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Q and A

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David McKinna, Allan Fels, Margaret Reid
Moderators: Julian Cribb & Joanne Daly**

Paper prepared for presentation at the “The Supermarket Revolution In Food: Good, bad or ugly for the world’s farmers, consumers and retailers?” conference conducted by the Crawford Fund for International Agricultural Research, Parliament House, Canberra, Australia, 14-16 August 2011

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Q and A*

Moderators: Dr Julian Cribb (Monday)
Dr Joanne Daly (Tuesday)

Panels: The conference speakers on each day



Thomas Reardon, Rufina Peter and Stephen Mbithi on the panel during Monday's Q and A.

Q. *For food security we need access — secure access to land and water. How can security of affordable food access be guaranteed against the competing demands for feed grain, bio-fuels, mining and coal seam gas exploitation by global corporations? Is there a case for changing legislation to grant legal rights to owners or farmers, to the strata below the surface of their property, to protect land and water?*

A. (David McKinna) I think the issue is that we have got to learn to produce more out of less because we have a declining agricultural resource in terms of land, water, etc., for various reasons such as environmental degradation, urbanisation and so on; and our productivity has not grown very much. My first job was with the Department of Agriculture in Victoria, and in those days they used to invest very heavily in the best in research and development, the best people. My PhD is a product of theirs. That does not happen anymore. The Government of Victoria, the governments of Australia, now say, “It’s not our problem; it’s a private sector problem”. But the private sector has a different agenda. So although I cannot answer your question about food security, I would say that Australia has got to improve its productivity. We did a major benchmarking study for a major food processing company, and it turned out that in Australia it costs twice as much to produce that product as it does in America and Europe. To a large extent it was because of yield; but the reason why they are ahead of us in yield is because they have invested in technology. So that is part of the answer to the question, but I do not have the expertise to answer the rest.

Q. *Robert Tulip, AusAID. My question is for John Glover. I am interested in your comment about the partnership with Dutch aid in the supermarket work in Vietnam and I am wondering what your thoughts are about the role of AusAID in terms of*

* The Q and A sessions were recorded and transcribed for inclusion in these Proceedings. Questioners and speakers are identified where possible.

partnering with supermarkets to improve value chains, and especially in making markets work for the poor.

A. (John Glover) There is a lot of investment from the European government organisations, particularly the Dutch, the Germans and also the Swiss, in developing the smallholder, to improve their prosperity and their wealth. It very much matches our own business model in METRO. We are investing in developing countries to guarantee supply. We have worked with some businesses and some donor funds from Australia, particularly in Vietnam, and that work has been very successful, turning villages into cooperatives and helping these people become good and efficient business men, and it has been sustainable. We ran a project about 4 or 5 years back in the north of Vietnam and it produced some great returns for the farmers. We had them growing a seedless watermelon rather than the old seeded type that was getting them 5 cents a kilo. I think there is a great opportunity, still, today, for those sort of funding projects, but the thing that I would emphasise, even though I did not speak about it earlier, is that there needs to be a payoff in the market. I have seen too many projects where there has been funding, and the farmers have grown the product and they have done a beautiful job, but there hasn't been a benefit because the product ended up in the traditional markets. So the farmer got no return for his work; there was no value actually added for that farmer, other than that he worked harder! It could be said he produced a better product but it got lost in the system. One of the things we aim for is to ensure the value is shown, by actually promoting the fact that these products are traceable; that they are from particular farms — and those farmers actually get paid more money for the work they have done in producing the products.

Q. *Shaun Coffey, Industrial Research NZ. We have heard a lot today about working through the value chain, but one of the questions that we have not really asked is, "What is the cost of cheap food?". We have not actually asked the hard business question: "What is the value proposition of food?". It is an almost philosophical question of, "What is it we want our agriculture to do in the various countries that we are working in?". Is the consumer actually connected well enough to that value chain to understand whether the non-nutrition, non-eating issues in food are actively reflected in the price, the environmental cost of food, and so on? That relates to a second question. Some of the figures that we have seen, about the massive urbanisation in Asia, for example, are quite similar to what was happening in Central Europe a little less than 10 years ago. When I started in agricultural science we had 19,500 dairy farmers in Australia. We have a little bit over 3500 now, I think. Globally there are 1.8 billion farmers. If we have that same type of attrition rate as we change our agriculture, what will we do with approximately 1.5 billion people moving from rural livelihood to urban areas?*

A. (Thomas Reardon) Just a comment: I think that there is a difference between consumers in, let us say, Australia, Europe and, to a certain extent, North America, that have a keen interest in the environmental consequences of various kinds of production regimes, compared to most of the developing country consumers who, I think, are focused on food safety and water quality. So to the

extent that there is an overlap between environment issues, which obviously there is in terms of fertiliser leaching, and pollution of the water, and food safety, that has become a matter of very keen interest for Asian consumers. It is shown up in consumer surveys, for example in China and in Thailand. I think the way this relates to Australian opportunities (and John Glover also emphasised this) is that there is cleanliness and respected food safety here. Branding of that quality, to try to reflect that sort of reputation, could be a valuable way of delivering both a greater market share to Australian producers in the Asian market, and acknowledging the sensitivity to food safety and water quality that is being felt in Asia.

A. (John Glover) The modern retailer has the capacity to communicate about food safety issues to our consumers: we understand them, very well. In Vietnam, for example, if there is an outbreak of chicken flu virus or swine flu, immediately our business increases. The wish for food safety brings people back into the modern business, because of the level of trust they have in us, and the fact that we are communicating to people about food safety, and we are also communicating about the benefits of what we do.

Q. *Jenny Goldie. I ask this question of Thomas Reardon with my ACT Peak Oil 'hat' on. I want to ask the 'energy equation' question. Given that so much of the market transformation is dependent on moving food, exporting food and moving it large distances, to what extent is the success of it dependent on cheap oil?*

A. (Thomas Reardon) I want to remark on that in several ways. First, let us look, over time, at a supermarket chain, or perhaps at the establishment of a supermarket chain within a given country. In the beginning, because the food supply situation is often traditional and you cannot get what you want in terms of quality, safety, price or consistency, there tends to be a relatively high share of your product that's imported from other countries. For example, in Indonesia, the share of fruit from imported sources is about 70% in supermarkets right now, and of vegetables 30%. They are importing carrots and potatoes, which is unheard of because of the weight and the cost, but these products are much better elsewhere. Now as supply chains improve, as John was pointing out, you tend to start sourcing more locally and you reduce food miles just because you are getting access to a better food supply chain locally.

Then as you plant your stores across a region where there are regional networks and global networks, you start to develop comparative advantage of various products in various places. So you might be sourcing your oranges from China, your apples from X, Y and Z, and there is a reascension of the import share in, for example, your produce section in your supermarket. In that case, then, you are paying greater transport costs and you have to find methods of compensating for that transport-cost change. What tends to occur is that coordination costs go down with the various networking and distribution-centre and efficiency moves of supermarkets, and you find (I see this internally in China as well) the procurement stretch of the arms is getting farther and farther across China to get various products. So they are spending more on transport; but then

they're shifting away from truck transport to train transport; they're improving the logistics of interface between the various kinds of infrastructure so the overall cost might either be controlled or go down.

Now if you find yourself in a shock situation where the oil price goes up quite a bit or the electricity cost goes up suddenly, I think that there is still a certain degree of flexibility in the system because they're in an early stage of reducing the coordination costs in many of these systems where there are large jumps. For example, going to a distribution centre network can get you 30–40% cost reductions in some of the transaction costs. So there is flexibility within the system to deal with some of those shocks, and technological answers to some of it, in terms of changing the mode of transport, etc. But in the end there will still be sensitivity of certain kinds of products, and certain kinds of sourcing channels that will be affected by the shock. I would say that the shock would not be as great as is imagined; usually it will be a modest shock.

