCs) to improve the efficiency, targeting and transparency of research and development and extension outcomes for rural industries by:

- Implementing the Rural Research & Development (R&D) for Profit programme, which has been allocated an extra \$100 million in funding and extended by an additional four years (to 2022). Applications require RDCs to outline pathways to adoption, and grant agreements for successful projects require an extension plan. A second round of funding opened in September 2015 with an outcome expected in April 2016.
- Negotiating new Funding Agreements with RDCs as they fall due. Agreements include requirements to improve transparency and accountability and extension of research, along with independent reviews of performance. In 2016 new Funding Agreements with Australia Wool Innovation Limited, Australian Egg Corporation Limited (AECL) and the 3 red meat RDCs – Meat and Livestock Australia (MLA), the Australian Livestock Export Corporation and the Australian Meat Processor Corporation will be negotiated. In 2016 performance reviews will be undertaken by MLA and AECL.
- Exploring options for shared services with the RDCs, such as property management.
- Providing advice to the Minister on the report of the Senate inquiry into *Industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies*.

Question: 25 (Continued)

- Implementing the government's decision to allow RDCs, in consultation with industry, to request the establishment of levy payer registers.
- Supporting efforts to increase the regional presence of RDCs. The department has been working with the Grains RDC, Rural Industries RDC and the Fisheries RDC to encourage co-location with similar organisations in regional areas.
- Contributing to work to improve monitoring and reporting on the progress being made towards achieving planned outcomes. This includes participation in the Council of Rural R&D Corporations Evaluation Group.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 26

Division/Agency: Agricultural Policy Division

Topic: Senate levy inquiry

Proof Hansard page: Written

Senator STERLE asked:

- Where is the Australian Government response to the Levy Senate Inquiry up to?
- Has the Department consulted with industry on their response? Or will they deliver a response that industry will be unaware of and likely not support?

Answer:

- The government is currently considering its response to the report of the Senate Rural and Regional Affairs and Transport References Committee inquiry into *Industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector*.
- The department has consulted with research and development corporations and levy collection agents on aspects of the Senate report and its recommendations, where appropriate.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 27

Division/Agency: Agricultural Policy Division

Topic: Two-year pilot programme – innovative business models

Proof Hansard page: Written

Senator STERLE asked:

Provide an update on the White Paper initiative \$13.8 million for a two-year pilot programme to provide farmers with knowledge and materials on cooperatives, collective bargaining and innovative business models.

Answer:

On 14 April 2016, the A/g Prime Minister and Minister for Agriculture and Water Resources, the Hon. Barnaby Joyce MP, announced that Southern Cross University will deliver the co-operatives pilot programme. The pilot programme will deliver expert advice and information to up to 2 000 farmers and 100 farmer groups across the nation and will run until 30 June 2018.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 28

Division/Agency: Agricultural Policy Division

Topic: Relocation of APVMA

Proof Hansard page: Written

Senator STERLE asked:

1. Provide an update on the current state of play on the relocations and the APVMA
2. Following the APVMA's staff survey – has the department undertaken an analysis of the capability impact that would occur if the move was to go ahead? If not, why not?
3. Has the department provided verbal or written advice to the Minister or his staff about the capability impact that would occur if the move was to go ahead for the APVMA?

Answer:

1. The Department of Agriculture and Water Resources is in the process of engaging an independent provider to conduct a cost benefit analysis for the potential relocation of the Australian Pesticides and Veterinary Medicines Authority (APVMA).
2. No. This matter will be considered as part of the independent cost benefit analysis of the APVMA's potential relocation.
3. Advice provided to the Minister for Agriculture and Water Resources is deliberative material and the department is unable to comment.

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates February 2016

Agriculture and Water Resources

Question: 29

Division/Agency: Agricultural Policy Division i

Topic: Boards (for departments or agencies with boards)

Proof Hansard page: Written

Senator LUDWIG asked:

Since the change of Prime Minister on 14 September 2015:

1. how often has each board met, break down by board name;
2. what travel expenses have been incurred;
3. what has been the average attendance at board meetings;
4. List each member's attendance at meetings;
5. how does the board deal with conflict of interest;
6. what conflicts of interest have been registered;
7. what remuneration has been provided to board members;
8. how does the board dismiss board members who do not meet attendance standards;
9. Have any requests been made to ministers to dismiss board members;
10. Please list board members who have attended less than 51% of meetings;
11. what have been the catering costs for the board meetings held during this period?
Please break down the cost list.

