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Mr Paul Morris
First Assistant Secretary
Agricultural Competitiveness Taskforce
Department of the Prime Minister and Cabinet
By email: Agricultural.Competitiveness@pmc.gov.au

Dear Mr Morris

Woolworths is pleased to provide a submission in response to the Issues Paper for the development of the Agriculture Competitiveness White Paper.

The security of Australia's food supply is an important issue for Woolworths. Every year Woolworths spends billions of dollars buying Australian fresh and processed agricultural products for retail sale through our stores. Woolworths' commitment to the sector is evidenced by the fact that 100 per cent of the fresh meat and 96 per cent of the fresh fruit and vegetables sold in our stores is Australian grown. The four per cent of imported fruit and vegetables are only sourced to cover the seasonal shortages that can exist with Australian supply.

While Woolworths is a large, consistent and reliable buyer of Australian meat, fruit and vegetables, it is important to appreciate that many producers are exporters, and the domestic market accounts for only a relatively small share of the market for Australian agricultural produce.

Within the Australian market, retailers account for only a share of the final destination of agricultural produce alongside the food service industry (cafes, restaurants and institutions such as hospitals, nursing homes, defence facilities and prisons) and the food processing industry.

Within the retail sector Woolworths competes for market share alongside specialty retailers such as butchers and green grocers (either in-store or on-line) and other supermarkets such as Metcash/IGA, Coles, Costco, Aldi and Spar.

The continued growth of a successful Australian agricultural sector will involve all parties working in partnership to understand changing consumer preferences, promote innovation to develop new products and increased local supply, while all the time building future industry leadership and strengthening sustainable agricultural practices. Woolworths' commitment to the development and growth of Australian agriculture is extensive and this submission provides an outline of the measures we take to support Australian agriculture.

Support for Education, Training and Industry Leadership

Fresh Food Futures

The Woolworths Fresh Food Future program is a package of initiatives that invest in the future of rural Australia. With a total investment of more than \$10 million since 2007, our Fresh Food Future program aims to help Australian farmers address key challenges facing their sector. The Fresh Food Future program draws together a number of initiatives to address two main objectives:

ALH Group | BIG W | BWS - Beer Wine Spirits | Cellarmasters | Countdown | Danks | Dan Murphy's |
Masters | Woolworths | Woolworths Petrol

- Advancing farming innovation, productivity and long-term sustainability; and
- Supporting the next generation of farmers and industry leaders.

The Woolworths Fresh Food Future program is an ongoing investment to fund and promote new projects that improve the sustainability of the food supply chain and its key components are:

Nuffield Scholarships

Nuffield Australia Farming Scholarships give Australian farmers the opportunity to study international farming practices. The aim is to give Australian producers the opportunity to study the best and latest farming practices around the world.

Woolworths has, for the past three years, support this program to advance leadership in the primary production industry. In 2013, Woolworths provided \$50,000 for a Nuffield Scholarship and a further \$25,000 was provided to co-sponsor, with the Fisheries Research and Development Corporation, a second Nuffield Scholarship.

Woolworths Agricultural Business Scholarships

Each year Woolworths offers 25-30 young Australians the opportunity to participate in the Woolworths Agricultural Business Scholarship program. During the fully-funded 12-day course, agriculture's best and brightest young people gain a broad academic perspective on the business of agriculture from key academics, business leaders and other industry experts. The course is practical as well as theoretical, and aims to assist participants build their professional careers in agriculture. Topics include:

- Business strategy and planning
- Agricultural value chain
- Successful business leadership
- Business finance
- Logistics and supply chain management
- The role of government
- Understanding retail
- Sustainability and environmental issues
- Personal development

The Woolworths Agricultural Business Scholarship Program is now in its eighth year and more than 150 young farmers have graduated from the program. In 2013 Woolworths provided \$150,000 for the program.

Horizon Studentship

The Horizon Studentship is an initiative of the Rural Industries Research and Development Corporation. Woolworths offers financial support (\$10,000 in 2013) for an undergraduate student as well as providing a senior Woolworths executive to act as a mentor to provide career advice.

Support for Product Innovation

Woolworths introduces hundreds of new products to its shelves every year as customer demands change and consumer preferences shift. Woolworths' priority is to build partnerships that can ensure reliability and availability so that it can consistently deliver the products customers want. Woolworths has undertaken a number of initiatives to support Australian agricultural products through innovative product presentation and promotion.