Q. *Julian Cribb. John would you like to comment on that? Are you prepared for next oil shock?*

A. (John Glover) We usually find it is the oil shock that impacts on costs of the goods, but generally it's unlike here where, as Dave was saying earlier, the prices get frozen. If there is an oil-price shift, the freight cost are brought into the product and then of course the consumer pays — if the consumer is willing to pay. We just have to evaluate, from our understanding of the customer, what are the trigger points where a customer will buy or won't buy, or where they may downsize. For example, sometimes they might like to buy a size 88 orange, but maybe a size 113 is a bit cheaper. So we might change the mix and offer them a good quality product but perhaps it's a bit smaller to keep it within the manageable price range.

A. (Thomas Reardon) Just a small addition. This is a story from the US. When there was a transport-cost shock that suddenly reduced the demand, which had been very high in the US, for sweet peppers from the Netherlands, there was then a rise of greenhouse industry in Mexico and the southern US, with heavy investment by the Dutch. These same Dutch groups that had been exporting reacted flexibly, moved production to where it would be closer to their market, making the necessary investment. Then, when the transport costs went back down, they still had two 'feet': one in the Netherlands ready for certain kinds of products, and for the more 'commodity' products they were ready from the other place. Lesson: diversify your production source bases for this kind of shock, and then jujitsu the change so that it could even benefit you!

Q. *Peter Wynn, The EH Graham Centre, Wagga Wagga. My question is to Rufina and Stephen. Technology, innovation in technology, is very important for developing smallholder marketing chains, and yet innovation in extension is probably equally, if not more, important. You both mentioned the importance of women in developing production efficiency and also developing smallholder marketing chains. Have you got any innovative approaches for more effectively engaging with these women communities, bearing in mind that males dominate the society in these areas?*

A. (Rufina Peter) In PNG, the membership of the 'Women in Agriculture' is made up of women farmers but also professional women, and a lot of these are agricultural extension officers who currently are limited to extension work because of a lack of recurrent funding for doing what they are supposed to do. Having women organised into groups, especially women farmers, we find that women are willing to pay to come together and learn from each other's experiences. For example, at our annual general meetings in the last couple of years, we've had a day dedicated to displays of what each group of women has been doing in their particular locality. The innovations in the activities they've engaged in can be learnt about by others who come from across the country. The point is that women feel the impact of development, in the sense of the inequitable distribution of wealth that's coming out from the development process so far, and so they are prepared to move and do what they have to do. Women in Agriculture is a non-government organisation and its members really fund their own way to come in and learn from other women.

There is strength, I think also, because we have the women extension officers in our country's three tiers of government. Women have registered at all levels, down to the ward level, which is the most minute, and they can access services from extension officers also from the national and provincial levels based in the district.

Another point also is that the Australian program in PNG, the current program that ends in 2012 June, has three components. The first two are looking at institutional capacity building, one focusing on a particular research organisation, and the other looking at institutional capacity building for about six different R&D organisations. Their approach has been a move away from the traditional way of working with these R&D organisations: doing the research, getting the results, and bringing them out — an approach in which, let us say, the farmer was not the focus. That is what they have to do: their research agenda is to do the research and transfer the technology if and when they can. But with the current approach now the institutional capacity building has made the farmer the centre of service delivery by these R&D organisations. It is for them to get out and interact with the farmer, and see what the farmer needs. At the same time there is a third component in the program, which is the Agriculture Innovation Grant Scheme. So using what they learnt in the capacity building, there is a pool of funds now for them to draw from to go out and work with the farmers. This combination of innovation and looking at the complete value chain has created partnerships that didn't exist before; plus we still have the traditional modes of operation. I think it's really beneficial for the farmer.

A. (Stephen Mbithi) In Kenyan horticulture, women are in the majority, not a minority. The smallholders are predominately women. I'm talking about the people that actually run the small farms, who run the activities at the farm, such as grading, sorting and packing. I think we all know that there is no better hand than that of a woman in sorting out and grading, and so women form the majority of that work force. It is true that women make up the bulk of the people in lower paid jobs, and that is mainly because only relatively few of them have sufficient training, compared to the numbers of men.

As an industry, now, we are looking at innovative solutions. We just finalised a Practical Training Centre for the industry, run by the industry together with the government. It is aimed at making sure that specialised skills are imparted selectively — of course to everybody in the sector, but specifically targeting women, to make sure they have the skills necessary to be able to move up the ladder, the career ladder, in some of these organisations that deal with horticulture. Although women have most of the lower paid jobs on average, we also have many women as owners of smallholder farms, and in exporting companies. By that I mean companies that are purely led by a woman, and which are into export. So there are women in higher-ranked jobs; it's not that they are not there; it's just that we're trying to improve the situation by an affirmative training approach. Of course the training is for everybody, but specifically in this community it is targeted towards women to correct that situation.

Q. *Richard Etherington, Koconut Pacific. We are working with a brand in Australia, and internationally exporting out of Canberra: virgin coconut oil. We are involved in the value chain, right from the production in the Solomon Islands, to dealing with certification, organics and creating a brand in the Australian marketplace and internationally. I'm interested to hear, on the broader scale perhaps, David and John talking about Australia and Australia's lack of high quality brands internationally, and I'm wondering if that is something to do with the ownership of Australian production and brands? I know that Fonterra is a cooperative of New Zealand Dairy farmers, and a number of those other brands that you listed are, I presume, nationally owned, whereas I understand that most Australian brands are owned from outside Australia. I thought perhaps you'd like to comment on that.*

A. (David McKinna) My view, and I think John made this point earlier, is that Australia tends to be an opportunistic trader of commodities rather than a long-term marketer of branded products. We've had some very successful branding programs overseas previously, but we didn't stick to them. A lot of our exports are exported as commodities, and the bulk of those are processed meat, grain, dried milk powder, etc. — not a lot of products. There is no reason why we can't have strong brands; it's just that we haven't invested in them. Most of our food processing assets now are owned by multi-nationals. They have global brands and they produce those brands in the lowest cost country and market them around the world. In Australia we haven't invested in, and we haven't gone into, the rigours of good branding, which are consistency, and long-term relationships, and understanding that those are necessary. We just haven't taken the time to understand our customers. The best example of Australian brands is in wine, where there are some Australian brands around the world, because people have taken the time to market them.

Q. *Bill Bellotti, University of Western Sydney. A question to David and Stephen, based on quotes that you both made. David, you said something like, "One of the aims of modern supply chains is to drive costs out of the supply chain", and Stephen you said something like, "One of the problems of modern systems is getting a fair price to farmers". Are these two things incompatible, or can you give examples of innovations where supply chains are leading to higher prices for farmers, or more profits?*

A. (John Glover) The first part of the question is do we need to lower costs? There's a process of continuous improvement; we don't stand still, and we're up against competitors who are investing in technology and productivity, etc., so we have to lower our costs. Whether that translates into a higher or lower price for the producers or the vending chain depends on harnessing the market power. Individual growers used to be able to do that through their cooperatives or marketing boards or similar, but now they have all gone. There is no reason we can't have the best of both worlds. It's just that we haven't taken the time. We have to differentiate our product and we have to market our product and we have to brand our product. Certainly there are plenty of examples of people getting a premium for product, and a good example is Pink Lady Apple which sells at a premium around the world, through the things I talked about. It's about product differentiation, exclusive intellectual property, successful marketing, and it's about a royalty program that funds the continuation of that. There is absolutely no reason why Australia can't do that; it's just that we haven't been very good at it. The New Zealand Zespri is a fantastic case of what you can do. We should learn a lot more from the New Zealanders. They're much better at it because they've had to be, because they don't have a domestic market.