Answer:

Response from Australian Grape and Wine Authority (AGWA)

1.
 - a) Board Meetings – two meetings from 14 September 2015 to 31 January 2016
 - i. 30 September 2015
 - ii. 13 November 2015

Question: 29 (continued)

- b) Finance and Audit Committee Meetings – two meetings from 14 September 2015 to 31 January 2016
 - i. 30 September 2015
 - ii. 16 December 2015
 2. \$17 191 for flights and accommodation
 3. Full attendance as an average
 4. List each member's attendance at meetings;
 - a) Board Meetings
 - i. 30 September 2015 – B Walsh, B Croser, E Brown, J Forrest, I Henderson, K Williams and J Casella – Apology J McDonald
 - ii. 13 November 2015 – B Walsh, B Croser, E Brown, K Williams, D Dearie, K Todd, M Retallack and E Peter – Full board attendance
 - b) Finance and Audit Committee Meetings
 - i. 30 September 2015 – J Forrest, I Henderson and B Walsh – Full committee attendance
 - ii. 16 December 2015 – K Todd, E Peter and M Retallack – Full committee attendance
 5. Board Members of AGWA are bound by the general duties of officials set out in Division 3 of Part 2-2 of the *Public Governance Performance and Accountability Act 2013* (PGPA Act). These general duties include a duty to disclose interests (section 29 PGPA Act). For the avoidance of doubt, section 19 of AGWA's enabling legislation, the *Australian Grape and Wine Authority Act 2013*, sets out that, for the purposes of section 29 of the PGPA Act, a Director of AGWA who is a grape grower or a winemaker is not taken to have a material personal interest that relates to the affairs of AGWA by reason only of being a grape grower or a winemaker.

Furthermore, Section 14 of the Public Performance and Accountability Rule 2014 (PGPA Rule) sets out how and when Board members must disclose interests, and the consequences of having such interests.

These statutory obligations are reflected in AGWA's internal Board policy and in the various term of references relating to Committees of the Board. If a Board member suspects that they may have a material personal interest that relates to the affairs of AGWA they must disclose that interest either orally or in writing to each other Board member and to the CEO the details of the suspected interest detailing:

- the nature and extent of that interest; and
- how that interest relates to the affairs of AGWA.

Question: 29 (continued)

The Board member must then make the disclosure at a meeting of the Board:

- as soon as practicable after the official becomes aware of the interest; and
- if there is a change in the nature or extent of the interest after the Board member has disclosed the interest, as soon as practicable after the Board member becomes aware of that change.

The Board member must ensure that the disclosure is recorded in the minutes of the meeting. Consequences of Board members having such interests are dealt with in accordance with section 15 of the PGPA Rule.

6. With respect to declarations of interest, as per section 19 of the *Australian Grape and Wine Authority Act 2013*, a director who is a grape grower or a winemaker is not taken to have a material personal interest that relates to the affairs of AGWA by reason only of being a grape grower or winemaker.

The following conflicts of interest have been registered:

- Mary Retallack is a direct recipient of an AGWA funded PhD scholarship
7. Allowances and entitlements are paid in accordance with the Remuneration Tribunal determination for part-time officers.
 8. Attendance Standards are covered in board policies.
 9. No
 10. Nil
 11.
 - a) \$246 for the Board meeting in 30 September 2015
 - b) \$67 for the Board induction meeting 14 October 2015
 - c) \$239 for the Board meeting 13 November 2015

Response from Cotton Research and Development Corporation (CRDC)

1. In the period 14 September 2015 to 31 January 2016 the CRDC Board has met on 29 September 2015 via teleconference, 9-10 November 2015 in Toowoomba and 21 January 2016 via teleconference.
2. The CRDC Board are provided with accommodation, meals and airfares or mileage for personal motor vehicle use. In the period 14 September 2015 to 31 January 2016 the CRDC board meetings incurred costs of \$7 699.
3. The CRDC board attendance is 90%.

