

16 February 2024

Select Committee on Supermarket Prices
PO Box 6100
Parliament House
Canberra ACT 2600

By email: supermarketprices.sen@aph.gov.au

FAO the Select Committee

Re: Price setting practices and market power of major supermarkets

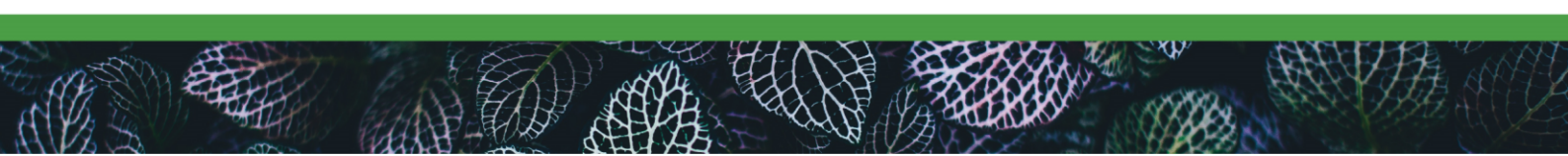
Greenlife Industry Australia (GIA) is pleased to contribute to the inquiry established by the Senate to examine and report on the price setting practices and market power of major supermarkets.

GIA is the peak national body representing commercial growers of plants (known as nursery products) across all states and territories of Australia. The nursery products industry is a significant component of the Australian horticultural sector employing over 25,000 people and generating a farm gate value of \$2.8 billion annually. GIA belongs to the NFF Horticulture Council and is a committee member of its Competition Taskforce; a body that is engaged in making the case for improved regulation of the domestic markets for suppliers of fruit, vegetables and plants.

The dominance of big box stores

Whilst growers of nursery products do supply plants to many supermarkets to sell in their stores, our bigger concern is with the supply of plants to what are commonly described as big box stores. Bunnings is by far the biggest of these, maintaining a national market share of 70%, rising to over 80% in some regions and towns (which outstrips the combined market power of the two major supermarkets, Coles and Woolworths). In 2023, Bunnings reported a revenue increase of 4.4% to \$18.5 billion. By volume of units sold in their stores, plants are second only to tins of paint. Other big box retailers include Mitre 10 and IKEA, with the much smaller remainder of the retail market made up of garden centres, supermarkets, greenlife markets and lifestyle stores.

Nursery growers experience similar trading inequities as those supplying supermarkets and yet are not protected by any code of practice regulating behaviour. The price setting and other associated trading practices of the big box retailers, together with the market power



they - and Bunnings in particular - exercise should be of no less concern to this Committee than the behaviour of supermarkets.

The market for nursery products is almost wholly domestic with virtually no export market. Many of the products nursery growers supply such as seedlings, herbs, food plants and annuals are as perishable as fresh fruit and vegetables and must be dispatched within days of reaching maturity. Given the extent to which Bunnings dominates the plant retail market, the vulnerability of plants, and the high volume and low value of nursery products, there are few viable alternative markets for nursery growers. If a grower is determined to make a living growing plants commercially in Australia for the retail supply chain, it is likely that they will supply Bunnings, as the majority of growers do, either directly or via third party suppliers.

The Food & Grocery Code includes in its definition of groceries “plants, flowers and gardening equipment” and whilst many supermarkets sell these products, it is Bunnings that is Australia’s biggest retailer of plants, yet this retailer, and other big box retailers, are not bound by the Code. It follows that nursery growers do not benefit from protection from the Food & Grocery Code, or any other Code. This needs urgent rectification to correct some of the trading inequities nursery growers experience in their dealings with the big box stores, including:

- Asymmetry of information about price: whereas the big box retailer has access to every price offered by every grower of each product line they stock and can make use of this information to exert downwards pressure on price, the growers themselves cannot discuss or share information about their prices, costs or terms without risking collusion. This often encourages a “take it or leave it” attitude on the part of big box retailers and without alternative markets for their products, growers typically take the price – even if this means selling at a loss.
- Absence of meaningful commitments from big box retailers to volumes by, for example, limiting their buying commitment to one single plant or requiring growers to re-tender (at short notice) to become a preferred supplier. This means that growers are obliged to bear all the risks of investing in their businesses and plant large volumes of nursery products, often with the encouragement of the big box buyer, in the hope - rather than expectation - that they will be sold.
- Current big box retail strategy to commoditise nursery products by for example, requiring growers to repackage their plants in generic black unbranded containers and replace their own branded plant labels with home brand labels. This denies the grower the ability to control their brand, capitalise on investments they may have made in sustainable growing methods and promote their best practice accreditations. It is not unusual for such demands to be made at short notice with the entire cost burden of changing to home branding falling on the grower.