A. (Stephen Mbithi) Just to comment on the part of my statement about fair pricing to farmers. It's true that the consumer is always 'king', and therefore it's very important to keep the prices low because consumers want low prices. But there is a cost to low price, and we need to know that. Of course this is not an apology for inefficiency; we must not encourage production inefficiency in the name of trying to be fair. But if we do not have a mechanism that also addresses the producer end, then you're going to have a lot of poor people across the world, because you've got price imperfection, in terms of pricing. There is something called ethical buying, and I think it should be the counter-balance to keeping prices low for their own sake: making sure the prices are low, but also that the production is ethical. The two objectives can be achieved. There is a lot of target ethical buying now happening from many supermarkets. I'm sure my colleagues will know lots of work being done by many supermarkets, at the moment, which are deliberately sourcing from smallholders and labelling their produce as such, as long as it meets the threshold of food safety. It is to show the consumers that, "Yes, we're doing something about everything, including ethical buying".

A. (Thomas Reardon) I think that both processors and supermarkets depend on innovation investments and productivity investments by farmers. As John, I think, was pointing out, you can't kill the golden goose; you have to keep it alive. If a retailer wants to get a lower price to the consumer in order to be more competitive, but also offer a sufficiently remunerative price to the farmer to keep investing in productivity gain and quality gain, then somebody, something, has to give. What I've seen is that usually the ideal element that gives in the system, from the point of view of both the retailer and the farmer, is that the logistic segment becomes more efficient and the wholesaler tends to lose. So that's what forces some consolidation in the wholesaler segment and also, depending on other conditions like infrastructure costs, etc., it will influence what portion of the price still gets to the farmer. Here is an example that I saw



Stephen Mbithi, John Glover and David McKinna on the panel during Monday's Q and A session.

in India recently, where a retailer and processor is buying milk in Rajasthan and in Uttar Pradesh. In Rajasthan they are giving essentially 21 rupees per litre to the farmer. The same company is offering 17 rupees per litre to the farmer in Uttar Pradesh. I said, "Why is that?", and the reply was, "Well we want to give the maximum price and still be able to be competitive because we want the farmers to invest, but the costs of electricity, of transport, bribery costs, etc., are much much higher in Uttar Pradesh so we have to take that out of the farmers' bill, essentially because we are in a competitive situation on the retail price". So the conditions can be improved and allow some of this inherent tension between prices at each of the ends to be reduced.

Q. *Julian Cribb. A question to the panel. When you do reduce the price to the farmer, the farmer tends to take it out of the environment: it's the soil or the water or the biodiversity that gets hammered. What is the solution to this problem? How can we build protection of the agricultural eco-system into the way we price food?*

A. (Stephen Mbithi) The production must not be just production for the sake of food. There have to be some ethics in production, and one of the ethics is that you have to be environmentally sustainable. You are not just producing because somebody is hungry, so you need to produce food responsibly so that it can be sustainable. I think, and my colleagues around the table will know, that many of the mechanics of market access include whether or not you have grown sustainably. You measure this with a 'tool', and the tool is always a standard, and therefore if that standard is properly enforced it becomes futile to not respect the environment for production. So food production is not just about food, product X. It's about the processing and many other aspects as well.

Q. *Julian Cribb. John is that kind of standard built into the GAP concept?*

A. (John Glover) We look at collaboration with the farmer, in the context of the competitors, what the pricing is, and the affordability of each item. We look at the varieties. We don't overwork the soil, but with any particular farmer, if we have to be in a competitive situation, we'll look at how we can improve that farmer's yield. It could be by the variety we use. We've had farmers growing tomatoes up on a trellis, using a different variety that gave a higher yield, and underneath they were growing lettuce! We work with them to get greater returns out of the acre. While we may pay them less for the tomato, their return for the acreage is what we've really got to look at.

Q. *Melanie Brock, Meat and Livestock Australia, based in Tokyo. I've been in Japan now for 20 years. At the moment I'm a brand manager of Aussie Beef and I'm also a marketing person for the commodity of processed beef being shipped to Japan. Prior to starting with MLA last year I had my own business, importing product — food and beverages — from many markets in the world, and in that sense I felt like a bossy school teacher because I used to have to chastise the exporters for sending me rubbish and expecting me to pass it on to the Japanese market and the very discerning consumer. I used to be well known for giving them lists of claims, etc. I know that we can perform very well in Australia, but I know that sometimes we're pretty pedestrian in terms of what we try and pass on to the overseas markets. I'd be interested in hearing from Richard Lovell, being here in Australia to buy as opposed to being here to sell, what he looks at and what advice he might have for exporters? I apologise for being grumpy about exporters — it's just that I remember all those horrible times I had to deal with the claims!*

A. (Richard Lovell) Thank you Melanie. I think in Australia you should really be positive. Over the couple of years that I have been here, I've noticed that Australia has good products but maybe you don't understand the requirements or needs of the Asian market. CP can put your items into 50 countries, but I'll just talk about Thailand. You need to understand the marketing side of the business, and the Thai point of view, how we can use products in the Thai market — and it's not always about the cheapest product. We at CP we may be the largest in Asia for chicken but we are definitely not the cheapest; we understand how to create value out of our products. In Thailand we have Snowy Mountain water, and Bega cheese is there, and they are doing fantastically well. They're not the cheapest but they understand what the Thai customer needs. Now, during my presentation earlier I was going to talk about avocados and half-shell mussels, but the time ran out. Two years ago I met with avocado farmers in Queensland and at that time they were exporting, I think it was, 300 or 500 tonnes of avocados into Thailand, and they were saying "Our avocados are great, they are the best, blah, blah, blah, but we can sell thousands more". I said, "What you need to understand is how Thai people are going to use the avocados. How do Thai people use avocados in their own cuisine? They don't! At the moment they don't! But if you can get that product into Thai cuisine, into a Thai dish, that would be a different story." Luckily, Japanese food has come to Thailand and it uses avocados. Last year there were 1700 tonnes from Australia, of Queensland avocados. Then you can push your product even further. Here, I've heard many many stories of leading suppliers that are going out of business because they can't supply Coles and Woolworths any more. However, if local markets are a problem, there is enormous opportunity in Asia, and also in several countries in Africa. Africa is an up and coming continent. Having offices in those countries, such as the MLA in Tokyo, and Austrade and the Victorian DPI with offices in Thailand, is a way of linking up with people in those countries, investing overseas in offices, and building brands. Bega has done a fantastic job in that, with processed cheese. They understood that, okay, Thai people don't eat sandwiches — but they are starting to eat them now! And it's because there's been investment into that marketing. It's happening overseas with New Zealand half-shell mussels as well.