Ready to...

The Woolworths "Ready to..." range of vegetables are pre-washed, freshly cut and ready to bake, roast steam or stir fry. The pre-prepared vegetables are designed to make home cooked meals easier and more convenient.

Championing In-Season Vegetables

Through the course of 2013, there were targeted promotions of in-season vegetables. Promotions included in-store cooking demonstrations, recipes and grower stories in the Woolworths Fresh magazine. These campaigns contributed to a 6.8 per cent increase in the volume of fresh fruit and vegetables sold in 2013 over the previous year.

Kid Size Fruit Packs

To increase the appeal of fruit to children Kid Size fruit packs were introduced. The packs contain smaller sized fruits that fit easily into lunch boxes and packaging featured Looney Tunes cartoon characters to maximise the appeal of the fruits to children. Since Kid Size Fruit Packs were introduced, the amount of fruit sold has increased by 1,356 tonnes.

Own Brands

Woolworths maintains a number of own brands including Homebrand, Select, Macro and Gold. These own brands account for just 6.2 per cent of stock keeping units meaning that branded products account for almost 94 per cent of stock keeping units. The own brands are valued by customers for their quality and value and their popularity is evidenced by the fact that while they represent only 6.2 per cent of SKUs, they account for about 15 per cent of sales.

Australian sourced products already make up about 74 per cent of sales of Woolworths own brands and we are actively replacing imported lines with Australian sourced products wherever possible. Products made in Australia account for 95 per cent of Macro sales, 67 per cent for Select and 72 per cent for Homebrand.

Macro

The development and success of the Macro Wholefoods Market product range demonstrates the importance of innovation in bringing nutritionally sound and quality products to Australian families at an affordable price. Ingredients such as salt, sugar and fat are kept to a minimum without compromising on taste. The range of Macro products is extensive and appealing with gluten-free muesli and corn chips, organic potato chips in kid-sized serves, organic pasta sauces and free-range chicken. The range also contains products that are Certified Organic, vegetarian or gluten free as well as Baby Macro Organic and Mini Macro products.

The popularity of the Macro range demonstrates the fact that consumer preferences are not fixed, but continue to evolve and change – and that retailers, producers and processors must respond to these changing consumer preferences.

Support for Local Sourcing

Woolworths has a long and proud tradition of supporting local food producers with 100 per cent of fresh meat and 96 per cent of fresh produce grown in Australia. This support has been further demonstrated by a range of recent initiatives:

SPC

Woolworths has entered into a \$70 million contract with SPC Ardmona to supply all Select brand deciduous fruit for the next five years. The deal also includes the additional supply of Select brand tinned tomatoes.

Woolworths has received overwhelming customer support for this move with strong sales results since an initial decision to source from SPC Ardmona was announced in July 2013. Following our switch to SPC supplied canned fruit, sales increased by 48 per cent – which was the first growth in the canned fruit category for some time. The agreement brings certainty to SPC and its growers who supply our select brand so they can now invest in their businesses with the confidence of knowing Woolworths will stand beside them for the long-term.

Farmers Own

Woolworths launched an Australian-first initiative to support the local dairy industry by sourcing drinking milk directly from dairy farmers in NSW Manning Valley. After a successful trial on the NSW mid-North Coast, Farmers Own has been rolled out to 105 supermarkets across NSW.

While Woolworths has directly sourced meat, fruit and vegetables from farmers for many years, this is the first time that we have sold directly sourced milk. This is an important innovation as the benefits of direct sourcing can be substantial for producers and include end-to-end transparency from shed to shelf, longer-term supply contracts that provide more certainty and a closer connection between producers and shoppers.

Local Sourcing Managers

Woolworths is keen to bring more locally produced foods to the shelves of Woolworths' supermarkets across Australia. Our stores are at the heart of many local communities and we are committed to supporting local suppliers.

Local sourcing managers have been appointed in Victoria, Tasmania and South Australia. The role of these local sourcing managers is to work with local producers in small or medium sized businesses to design supplier plans that suit their businesses. This includes the flexibility to supply to only a handful of stores from the more than 900 supermarkets in the Woolworths national network.

Country of Origin Labelling

Woolworths supports clear country of origin labelling to inform consumers and make it easy for customers to choose to buy Australian foods.