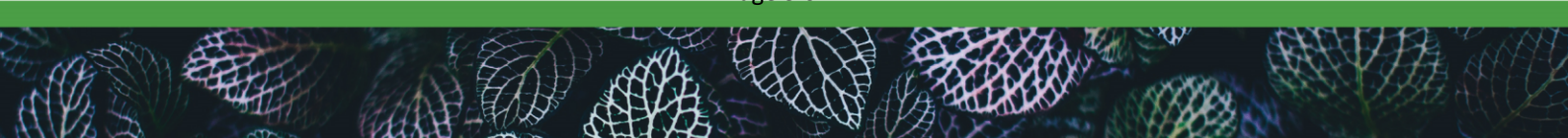
- Questionable behaviour by big box retailers through action such as asking growers to sell at or below cost of production from time to time to demonstrate that they are a “team player” with the implication that if they don’t agree, they will be excluded from the team.
- The prevalence of informal, verbal arrangements in the behaviour of buyers for big box retailers and their reluctance to document variations to supplier agreements and trading terms leaving the growers exposed to uncertainty.
- Third line forcing, for example in relation to freight, home brand packaging and in-store promotions.
- Complete imbalance of power in the big box retailer-nursery grower transaction. Fear of retribution is genuine and widespread amongst growers: being dropped as a supplier has the potential to be catastrophic for their business.

Importance of plants to consumers

Whilst plants might not be regarded as staple groceries, they are still very important for consumers. In recent years the number of people growing their own food, investing more in their gardens and establishing indoor and balcony gardens in urban environments has increased – and grew exponentially during the COVID pandemic. The importance of plant life and gardening in the well-being and overall health of human beings is well-documented. There is no doubt that consumers want ready access to a wide range of good quality, affordable plants for their gardens, farms, homes and allotments as facilitated by Bunnings and other big box stores.

As such, these retail giants are an essential part of the market and growers have a keen and vested interest in the ability of Bunnings and other big box stores to thrive and prosper. In the absence of meaningful competitors however, big box retailers are able to dictate terms of trade, set the prices and control the supply of nursery products in the retail supply chain. The ability of individual growers to challenge any of these arrangements and find last minute alternative markets for their plants is almost nil. The fear of retribution leading to loss of business is genuine and deeply felt: growers are completely powerless in their relationship with big box retailers.

We appreciate that the focus of this inquiry is supermarket pricing. However, we would ask the Committee to also consider the price setting practices and market dominance of the major retailers of nursery products, namely the big box stores. There is no better opportunity to help level the playing field for nursery growers than through this inquiry (and the others that are currently taking place).



Recommendations

1. Recognise that the Food & Grocery Code already includes plants in its definition of groceries and that it should therefore protect growers of these products in the same way that growers of fruit and vegetables are protected by the Code.
2. Include the big box retailers of plants, namely Bunnings, Mitre 10 and IKEA and other retailers of nursery products, with a turnover of \$1bn+, in the Food & Grocery Code of Conduct.
3. Support the Code of Conduct becoming mandatory, rather than voluntary, and ensure that it contains significant penalties – at corporate and individual level – for breaches.
4. Create a robust dispute resolution mechanism that protects complainants from retribution and is overseen by a genuinely independent arbiter.
5. Provide the Australian Competition and Consumer Commission (ACCC) with sufficient powers to initiate inquiries into the trading relationship between nursery growers and big box retailers.

GIA would welcome further engagement with the Committee through the course of its inquiry. We urge the Committee to seek the direct testimony of nursery growers and to put in place arrangements for them to do anonymously. To receive assistance with this, or any other aspects of this submission, please contact Joanna Cave, Chief Executive either by email jo.cave@greenlifeindustry.com.au or phone on 0468 368961.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Joanna Cave', with a small dot at the end.

Joanna Cave
Chief Executive