Question: 29 (continued)

4.

| Board Member | 29-Sep-15 | 9-10-Nov-15 | 21-Jan-16 |
|---------------------|------------------|--------------------|------------------|
| Bruce Finney | Yes | Yes | Yes |
| Mary Corbett | Yes | Yes | Yes |
| Cleave Rogan | Yes | Yes | Yes |
| Michael Robinson | No | Yes | No |
| Kathryn Adams | Yes | Yes | Yes |
| Liz Alexander | Yes | Yes | Yes |
| Greg Kauter | Yes | Yes | Yes |

5. The CRDC Board tables at each board meeting a list of directors' interest and any conflicts of interest arising from agenda items to be discussed at the board meeting.
6. One conflict of interest was registered for the 9-10 November 2015 meeting where a Director was also the Director for a Cooperative Research Centre (CRC) board that may be submitting a research project. However, the project was not deliberated at this meeting.
7. The CRDC Board members are remunerated in accordance with the Remunerations Tribunal Part Time Officers for the Cotton Research and Development Corporation.
8. The Primary Industries Research and Development Act 1989 in section 73 provides for the Minister to terminate a directors appointment:

73 Termination of appointment

(1) The Minister may terminate the appointment of the Chairperson or a nominated director:

- (a) for misbehaviour or physical or mental incapacity; or
- (b) if the Chairperson or nominated director:
 - (i) becomes bankrupt; or
 - (ii) applies to take the benefit of a law for the relief of bankrupt or insolvent debtors; or
 - (iii) compounds with his or her creditors; or
 - (iv) makes an assignment of his or her remuneration for the benefit of such creditors; or
- (c) if the Chairperson or nominated director, without reasonable excuse, contravenes section 27F or 27J of the *Commonwealth Authorities and Companies Act 1997*.

(2) The Minister may terminate the appointment of the Chairperson if the Chairperson is absent, except with the leave of the Minister, from 3 consecutive meetings.

(3) The Minister may terminate the appointment of a nominated director of an R&D Corporation if the nominated director is absent, except with the leave of the Chairperson, from 3 consecutive meetings.

9. No

Question: 29 (continued)

10. Michael Robinson. This director provided input to the Chair prior to the teleconferences that he was unavailable to participate in directly.
11. In the period 14 September 2015 to 31 January 2016 the CRDC board meetings incurred \$1 797 in catering costs. Alcohol is served at board dinners held with industry and research organisation representatives.

Response from Rural Industries Research and Development Corporation (RIRDC)

1. The RIRDC Board has met once during the period 14 September 2015 to 31 January 2016. The Board Meeting was held 1-2 December 2015.
2. Total cost of \$16 171.33 (GST inclusive). Costs include flights (\$10 261.46), accommodation (\$4 217.55), taxis (\$351.51) and reimbursements for parking, mileage and meals (\$1 340.81).
3. 94 per cent;
4. **Face to Face Meeting – 1-2 December**
 - Professor Daniela Stehlik – Day 1 only
 - Mr Kevin Goss
 - Dr Tony Hamilton
 - Dr Jan Mahoney
 - Dr William Ryan
 - Ms Heather Stacy
 - Dr Keith Steele
 - Dr Len Stephens
 - Mr Craig Burns
5. A Director who has a direct personal interest in a matter that is being considered by the Board must disclose the nature of the interest at a meeting of the Board.

The Board manages the potential for conflict of interest for Directors and senior management by an annual declaration of potential conflicts and by a standing agenda item at each Board meeting that requires Directors who may have a conflict of interest in any matter to be discussed at that meeting to identify the potential conflict. Where a material potential conflict is identified the Director leaves the meeting during discussion of the matter. Potential conflicts are recorded in the Board minutes and are available for consideration by the Corporation's Auditors.

Question: 29 (continued)

6. The Chair notified the Board at the December 2015 meeting of her appointment as Professor at the Griffith University.
7. As per the Remuneration Tribunal.
8. N/A
9. No.
10. Nil
11. \$1 643.00 comprising biscuits, sandwiches, fruit and cheese platters and a board dinner.