Q. *Anthony Leddin, Valley Seeds. This is a question to David. You say the supermarkets have the power. I thought the consumer would be the one that has the power, and the supermarkets would just conform to whatever the consumer asked for: if consumers are asking for cheap prices, that's what the supermarkets are going to give them. So from the point of view of the Australian consumer, is it better to run an education program about food and the importance of agriculture for food in Australia? I think that's been belittled and instead we're seeing cookery shows like MasterChef and others. That is the only message about food that people are getting, out there in the public. They are not getting the true message that the number of choices you are going to have on a shelf is getting lower, there is less research, and the food choice is going to be a lot less. Should we look at education? How do we do it? How do we get the message out?*

A. (David McKinna) The first part of that question said that consumers buy what supermarkets put on the shelf. Supermarkets would argue that they respond to consumers' needs and they do research, etc. But the supermarket agenda is very much about putting products on the shelf that sell profitably, that turn over quickly, and that don't waste as they move through the supply chain, and if that lines up with what consumers want, that is a good thing. Certainly there is a need for consumer education. Consumers are quite ignorant about food. For example, consumers expect to buy table grapes 12 months of the year, but when I grew up in the country table grapes were only around for about 6 weeks. Now consumers expect them 12 months of the year and they expect them to be good. Consumer education is important, and the ethics in the production system is important. People will tell you that we want to buy Australian food and we care about ethics, and we care about the environment, etc., but the bottom line is they buy on price and performance. There is only a small percentage of people who buy with ethics high on their list. People certainly, as consumers, have some ethical, environmental aspirations, but they're lower down in the priorities. We certainly do need to make consumers more aware. What if consumers were aware that when they buy the private label tomatoes from Italy, that's closing down a factory in Echunga in Victoria. They don't make that connection because they are not told about it. So I think we need to do a lot more about that — but who's going to pay for it? It's not a government role, and the food companies are increasingly multi-nationals which don't have a vested interest in pushing a particular country's produce. But I do think there needs to be education. There are some good things going on, such as work by the MLA where there has been some good education over the years; and Horticulture Australia is another example. We need a lot more — but who is going to pay for it?

Q. *Dr Albert Rovira, Adelaide. I've enjoyed the talks very much and I'm impressed by the spread of supermarkets in Asia. One of the things that concerns me is an example I came across earlier this year, when I was up at Hervey Bay and Maryborough, in Queensland, and the floods had stopped road transport getting into those two quite big towns. Within three days there was absolutely no food left in the supermarkets. Now my concern is that with the development of supermarkets in Australia we've seen less demand for local food because it's cheaper to bring the tomatoes from Bundaberg than to bring them from Adelaide. As a consequence we've become very very dependent*

on road transport. So my question is, with this explosion of supermarkets in Asia, how would Beijing or Bangkok cope if the road transport were blocked? It's a negative question, but I think it's something that needs to be thought about.

A. (John Glover) This is something that I guess we face a lot in China with transportation. One of the weaknesses in the Asian and developing markets is the road infrastructure. China's doing a lot of work. I couldn't give an answer really related to the situation you are talking about in Queensland — how we could really fix that. It's an area that we've still got to work on. We do source from distant places. For instance, I'll talk about Vietnam, which is a classic market for Asia. You've got a rainy season in the North and a rainy season in the South, and there are landslides, and the railway tracks and roads are cut. We actually now have stores in the North, the centre and the South. We've got growing programs for the basics, for the staples, in the North, so that if the roads are cut and we can't get supplies through from the central highlands we can buy in the North. But then it becomes a demand and supply story, and straight away you start to see when the demand goes up, in those sorts of instances, and it would be like Adelaide tomatoes. Everybody goes to Adelaide, so the price is doubled. And that's what bounces up all the time, so then it becomes an issue of affordability.

A. (David McKinna) Can I add one point to that? I think in an era when we are going to see diesel hit \$2.50 a litre, that the whole issue of logistics and transportation will change. We're seeing crazy situations where mangoes are grown in Darwin, shipped to Adelaide, go through a Woolworth's warehouse and are then shipped back to Darwin. When diesel is \$2.50 we won't be doing that. The current wisdom in logistics is that you have big highly efficient distribution centres. I think that balance will change, and we will have a lot more local buying.

A. (Thomas Reardon) This is a fascinating question to me, partly because a week ago I was ending a 10-day trip into two areas of China looking at rice in particular. I was actually talking about this specific question with the Chinese Government and with the various companies, and it appears that they have three strategies to deal with this situation. In some of these provinces, for example the most dynamic and richest provinces, and in large cities there, they are very concerned with their food security, in relation to SARS, etc. Their roads actually did shut when there were some transport-costs issues and rains, etc., and they had some problems. So what they're doing is taking their wholesale markets and consolidating them into larger logistics wholesale centres. They're doing that with consultation from the supermarket chains, the large processors of, say, grains and of other products. And then they are designing a diverse set of logistics, one of which could fall and the others would stand. So they have canal systems that they are improving, railway systems interfaced with the wholesale market and then the highway system interfacing. So that they're getting fewer points and each point is more diverse and better linked to the various possibilities for transport.

A second very fascinating point in this discussion was that they'd recently sent the equivalent of a trade mission from their province to Heilongjiang Province



John Glover, David McKinna and Margaret Reid on the panel during Monday's Q and A session.

which exports rice. And they said that when they went there, there was another trade mission from Shanghai there, competing to make contractual relations between the provinces and targeted sub-cities, to help their traders set up operations to have sourcing operations in Heilongjiang Province so that they would have essentially first dibs. So the same thing that China's doing internationally, in Brazil and other places, they're also doing within their own country among the provinces — setting up deals to be able to reduce risk in supply.

The third point is that then locally they work on diversification and self-sufficiency within the local area; but they don't depend on that alone. They don't depend on the trade deals and they don't depend on the diversification of infrastructure. They want all three. I think it is quite interesting.

A. (Richard Lovell) Within Thailand, what we do as in CP Group is to have what we call 'compartmentalisation'. So whether it's our poultry, our swine, our prawn industry or fish industry, within a 50 kilometre radius of that processing centre will be the feed mill, the hatcheries, the grow-outs, and the farms, and we export from there. That helped us during avian flu (which came from Europe, by the way; we didn't start it). So when some disaster like that happens, we can just shut off that area, process the meat and keep it there. Obviously prawns are also based all around Thailand for the same reason. The floods affected us this year, and they affected us last year. This year in Thailand 10% of the prawn aquaculture has been wiped out because of the floods. An aspect of CP that I didn't mention this morning was that CP is also largest in the world for rice production. We have an enormous milling facility about 100 km from a major port. We used to bring the rice to port by truck, the whole way to the port, and ship out from there. Nigeria is one of our biggest markets, for example. We had the same issue with floods, so we've actually built an inland port so the product is loaded on to containers in the canals and it is shipped. This port, it's got ships, everything, inland. So we don't have to worry so much — and actually the road system in Thailand is still pretty good anyway.

Q. *Kathy McGowan. I also would like to say how much I've enjoyed today and how much I've learnt. I'm currently working as a consultant to Rufina's group in Papua New Guinea with the Women in Agriculture, and my question is to several of the people here: Margaret, to you with your review of AusAID, and to the Asian Development Bank and to ACIAR. Obviously Papua New Guinea is an emerging market in terms of developing its supermarkets. Dr McKinna said the consequences of not doing this properly could be the loss of our small-scale farmers. So my question is at a macro*

level. How do the donor groups think about passing on these lessons to countries such as Papua New Guinea and organisations such as Papua New Guinea Women in Agriculture? As we heard, that group is just beginning to work with their farmers, building coalitions, doing all the training that we need to do so they can provide to the supermarkets — they are at that development stage. So I would be really grateful for some comment. And also the private sector, maybe CP Foods, might have some comment about the best ways we can actually design countrywide systems so that the end result is actually healthy people, effective markets and ethical supply systems that respect both the people and the production systems and the environment we are working with.