There have been concerns expressed that the current country of origin labelling system, regulated by the Australian Competition and Consumer Commission, is not delivering the information that consumers need. Woolworths would like to work cooperatively with government and other stakeholders to identify opportunities to improve the existing system and ensure that it is meeting the needs of consumers and providing accurate and relevant information in the most cost-effective manner.

Support for Sustainability

Landcare Australia

As part of the Woolworths Fresh Food Future Program, since 2007 Woolworths has invested \$6.6 million with Landcare Australia to help farmers 'grow more with less'. More than 190 projects have been funded around Australia with the aim of encouraging innovation and efficiency, reducing input costs and increasing productivity and long-term sustainability.

An example of the projects funded is the \$30,000 provided by Woolworths to Kalano Farm for a new packing line. Kalano Farm, based in Katherine, Northern Territory, is the only commercial tomato operation in the Northern Territory and supplies Woolworths with trellis-grown gourmet tomatoes for the fresh produce market. The farm's productivity and produce quality were being constrained by

limited infrastructure and equipment which will be overcome by the purchase and installation of a new packing line.

Drought Relief

Woolworths' also supports the agricultural sector by providing natural disaster relief by donations and matched fundraising. Earlier this year customers demonstrated great generosity by donating \$350,000 to a drought appeal for New South Wales and Queensland farming communities, which was matched by Woolworths on a dollar for dollar basis.

On top of this \$700,000, Woolworths also donated \$250,000 in food and fuel vouchers bringing the total funds going to drought affected farmers and their communities to more than \$950,000.

Support for Producers

Direct Sourcing and Long Term Relationships

Every year Woolworths deals with thousands of large and small Australian businesses that supply fresh food. Woolworths wants to continue to buy meat, fruit and vegetables from Australian farmers and our commitment to the sector is evidenced by the fact that 100 per cent of the fresh meat and 96 per cent of the fresh fruit and vegetables sold in our stores is Australian grown.

Woolworths' preference is to buy directly from producers and has strong, long-term relationships with farmers all around Australia. These long-term commercial relationships provide a number of important benefits:

- They assist agricultural producers by providing the certainty of reliable, on-going demand for fresh produce
- The security of longer term relationships can support innovation and investments in new technologies and improved agricultural practices
- Supplying direct at an agreed price rather than through the uncertainties of the wholesale market system can deliver a better return to farmers. It can also provide competitive prices to Australian consumers
- Direct supply can reduce the time taken to transport fruit and vegetables from the farm gate to the supermarket shelves and so result in better and fresher foods for consumers.

Food and Grocery Code of Conduct

The Food and Grocery Prescribed Industry Code of Conduct was negotiated last year by Woolworths, Coles and the Australian Food and Grocery Council. The Code sets out clear principles of the trading relationship between retailers and suppliers and will provide greater certainty and clarity about dealings in the industry.

The Code is a powerful demonstration of what can be achieved through constructive dialogue and negotiation. Key features of the Code include:

- Prohibitions on unilateral, retrospective charges or penalties by supermarkets on food and grocery suppliers;
- Greater transparency around the principles of shelf allocation for branded and private label products;
- Recognition of intellectual property rights and confidentiality needs to drive innovation and investment in new products; and
- A low cost and fast track dispute resolution mechanism.

All of Woolworths' suppliers, including agricultural producers who supply directly to Woolworths, are automatically covered by the Code. They do not need to become signatories in their own right or through a trade or industry association.

An industry driven voluntary Code will always be preferable to a mandatory code. It is developed and executed by the people who best understand the industry – suppliers and retailers. The Code is currently being considered for prescription under the Competition and Consumer Act which will involve a public consultation process.

Retail Market Share and Farm Gate Prices

The Australian retail sector is increasingly competitive. Woolworths must compete with other supermarkets such as Coles, Metcash/IGA, Aldi, Costco and others such as Spar. Competition also takes place with traditional retailers in shopping centres and free standing stores and also with specialist web-only retailers who offer home delivered fruit, vegetables and meats.