Response from Fisheries Research and Development Corporation (FRDC)

- 1 6 October 2015 - New Board induction program
7 October 2015 - Board meeting
16 November 2015 – Finance audit and risk management committee meeting
17-18 November 2015 – Board meeting
26 November 2015 – Board teleconference
- 2 \$26 216 (Air and ground travel costs)
- 3 94 per cent
- 4 Member attendance:

| Board Meeting Dates | # Board Members | Attendance at Board Meeting |
|------------------------------------------------------------------------|-----------------|-----------------------------|
| 6 October 2015 - New Board induction program | 8 | 8 |
| 7 October 2015 - Board meeting | 8 | 8 |
| 16 November 2015 – Finance audit and risk management committee meeting | 2 | 2 |
| 17-18 November 2015 – Board meeting | 8 | 8 |
| 26 November 2015 – Board teleconference | 8 | 7 |

Question: 29 (continued)

5. In accordance with statutory requirements as per the PGPA Act and the FRDC Board Governance policy – material personal interests.

FRDC Governance Policy 'extract

A director who considers that he/she may have a material personal interest in a matter to be discussed by the board ("**conflicted director**") will:

- (1) as soon as practicable after the director becomes aware of his/her interest in the matter give details of the nature and extent of that interest, and the relationship of the interest to the FRDC, either in a "standing notice" or at a meeting of the directors; and
- (2) before any discussion takes place on that matter, leave the meeting while that matter is discussed

The Chair may raise with any of the remaining directors any issue that has come to the Chair's attention, and may request the board secretary to raise any issue that has come to the secretary's attention, that might suggest that a remaining director ("**affected director**") has an actual or perceived material personal interest in a matter to be discussed by the board, and the Chair will invite the affected director to respond;

If the affected director confirms that he/she has a material personal interest, he/she will leave the meeting while that matter is discussed. If the affected director maintains the he/she does not have a material personal interest, he/she may choose to leave or remain in the meeting while that matter is discussed, and the remaining directors (including the affected director if he chooses to remain) may vote on whether discussion on that matter should be postponed;

In the absence of the conflicted director(s), the remaining directors will discuss the nature of each of the declared interests and whether to:

- invite a conflicted director back to the meeting on the basis that those directors are satisfied that the interest should not disqualify the conflicted director from voting or being present
- invite a conflicted director back to the meeting to answer board queries
- not invite a conflicted director back to the meeting while that matter is discussed.

The Chair may seek legal advice at any time in relation to any issue arising from a director's perceived or actual material personal interest in a matter.

In deciding whether to invite a conflicted director back to the meeting to answer board queries, the remaining directors will take into account the unique expertise the director may be able to provide. The remaining directors, in querying a conflicted director, will ensure that the director is not able to influence the board in making its decision. If the remaining directors choose to invite a conflicted director back to answer queries, the conflicted director will leave the meeting immediately after answering those queries.

Question: 29 (continued)

The remaining directors will discuss the matter, and make its decision in the absence of the conflicted director(s).

Any director, in relation to any matter, may:

- request that her/his concerns are recorded in the minutes of the meeting
- request that the board pass a resolution allowing the director to participate
- ask the Chair to inform the Minister of the board's intended action
- inform the Chair that she/he intends to inform the Minister of the board's decision
- request the responsible Minister to make a declaration or order under section 27K that the relevant director is entitled to be present or vote.

A standing notice about directors' interests will be updated at each board meeting. All declarations of interests, and their consideration by the board, will be recorded in the minutes.

Exceptions from disclosure requirement

A director does not have to disclose a material personal interest where:

1. the interest arises in relation to the director's remuneration as a director of the FRDC;
2. the interest relates to a contract that insures, or would insure, the director against liabilities the director incurs as an officer of the company (but only if the contract does not make the FRDC or a subsidiary of the FRDC the insurer)
3. the interest relates to any payment by the FRDC or a subsidiary of the FRDC in respect of an indemnity or any contract relating to such an indemnity
4. the interest is in a contract, or proposed contract, with, or for the benefit of, or on behalf of, a subsidiary of the FRDC and the director's interest arises merely because the director is a director of the subsidiary;
5. all the following conditions are satisfied:
 - a. the director has already given notice of the nature and extent of the interest and its relation to the affairs of the FRDC
 - b. if a person who was not a director of the FRDC at the time when the notice was given is appointed as a director of the FRDC—the notice is given to that person; and
 - c. the nature or extent of the interest has not materially increased above that disclosed in the notice; or
6. the director has given a standing notice of the nature and extent of the interest and the notice is still effective in relation to the interest.