A. (Margaret Reid) Within the Aid Review what we said was there were four major themes that the aid program should look at, and then there were thirteen segments underneath where we believe that Australia has something it can offer. They weren't ranked in particular order, but in fact agriculture and food security were the first of the thirteen that came to mind for the five of us when we were talking in particular about this. Now, I don't see that aid as being the sorting out and running of supermarkets, or promoting them, or anything like that, but an aspect of the aid program has to be relieving poverty, which means assisting those who are attempting, as subsistence farmers, to get enough food to feed themselves. In New Guinea, as elsewhere, programs where we can actually make a contribution need also to be programs that the recipient country wants. We have said that Australia should not go round saying, "We think you should do this", or "We think you should do that"; "We're good at this"; "We're going to do a program on that" — and that can happen with aid programs and you achieve very little. It really is a question for New Guinea in this instance to work out what we can do that fits into the category of assisting with agriculture and food security, and then putting a program together that will enhance that, relieving poverty. It's not designed for supermarkets profits and anything of that kind. Our aid program is principally to target the people, over a billion on this planet, who are living on less than \$1.25 a day. It is not for us to say what the programs will be but to offer what assistance we can, the expertise that we have, which will assist in meeting those objectives, and I think there is quite a lot that can be done in New Guinea. The aid program is not there to prop up governments, assist governments. It's for people living in poverty.

Q. Jon Tanner, Wood Processors Association, New Zealand. I'd like to pick up on a point that Dr Mbithi made in his presentation. He talked about the growing business around certification, and I think it really is a massively growing business and I'm just wondering where this thing is going. Representing the New Zealand wood industry, one of the things we have to comply with to trade internationally is the Forest Stewardship Council. It sounds like a great thing, but the Forest Stewardship Council's certification earns our business nothing — not a cent — but we have to comply with it. My members complain no end about having to comply with things that don't earn them any money but simply add hundreds of thousands of dollars of costs in the supply chain. How do your members feel about having to put seventeen stickers on boxes before they export? Where is that going for small-scale producers who have to comply with never ending, it seems, certification schemes?

A. (Stephen Mbithi) I will give you an example. It costs about US\$1000 to satisfy one certificate, on average. That's quite low compared to other standards that actually cost US\$2000–3000, but let's take US\$1000 for one certificate as an example. If all the producers in Kenya, 1.5 million farmers, want to have certification, each one of them at US\$1000, then for 1.5 million smallholders I think the total money paid would be US\$1.5 billion, if my mathematics is correct. Now, the total exports from Kenya, for fresh produce in total, everything, fruit, vegetable, flowers, is US\$1 billion. So the total cost of certification would be higher than the total exports for one certificate.

Now, I think the point is made that you could actually drive farmers out of business if you do not deal with the whole issue of certification. The same is true for emission standards, and you can add the labour standards, you can add the ethical standards, environmental standards, the food safety standards. The answer lies in making sure that, yes, we maintain the principle of ensuring that standards are kept — and there's a way of verifying that through a credible certification system. We would like to see supermarkets, especially, working very closely with producers to create the necessary harmonisation. Of course, that's already ongoing with, for example, the GFS process (Global Food Safety). As producers, we really support this. The supermarkets are in a quest at the moment to consolidate standards in a GFSI (Global Food Safety Initiative). That's more for the post-farm-gate set of standards.

Pre-farm gate, we think that the solution will lie in consolidation of private standards, making sure that there are fewer, and using market forces. I don't think there will have to be a role for regulation. I know there was a move last year to force some kind of discipline onto private standards and I think that flopped. I think the best tool will be a market tool. So, yes, it's a nightmare. How do we do it? Obviously, every farm is not exporting to all the markets, so not all the seventeen stickers have got to be on one box, but, frankly, most farms will still have to satisfy at least three or four. Now four certificates are US\$4000 just for the certification costs, and there is compliance cost as well. So it's a nightmare out there, and there must be consolidation.

We complain about the private standards, but let's also make sure we understand that official control systems by various governments sometimes can be even more expensive. So it's a situation that requires a policy approach, and, obviously, more collaborative approaches could help to ensure that at least governments work together to see whether there could be some formal harmonisation. I know it's very elusive but we've got to keep on chasing this. It's the only way, and it's not only developing countries crying for change. I can assure you that the biggest fights on lack of harmonisation are between Europe and USA, because each uses a slightly different system and they keep on having issues between themselves on lack of harmony.

Q. *Joshua Scandrett, University of Tasmania. I'm a recently returned Australian Youth Ambassador for Development; I was living and working in Vietnam for a year. I'm also one of the dozen or so young scientists who have been sponsored by the Crawford Fund to attend this conference. I would like to take this opportunity, and I'm sure I*

speak on behalf of all of us, to thank you for the donation. It's been a very beneficial experience, so thank you kindly.

I do have a question. Thomas Reardon, you spoke really well I thought about the dichotomy that farmers face in developing countries between those who do have access to current infrastructure and possible access to markets, and those who don't and who have the possibility of really being left behind. Given the talk about petrol prices and potential natural disasters and also the comment that AusAID's budget is going to be \$8 billion in the not too distant future, does the panel think that there should be a similar dichotomy in the way the AusAID budget is applied or spent to ensure that those farmers in the latter dichotomy, the ones further away, aren't even more increasingly disadvantaged as these fuel prices and things come into effect?

A. (Thomas Reardon) I think that's an excellent point that points to different kinds of investment that are needed in different regions. I'm just thinking, for example, of Uttar Pradesh, a small state of only 200 million people in India. Half of them, about 100 million, are more or less in zones that are within hailing distance of Delhi and are in rapidly growing markets and there's a lot of possible investment. There you need the jujitsu kind of approach, where you're thinking smart about where the bottlenecks are in building the supply chains or making them flourish. It could be in the milling sector, or it could be in the cold storage sector; it is not basic drainage infrastructure or revamping irrigation that's as necessary in that area. Then in the areas of the hinterland and the eastern part of India, you have problems of flooding and basic infrastructure problems that need electricity, which need to be targeted.

Another point I want to make is that very often, I've noticed, both governments and donors think in terms of finding the area with the poorest people and investing there. But it turns out that there are poor people also in those dynamic areas who are missing links with the market and missing assets that could help them to make links; for example, they might be skills programs, or education, or things related to cooperatives development within the area that's more dynamic but still has poor people. Also there tend to be relations between the dynamic area and the hinterland, with businesses that are building in the dynamic areas that invest for part of their operation, such as commodities production, in the hinterland area. They may grow their niche products or high quality products, such as in the case of seed potatoes, in the western part of Uttar Pradesh, and commodity potatoes in the other part. So helping define ways to make those kinds of linkages of investment, which have to do with financial instruments and credit in subsidies, available to make those kinds of investments, would also be good.

Q. *Reece Kinnane, from Oxfam Australia. My question is to the panel and also maybe to the moderator. I want to ask you to discuss the world's hungry and your insights on how this supermarket revolution is affecting them: in particular, the large proportion of the world's hungry that are involved in food production themselves and who sell any excess they may have for profit.*

A. (Stephen Mbithi) A quick comment. The supermarket revolution could in a very strong way affect very positively the hungry situation across the world, if it's well handled. You might ask, "Who's going to be doing the handling?". I think that if the price mechanism is correct then it could be a driver to rural agriculture and a good reason for serious farming. But if not well handled — if, for example, it drives smallholders out of production systems, then I think you will have maybe two or three times the current population being hungry. It could exacerbate the problem or it could actually solve the problem. It all hinges on whether or not there will be a deliberate effort of inclusion of smallholders into the value chains that supply the supermarkets. It should be remembered that for the majority of the smallholders that are producing across the world, this is their only way of livelihood. So while the supermarket revolution could be beneficial, there'll be need for some inclusion.