The most authoritative recent estimate of market share was provided by the Australian Competition and Consumer Commission in its *Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries*. The ACCC reported:

“The ACCC’s view is that the major supermarket chains account for between 55 per cent and 60 per cent of consumer expenditure on grocery items. Woolworths accounts for at least 30 per cent and Coles around 25 per cent. Although each of these shares of retail sales are large for a single company, to say that the major supermarket chains enjoy an 80 per cent share of grocery sales exaggerates the position of retailers.” (ACCC 2008, p48)

The ACCC also exhaustively considered retail prices and the “gap” with prices received at the farm gate and advised that the available evidence did “not support the proposition that retail prices have risen while farm gate prices have stagnated or declined” (p301).

The prices paid by Woolworths to suppliers for fresh produce are determined by the fundamentals of supply and demand in the marketplace for that product. Prices will fluctuate in accordance with the current supply. Given the perishable nature of fresh produce, the supply of fruit and vegetables will vary greatly each day. Factors influencing supply will include seasonality, quality, export markets, shelf-life, climate conditions, and demand from competing buyers. These facts were recognised by the ACCC Grocery Inquiry which stated:

“Prices are dictated by supply and demand conditions in the marketplace at the time the growers’ products are ready for market. The ACCC has no concerns about the competitiveness of any market at this level.” (p220)

While Woolworths is an important Australian retailer, it is but one of many competing buyers for Australian agricultural products. Other buyers include:

- the food service industry (cafes, restaurants and institutions such as hospitals, nursing homes, defence facilities and prisons)
- the food processing industry
- export markets
- specialty retailers such as butchers and green grocers that are either in-store or on-line
- supermarkets such as Metcash/IGA, Coles, Costco, Aldi and Spar.

Woolworths therefore does not have the ability to determine the market price for agricultural products. Recognising these commercial facts, the ACCC reported:

“Evidence available to the inquiry suggests that retailers do not set farm gate prices, but rather these prices mirror supply and demand factors in the relevant market.” (p301)

“Accordingly, the ACCC considers the structure of the grocery sector does not lend itself to allowing the major supermarket chains to artificially suppress farm gate prices.” (ACCC 2008, p308)

“The ACCC considers that the evidence in relation to fresh produce is inconsistent with arguments that the major supermarket chains are long-term oppressors of growers. Rather, the evidence indicates that, overall, growers have a range of options other than direct supply to the major supermarket chains. The evidence that some buyers have remained in business relations with major supermarket chains for many years without contractual reasons for doing so suggests that there are benefits from doing so.” (ACCC 2008, p 357)

Given the exhaustive examination of these issues undertaken by the ACCC, it is somewhat surprising that the ACCC’s report is not listed in the publications referenced by the Agricultural Competitiveness Issues Paper. Woolworths strongly recommends that the Agricultural White Paper Taskforce review this report if it decides to further consider these issues.

It is important to also note that since the ACCC’s report, competition in the retail sector has intensified with the expansion of Aldi, the entrance of Costco to the Australian market and the advent of a host of specialist on-line food retailers.

Meet the Grower

To facilitate more transparency about where fresh foods come from, last year Woolworths launched a new consumer awareness initiative called “Meet the Grower”. The consumer can use their mobile phone to scan a QR code on packaging and thereby gain immediate access to information about the producer of the food they are buying.

The use of new technology in contexts such as this provides a cost-effective way to increase consumer awareness about the producers of their food and is a quick way to connect customers to growers.

Kissed by Nature

Extreme weather events like droughts, floods and heatwaves can leave farmers with produce that is smaller in size and that may have a blemished appearance. The produce may not look absolutely perfect but is perfectly good to eat. To help farmers sell their ‘kissed by nature’ produce, Woolworths provides value packs for customers or use the produce in pre-prepared salad and vegetable packs.

Similarly, in January 2013 Woolworths supported flood impacted Queensland citrus growers. The lemon crop was ready to harvest but was delayed by the severe flooding across Gayndah, Mundubbera and Bundaberg. While the supply of Australian lemons was delayed, Woolworths did not source additional lemons from the USA to ensure that there would be no impact at all on the demand from customers for Australian grown lemons.

Conclusion

Woolworths appreciates the opportunity to provide this submission to the Agricultural Competitiveness White Paper.

Woolworths is committed to supporting Australian farmers and providing customers with the fresh and high quality foods they wish to purchase. Our business depends on being able to provide fair returns to producers and fair prices to customers.

If the Taskforce requires any further information please contact me on 02 8885 4900 or msamaras@woolworths.com.au

Yours sincerely

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22 April 2014