Question: 29 (continued)

End of FRDC Policy 'extract'

Resume QoN responses:

6. Material personal interests are a standing board meeting agenda item and are updated and minuted at each meeting, and reported in the Annual report.
7. Remuneration is provided as per the 2015-20 Remuneration and Allowances for Holders of Part-Time (current consolidation as at 1-01-2016)
8. FRDC board positions are by Ministerial appointment – in the event of a director not meeting attendance standards the FRDC chair would inform the Minister through the Department of Agriculture and Water Resources.
9. No
10. Nil
11. Catering costs for board meetings (morning tea, lunch, afternoon tea) totalled \$1 643 (ext gst) **Note:** Catering costs for all board meetings are deducted (cost recovered) from the allowance paid to directors, as per the remuneration tribunal '2015-11 Principal determination: Official Travel by Office Holders'.

Response from Grains Research and Development Corporation (GRDC)

1. The Grains Research and Development Corporation has met three times on 22 September 2015, 2 December 2015 and 23 February 2016.
2. Travel expenses for the period 14 September 2015 to 31 January 2016 total \$42 732. This includes mileage, travel allowances, accommodation and flights.
3. All directors attended the meeting on 22 September 2015. Eight of nine directors attended the meetings on 2 December 2015 and 23 February 2016.
4. Directors Clark, Woods, Halbert, Healy, Garnett, Burdon and Harvey attended all three meetings. Director Shannon and Director Barr attended two of the three meetings.
5. Conflicts of interest are recorded before each meeting and confirmed or updated at the start of each meeting. Where a material conflict exists the Director is excluded from receiving the material in relation to that item.
6. See table below. Conflicts that are material personal interests are shaded. Other conflicts (direct or indirect) are not shaded.

| Director | Entity 1 | Entity 2 | Entity 3 | Entity 4 |
|----------------------|---------------------------------------------------|-----------------------------------------------------------------------------|-----------------|-----------------|
| Richard Clark | Director, NSW Northwest Local Land Services Board | James Clark (brother) is Chair of Northern Panel <i>Perceived direct</i> | | |

| | | | | |
|-----------------------|-------------------------------------------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------------------------|----------------------------------------------------------------------------|
| Andrew Barr | Director, Australian Grain Growers Cooperative | Belinda Cay (daughter) is Director of Ag Communicators | Receives royalties from some University of Adelaide barley varieties | James Barr (son) studying for PhD at Uni of SA. Part stipend paid by GRDC. |
| Jeremy Burdon | Occasional Consultant to QUT advising on strategy development in biology and agriculture. | | | |
| Helen Garnett | Director, Sugar Research Australia | Chair, Australian Centre for Plant Functional Genomics | | |
| Kim Halbert | Director, Mid West Ports Authority | | | |
| John Harvey | NIL | | | |
| Roseanne Healy | Chair of the Dairy Authority of South Australia | | | |
| David Shannon | NIL | | | |
| John Woods | NIL | | | |

7. Allowances and entitlements are paid in accordance with the Remuneration Tribunal determination for part-time officers.
8. Directors of the GRDC Board can only be dismissed by the Minister pursuant to section 73 of the PIRD Act or section 30 of the PGPA Act.
9. No.
10. Nil.
11. Total: \$3 791.81. Please see table below.

| Date | Location | Cost | Catering/Drink costs |
|------------|-------------------------------|----------|----------------------|
| 21/09/2015 | Stamford Plaza Adelaide | 1981.36 | Meals |
| 9/12/2015 | Coyote Catering - Canberra | 212.27 | Meals |
| 9/12/2015 | Two Girls Catering - Canberra | 436.36 | Meals |
| 9/12/2015 | Yiannos Catering - Canberra | 1,161.82 | Meals |

Response from Australian Fisheries Management Authority (AFMA)

1. Australian Fisheries Management Authority (AFMA) Commission has met once. The meeting was held on 28 and 29 October 2015 in Perth.