A. I think the problem of world hunger is much broader than the supermarket revolution. We can look at supermarkets as one way of contributing to solving the hungry problem. We all recognise that this is not the one and only solution, but it does have a role to play. And as you rightly pointed out there are different situations of hunger. There are cases when the solution to that doesn't come from the market, it comes from self-sufficiency. But I think the contribution of this conference is to locate the supermarket contribution in terms of how can you maximise its contribution to solving world hunger, without saying it's the only solution.

This completed Monday's Q and A session.

Q and A at the Tuesday breakfast

Panel: Professor Allan Fels AO and Professor Thomas Reardon

Q. *Barnaby Joyce: apparently the ‘author’ of the Birdsville Amendment. I am surprised as to why the sustained selling of milk below cost was not seen by the ACCC to be a breach of Section 46(IAA) which is the Birdsville Amendment. Why did the ACCC see it as they did, and what are your views on that?*

A. (Allan Fels) I was a little bit surprised at their finding that Coles wasn’t selling below costs which would have triggered the Birdsville Amendment part of the Act — which will be attributed to you for ever, for better or worse! They also seemed to say that that bit of the Act requires some kind of anti-competitive purpose and really they said it was another purpose altogether. It wasn’t quite to harm competitors. To my mind it was probably a competitive purpose. Where I possibly differ is that I thought on the whole that’s good competition, that’s competition that works well for consumers. It can ultimately hurt farmers and processors to a degree, and I would prefer the slightly more rigorous test under Section 46. However, as I said earlier, I would really like to see the Parliament have a deeper look at Section 46. Leave the Birdsville Amendment alone if they want to, but, just like the rest of the world, add the so-called ‘effects test’. That would strengthen Section 46. It is really a difficult piece of law to operate and it is one which is applied to big business. There has been huge resistance by the Business Council of Australia to a stronger abuse of market power. I ask myself now why is it? And then I realise it’s because the other bits of the Act are often of less concern. If you have a very concentrated industry with only maybe one competitor, then you’re not really worried about cartel laws, because there is no one to collude with. Coles and Woolworths are not going to collude over prices. Likewise there is no one left for them to merge with, hardly, so they are not so worried about merger laws. If you start saying well what about laws dealing with people that have market power and abuse it, you run into huge political resistance, and also in court they put up an enormous fight and the provisions of the law are quite hard to prove — which is one of the reasons the Birdsville Amendment went through.

Q. *Sharman Stone MP. Professor Fels, thanks for your talk. I think most of us would agree with you about having to have the ‘effects’ issue introduced into our competition consumer law; it just makes so much sense. We have such an emphasis in our legislation at the moment on short-term consumer interest, not on the long-term impact or effect on choice. One of the problems in my electorate is that Heinz and Coca-Cola Amatil have just announced big retreats, basically ‘shut downs’, and they tell me that their issues are the pressure on them to supply the Big Two’s home brands, which has significant impact on their own profitability, their own capacity to protect their own brands and so on. Ultimately that has an effect on choice, consumers’ choice. So I am wondering, how do you think we need to go about making sure that we rearrange our legislation so it takes that long-term look which not only includes an emphasis on the consumer but also the supply chain, which of course ultimately affects consumers’ interests. The other thing is, I’m interested in your comment on food labelling and the part it plays in consumer choice and the shutting down of consumer transference of*

information about who, in fact, is behind the generic brands which are doing so much damage to our Australian manufacturing?

A. (Allan Fels) Just on the last bit, I haven't got too much to say on that, other than that there is some potency in the 'misleading and deceptive conduct' provisions of the Act, and some of these associated laws on packaging disclosure, but that is quite important, and it is important with imported brands. Entry has been made a little bit easier over the years by lifting some of the parallel import restrictions, and as so often happens with reform you then need to strengthen regulation in another area, which is including disclosure and so on, if it's not to have harmful side effects.

On the first point, the Act, in theory at least, and in generally in practice, takes a longer-term view of the interests of consumers. It usually looks at the impact of its decisions over two to five years. There is a further fiery argument about whether the Act is exclusively concerned with consumer benefits in terms of low prices, or whether it is concerned with the broader concept of economic surplus, which includes some producer efficiencies. On the whole, the bias, however, is very much to the consumer end, as your question reflects. Personally, I'm not uncomfortable with that, and I'm not uncomfortable with there being generics. There's been a long-term shift of power from manufacturers having all the power and supplying weak retailers, to retailers getting more and more on top, which brings quite a few benefits to consumers. It's almost inevitable, maybe, that the retailers start to get more of a handle on producing their own products. It's another form of competition that seems to be the inevitable drift of the market and will have very bad side effects, particularly for people in country areas like you.

Q. *Would Professor Reardon like to comment on these issues in terms of the changes in developing countries?*

A. (Thomas Reardon) In these countries, especially let's say in the first wave countries, where the supermarket revolution has gone farthest, the same sorts of issues are emerging, sometimes with a very sharp debate and related conflict. I want to mention briefly the effect on the supply side. In 1999 there was a massive, really essentially a war between the retailers and the suppliers, especially the food processing industry and the wholesalers. There was such a rapid influx of multi-national retail firms and rise of larger retailer firms in Argentina that the pricing competition became extremely fierce, and also the conditions that the retailers levied on the suppliers became very onerous. For example, they would pay the suppliers 180 to 365 days later, as opposed to the standard 30 days or 15 days. Essentially they were taking loans from the suppliers to build a treasure chest of war funds to finance their investments against the others in this extreme intense competition amongst the supermarkets. What happened was that in one year 20% of all the food processors went out of business, and that caused a national crisis and also caused a crisis among the retailers because they had forgotten that they could kill the golden goose that was supplying them the produce and the products. So there was a scandal, a change. They went to a competition code — in this case that was voluntary but actually with teeth of legal and legislative backing to it.

The same thing has occurred now, or is starting to occur, in Brazil as Carrefour takes over, or is trying to take over, the leading Brazilian retailer that is already partly merged with another French chain. So these topics are important, but in the balance hangs the needed investments by suppliers to increase quality, safety and productivity, and so an equilibrium is needed.

Q. *Bruce Billson MP. Good morning, Professor Fels, and thank you for your presentation. I'm curious about your view on the ambition of Section 46. When it was introduced it seem to promise much, but after Boral and other examples perhaps it has not delivered what was expected and instead of a prosecution you get slapped with a wet lettuce leaf. I'm not sure if it is necessarily worth the effort in some cases. It was thought to supplant Section 49. Among stakeholders, Section 49 has become quite popular once again. My understanding is that there has never been a prosecution under Section 49. What are your thoughts on the life of Section 49 and whether Section 46 has lived up to its ambitions, or whether it is really there but not delivering its aims as it was intended?*

A. (Allan Fels) I think Section 49 is dead, buried and gone forever. It was somewhat miraculous that it disappeared. There'd been one report after another saying that it should go because it discouraged discounting. It discouraged price competition to a degree, and at the same time it didn't really have much of a pro-competitive effect. So I don't think it's been a particularly good law and I don't think people are going to revive it again, although after seeing what happened to the Birdsville Amendment, you never know. On Section 46, it is tough going, for reasons I mentioned, and also there is a deep inherent problem in it, in that you don't want to discourage genuine competitive behaviour by established big firms with market power. When ALDI enters the market, you don't want Coles and Woolworths to fail to respond — and conceivably that could happen here and there. I think the case against Section 46 has been made far too strongly by the business lobby, just because of personal interest. They keep talking about the chilling effect on competition. I don't think it does have that kind of effect. There is scope to strengthen it. A few years ago it was marginally touched up by the Howard government, but I thought that was pretty marginal. It was a bit of window dressing, which also created a vacuum for the much stronger Birdsville Amendments, but they're sensible amendments. So the way I see it, there is a sensible economic rationale for bringing in an effects test and for slightly strengthening the procedures. For example, you could have a 'cease and desist' power where the Commission could immediately stop certain behaviour by business, [which] could appeal to the court. At the moment we have to go to court, prove an injunction, get an interim injunction, all sorts of things. So there is scope for improving the weak abusive market power provisions procedurally and in terms of the wording of the Act. I really hope Parliament thinks about that because it makes sense. It is extremely rational, and other countries do it.

Q. *Mike Kelly MP. One for Allan first. There's a lot of focus on the Coles Woolworths dynamic, but of course one of the big factors, which may be the most important for Dairy Farmers and the like, is the large processors in the middle, such as Parmalat, Fonterra, etc. With the deregulation and what not, farmers in my area, the Bega valley,*

have survived a lot of that, by carving market niches, by being in that cooperative space, in aggregating. We have this periodic re-approval of collective bargaining. I want to 'unpack' that that collective bargaining issue a bit more. Should we just give our farmers that blanket approval, that provision to enable them to collectively bargain in the context of having to deal with these large scale concentrated processes?

And one for Professor Reardon. We've seen this huge growth, in the developed world, of the impact of eco-labelling. Just recently I saw how important that is in Europe, but all the developed world is definitely going down this road. It's become a significant factor. Have you seen any indication in the Asia Pacific region that eco-labelling could become a significant issue in the food market there?

A. (Allan Fels) As you all know the milk famers used to get a minimum price, and that went in 2000. In a sense, that is the ultimate and most effective way of dealing with the problem, but there are lots of problems with that as a policy, and anyway it's gone — it wasn't really going to last, that was pretty obvious. Then, to add to the problems of the farmers, the national competition policy, the Hilmer report and so on, made them be all covered by the Competition and Consumer Act. They didn't get an exemption. It used to apply just to big corporations, not the small famers, but now it covers them as well, as part of having a universal law. So they're a bit caught. Now, to slightly reduce the impact, as you know, the Act has been softened to allow a little bit of collective bargaining. Your question is asking whether maybe we could go a bit softer still, make it automatic, and so on. That is not out of the question, but I think it's not going to change the fact that the farmers have an inherently weak bargaining position. No matter how much they work together, there is going to be someone that's going to undercut them, and so collective bargaining, even given an extra push, won't have much more than have a marginal impact. It might help them a little bit. Personally, I'm not that thrilled about that idea, but I do acknowledge that maybe they could get a slightly stronger role. The ACCC goes over the collective bargaining arrangements very closely and has been fairly restrictive in what it's about.

A. (Thomas Reardon) I'm addressing two questions. One is the point that was just made, and the other is eco-labelling. I will start with eco-labelling and then I will go back to the point about the bargaining power of farmers. Food crises, including food safety crises such as the avian flu and issues of any kind of pollution of groundwater and other sorts of issues, like SARS, all tend to have an advantageous effect on modern food processors and modern retailers and wholesalers, because those entities are believed to be, and are, I think, seen by consumers in the Asia Pacific region as safer and more able to deliver on traceability. Eco-labelling is part of that trend. Probably the general process of labelling and branding is part of that trend. You saw, for example, in the cases of CP and METRO that we heard about yesterday, that during the avian flu crisis their sales went up and their position was strengthened because they were able to ensure safety to the consumers. At the same time, eco-labelling is more and more important to the middle-class consumers in Asia, as part of a signalling that the water is safe and the food safety problem is perhaps minimal. So it's a good investment and I think Australia's very well positioned to be selling safe products into the region with believable certification and labelling processes.

The second point was on the bargaining power of farmers. This is a very interesting issue because it's very often said that cooperatives and farmer associations are powerful means of bargaining for prices and keeping at bay possible predatory practices of retailers and processors that want to shift the profit equation in their favour. Generally this hypothesis has not actually been tested by research. In recent work in Chile, where they actually tested this assumption, they found that it had no effect. In other words, the cooperatives were unable, either banding together or separate, to actually get significant price advantages from their association. Why is that? Part of the reason I think is what Professor Fels said: that in situations where you do have already a concentrated industry, which is certainly the case of food processing in most of the developing countries, you are a seller and you have two buyers or three buyers. You can't send them away. You can have laws and groups and shout, but you still come back down to reality. The buyers might say, "It's just us two again talking. That was an interesting discussion we had yesterday. Now I have three alternatives, two of which are in other countries, and I'm trying to decide which of you is the best supplier. You have the law on your side, you have a co-op on your side, but I'm the buyer and I have all the power on my side". Okay. I ask retailers around the world: "Name the best exporting country in the world". "Chile." Within maybe a half a second to one second they say, "Chile". And I say to them, "Why did you say that so quickly?" and they say, "Because their answer is always 'yes', because that is the only answer the buyers want to hear". The buyers have the bargaining power. You can't really gain a long-term advantage as a supplier in the bargaining power. You have to adapt to the market, which is, I guess, an unpleasant message, but this is something that I've seen in many countries.

Q. *My name is Melanie Brock and I'm based in Tokyo with Meat and Livestock Australia. I've got a question for Professor Reardon and it's not about the Birdsville Amendments because I'm not very familiar with those particular amendments. In any case, I would like to refer to the comment you made in your presentation, which other people have touched on yesterday, about the need for exporters and, indeed, producers to be market-transformation ready. I'm not suggesting that we have to keep saying "Yes", as the Chileans have proved is so successful, but I was wondering what advice you have for Australian exporters, and how you believe they need to position themselves to take advantage of the growth you see in demand?*

A. (Thomas Reardon) Yesterday, certainly, the people from METRO and CP Foods made very important points. They're clients that are buying products and positioning food in the market, and their advice included several things that I'll add to. One is that it really helps if you have very active export officers in the various countries that you're exporting to: not just to collect general information but to keep their ears to the ground and have very active constant relationships with supermarkets, processors and specialised wholesalers. Secondly, I think that there's really a very big advantage to not working through general wholesalers. This is the point that was made yesterday. General distributors and wholesalers don't really want to differentiate your product and be a client to you in the sense of positioning you competitively. They're looking for where the biggest margin is and they don't have an incentive really to differentiate your product. What you need to do is to have the list of the

specialised dedicated wholesalers in particular product categories as part of your arsenal, and then of course the very best situation is having a direct relationship with the main supermarket chains.

For example, I talked with somebody from the wine sector yesterday about this. It's important to not just be selling through a general wholesaler of wine that has Chileans and Californians (I'm from California) and all sorts of other wines that are available, and is looking for the price bargain. Rather, have a direct relationship with the supermarket, have a deal that you can make; and this is the third point. Retailers in general don't want to deal with many small niche players. They do not have the time. They want a one-stop shop. I've seen an interesting thing that happens in the US: a bunch of different smaller or medium producers have a set of product lines, such as dairy and nuts and various kinds of fruit. They can go as a cluster, as a sort of organisation of producers, to bargain and negotiate and find out what the market wants, and then they present themselves as a one-stop shop supplier.