Question: 29 (continued)

2. Total travel expenses incurred were \$22 093.64.
3. 100 per cent attendance.
4. See table.

| Commissioner | Commission meeting – 28-29 October 2015 |
|----------------------|-----------------------------------------|
| Hon Norman Moore AM | Y |
| Richard Stephens OAM | Y |
| Catherine Cooper | Y |
| Ian Cartwright | Y |
| Prof Keith Sainsbury | Y |
| David Hall | Y |
| James Findlay | Y |

Note: in support of this meeting, four senior officials from AFMA also attended.

5. Disclosure of interest is dealt with under section 20 of the *Fisheries Administration Act 1991* (FAA). Commissioners, once appointed, must make subsequent disclosures of interest to the Minister in accordance with section 20(1) of the FAA and section 29 of the *Public Governance, Performance and Accountability Act 2013*). Declarations of interest are also formally considered by the Commission at the start of each meeting and if considered relevant, that Commissioner withdraws from discussion of the agenda item.
6. There were no updated declarations of interest or any declarations of potential conflicts for items on the agenda for the Commission meeting.
7. Remuneration for the six part-time Commissioners is set by the Remuneration Tribunal. The AFMA Chief Executive Officer, an APS Executive Band 3, is also a Commission member.
8. Under section 21 of the FAA the Minister may terminate the appointment of a Commissioner who fails to meet attendance requirements.
9. No.
10. Not applicable.
11. Total catering costs for room hire and working lunches was \$1 618.27. The breakdown being \$1 160.00 room hire, \$432.00 lunches and \$26.27 credit card service fee.

Response from Australian Pesticides and Veterinary Medicines Authority (APVMA)

1. The APVMA Advisory Board met once on 5 November 2015. The APVMA Advisory Board's term ceased on 13 November 2015 and there have been no other meetings.

Question: 29 (continued)

2. Travel expenses of \$11 008 have been incurred for the APVMA Advisory Board.
3. The average attendance at the APVMA Advisory Board meeting was eight (8) members. The APVMA Advisory Board had nine members. The meeting was also attended by the CEO and other senior executives of the APVMA, a representative of the Department of Agriculture and Water Resources and secretariat staff from the APVMA.
4. Each member's attendance at the APVMA Advisory Board meeting was as follows:

| Member | Meeting 5 November 2015 |
|--------------------|-------------------------|
| Lyn Fragar (Chair) | Attended |
| Gordon Reidy | Attended |
| Roger Toffolon | Attended |
| Sandra Baxendell | Attended |
| Lisa Wade | Attended |
| John Hassell | Attended |
| Selwyn Snell | Did not attend |
| Bronwyn Capanna | Attended |
| David Lawson | Attended |

5. Section 23 of the *Agricultural and Veterinary Chemicals (Administration) Act 1992* provides that members must give written notice to the Minister for Agriculture and Water Resources of any direct or indirect financial interest that could conflict with the proper performance of the Advisory Board's function. The Terms of Reference for the Advisory Board also require members to sign conflict of interest declarations and then raise any potential conflicts of interest that may be identified through particular agenda items at meetings with the Chair and the APVMA CEO. Conflict of interest declarations are obtained for each meeting and considered prior to the start of the meeting.
6. No conflicts of interest have been registered since the change of Prime Minister on 14 September 2015.
7. Allowances and entitlements are paid in accordance with the Remuneration Tribunal determination for part-time officers.
8. Section 24 of the *Agricultural and Veterinary Chemicals (Administration) Act 1992* provides that the Minister for Agriculture and Water Resources may terminate the appointment of an Advisory Board member.
9. The APVMA is not aware of any requests being made to ministers to dismiss Advisory Board members.

Question: 29 (continued)

10. APVMA Advisory Board member, Selwyn Snell attended fewer than 51 per cent of meetings.
11. The catering cost for the APVMA Advisory Board's 5 November 2015 meeting was \$221 (inc GST).