The last point, which I think is the most important, is that, in general, public standards for safety and quality are of very minimum importance. They're basically a threshold. I'll tell you what a Uruguayan meat exporter, the main such exporter in Uruguay and Paraguay, told us at a conference. She said, "When I went to export to Europe, I realised that the first of ten steps was understanding what the legal regulations are, and what are the public standards for trade. Then the additional nine steps were meeting the private standards of quality and safety of the various chains, which end up being far more important and dominant and require a lot of specialised customised competitiveness. Not general competitiveness, but the ability to adapt and be flexible". I said, a little bit glibly, that the Chileans always say "Yes", but the yes is not just about price because they often get a good price or even a better price. Their "Yes" is if you say, "We would like the residue of such and such a pesticide to be such and such". The Chileans don't respond, as sometimes my American colleagues do, by saying, "Well that's not what we require, that's not what is in the law". They say, "That's fine. I have another phone call here; I'll get back to you". And so the answer is: "What is your specific requirement?", listen to it, and say, "I can even do it one step better for you, to beat the competition". Flexibility, ear to the ground, presence, direct relationships and, above all, the client mentality, I think are the winning combination.

Q. *Sally Smith, from the University of Adelaide, and representing the World Vegetable Centre. I'm convinced that supermarkets are reducing waste and modernising supply chains, but I am concerned that the small and really poor farmers are missing out on this. And there seem to me to be parallels between the dairy industry of Australia and these small farmers, in that they have no collective bargaining power. They've missed out. And I like to hear comment from either of you, perhaps Professor Reardon first of all, about what needs to be done for them.*

A. (Thomas Reardon) This is the only reason that I'm in this profession: I'm concerned about what can we do to position small farmers in the midst of this transformation. I think the first thing to do, which seems like a strange answer, is to realise that the transformation is taking place and is probably inevitable.

That the market is changing then becomes an exogenous factor that has to be dealt with. Secondly, I think that what happens very often in government Development and Assistance Programs is that a quick solution is grabbed and then applied, but without really understanding the details of the market. If the policy-maker or the development-assistance person is not market savvy — perhaps they don't like the market and they don't think it should be like it is, but they're not being realistic— then the solution actually ends up failing. The most spectacular case I've ever seen of that was in Brazil. One of the best development-assistance agencies in the world realised in the 1990's that there was an extremely rapid concentration of the dairy sector in Brazil. Of course, it was helping consumers, because the price of milk went down by a factor of ten in fifteen years. But there was rapid concentration, and so the agency rushed into the scene and passed out thousands and thousands of milk tanks, and organised cooperatives. Within four years, 61,000 small farmers went out of business, many of them from being part of these programs. The question was, "Why?". It was because coordination costs, and really training the farmers to be able to make flexible investments to keep adapting to the changing dairy industry, were not in the minds of the policy-makers. For them it was basically just a quick fix of cooperatives plus tanks. So, I think that it's very important to pass out assets to help to organise farmers, but at the same time to really understand the needs of the markets and help the farmers meet threshold investments that are necessary to stay in that market over time.

Now the third point is that in many countries in which I'm dealing, for example in India, the public support system for farmers is bad. In other words, even in cases where there are massive amounts of subsidies going in, our studies have shown that actually they are very focused on the medium farmers and the larger farmers. Those farmers are getting 80–90% of the help. So being able to have development assistance and policy dialogue that broadens the scope and the coverage of public programs and rural education and all the other important things, as well as making markets work for the poor, by making the poor able to understand and adapt to the markets, are crucial elements. I really appreciate your concern and your specific question about that.

A. (Allan Fels) I think the only thing that has generally worked well to protect growers over the years — and I mean it hasn't worked that well — the only effective remedy is setting a minimum price. Unfortunately, that has other harmful effects, and it encourages inefficiency, and it wouldn't work with vegetables anyway. Another way is to somehow restrict entry, but again that's really not a very acceptable solution. So I see any policy approach as pretty marginal in this matter. I do think, however, that in all areas of agriculture there are always marginal struggling producers, and no matter what price is set, high or low, there'll always be a number of people having a really difficult struggle on the fringe. When the prices have been higher, there has always been another group of even more inefficient producers right on the edge struggling. Price comes down, and another new set of people become marginal, and some can and some can't adapt. In the end, however, I think we should remember that production is done for the benefit of the public, for the benefit of consumers. So

in the end, businesses and farmers are there to serve a consumer need — and that is their justification. That is a tough message, but it is a basic fact of life in our economy.

A. (Stephen Mbithi) I want to make a small contribution to the whole issue of smallholders and market participation, especially from a developing-country point of view, based on what we've been experiencing in Kenya. As you know, we have smallholder producers, 1.5 million of them, accessing some of the most difficult markets across the world, with obviously huge problems. How do we do it? How do we deal with this? One way we have been doing it is that we know what our markets want because they tell us what they want. They want assurance that the standards have been met and they want farmers who understand what needs to be done to meet the requirements of the value chain of the markets. So we concentrate on making sure that we train the farmers to meet those standards. We explain to them, clearly, what they must do to realise and meet the standard, but we leave the farmers to make business contacts with the supermarkets in the normal business way. Obviously, we also lobby to make it more pleasant and acceptable to trade with smallholders. We seek to help smallholders in such a way that we can lower the cost of production for their markets or other players. Ultimately, we leave it to the supermarkets and the smallholder groups to trade. So, we take the common aspects of what they need to do — such as standards and information about the market — and promote them, but we leave it to the farmers to interact with the supermarkets. That's what we have been doing.

A. (Thomas Reardon) I really appreciate that intervention. I just wanted to add one thing that is actually an addition to my response about export. It relates to something that John Glover mentioned yesterday. A very important point is that one thing that a cooperative or a collection of producers, or even a collection of cooperatives, can do is to try to gain scale in defending a brand. This is something that I've heard in the Asia Pacific region, when listening to various retailers, including METRO. In New Zealand, Zespri and ENZA have a very strong presence in the supermarkets because they have a very well defended, and defensible, brand. On the other hand, I think that in the Australian case, at least in fresh produce for example, there are less recognised brands, and perhaps less of a critical mass of volume and presence behind particular brands for them to be really well defended. As a result, you slip down a very slippery slope called the 'commodity slope', where a penny here, a penny there, counts; where the wholesalers rule the roost and they move easily and fast between different countries, easily eliminating the Australians at a glance. So finding, defending, and selling brands has become very important. Twenty years ago, fifteen years ago, ten years ago, this was not important in the Asia Pacific area. Now, the supermarkets that I interview constantly in the area are crazy about brands. This is extremely important for the consumer. Even in dairy in India, AMUL, which was a collection of cooperatives, had about ten different brands. They found that they were falling out of the competition, even early on, in supermarkets in India. So they converged and created an umbrella brand that then became very powerful in the market. I've seen this in a bunch of other

situations as well. So, brand, brand, brand, is extremely important to make this entry. The cooperatives can help to organise that and make it coherent and less confusing, and then market that brand when identified.

A. (Allan Fels) Just briefly, one point I would have made if I had more time. Yes, let there be direct dealings, but the more alternatives that a farmer has to sell to, the better. From that angle, I think it is worth looking at ways that alternative outlets, particular wholesalers that are alternatives to the big supermarkets, should be available. That was touched on in Professor Reardon's speech. I can think of places like India where the government could adopt sensible industry policy to build up and strengthen some of the alternative markets that farmers can sell into.

*This completed the Q and A session at the Tuesday breakfast.
The conference closed shortly afterwards, following closing remarks
from Dr Denis Blight AO, Executive Director of the Crawford Fund.*