The Supermarket Revolution in Food

Conference Summary
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Introduction

In opening the Conference, the Hon John Kerin, Chair of the Crawford Fund, welcomed all delegates and in particular 12 young Australian agricultural scientists who were Crawford Fund Scholars. It says something about the Crawford Fund that it is able to attract such prestigious and high quality speakers as President Haruhiko Kuroda and Professor Thomas Reardon, a leading scholar in the study of the supermarket revolution, and others appearing at the Conference. At least two Cabinet Ministers and a number of members of the Opposition Front Bench participated in the event.

President Kuroda of the Asian Development Bank set the scene for the Conference noting that many Asian countries had successfully transformed their economies through better market access such as is illustrated in Laos by better roads and telecommunications. He said that effective food supply chains can be a major force in improving food security if markets work inclusively. The Hon Joe Ludwig, Minister for Agriculture, Fisheries and Forestry, in welcoming participants said the supply of high quality food for Australia and the world is a priority for the Australian Government and that he wanted to hear from players in the food chain on the proposed Australian National Food Plan. The Conference was timely, he said, as the knowledge gap between food producers and consumers is wider than ever.

Core Issues

This summary identifies core issues or questions emerging from the presentations and areas for socio-economic and technology research and development, and for policy formulation. Footnotes cite comments by Conference speakers that underpin statements in the summary, which were fed into Twitter during the Conference.

Overview

1. The supermarket revolution[1] has driven, and has been driven by, technology in storage and distribution logistics and in the market chain[2]; there are benefits to consumers, traders and producers; and overall the revolution has delivered productivity gains in the post harvest component of food production[3]. Are these just as important as increases in biological productivity and crop and livestock yields for world food security? If so, it follows that research throughout the food chain is as important to global food security as research to improve yields. **Can research of this nature continue to deliver innovative outcomes throughout the value chain to improve smallholder farmers' ability to compete in rapidly changing markets?**
2. Consumers benefit by the effect supermarkets have in pulling down prices, pushing up quality, and ensuring food safety especially in times of bird-flue and other disease outbreaks.

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[1] Reardon: In the last ten years sales by supermarket chains have grown three to five times faster than GDP growth rates in Asia, where the food economies transforming faster than elsewhere. Wholesale markets in India and China have grown to around 4000 in the year 2000 from 100 in the 1960's. Supermarkets are spreading to rural areas where they are selling farm inputs and packaged food.

[2] Reardon: Most impacts in supply chains are occurring 'downstream on midstream' – for example from retailers to wholesalers and processors. Changes are driven overwhelmingly by the private sector.

[3] Reardon: Fifty to seventy percent of food prices arise from post-farm gate costs.

Traditional retailers and wet markets are displaced. Food processing and wholesale sectors must find symbiosis or ways to co-evolve with the new actors. Farmers and small-scale processors, especially those that are asset poor, face tougher market requirements and the need for upgraded investments. Some flourish but not all of them make it. **Is there anything that governments can do about this?**

3. In spite of this generally positive view of the impact of the supermarket revolution, there are said by a number of critics to be cases of abuse of dominance, anti-competitive arrangements, and of unconscionable conduct. Further, and closer to home, the question must at least be asked if the apparent disarray in agri-food supply chains in Australia, is down to the oligopoly of Australia's big two supermarkets? Although they are often expressed as such, these views are not necessarily a criticism of supermarkets: **are they just an observation about the economic facts of life in a market economy in the absence of appropriate regulation?**

Impact on Consumers

4. Consumers win from the supermarket revolution through lower prices, quality improvements and convenience or life-style changes. In Australia there is milk at $1 a litre, the banning of hormone growth promoters, and the phasing out of caged egg production. In Indonesia, the rapid growth of supermarkets in urban centres has seen higher quality commodities and better services for consumers even if at the cost of the loss of some traditional diversity from street traders. The advent of the supermarket and the refrigerator in the bigger cities has enabled women in particular to enter the work force by relieving them of the burden of daily shopping for fresh food[4]. **But[5] is all this too good to be true?**

5. But half of all affluent people now die of diet-related disorders and obesity is pandemic; and it is not a problem limited to developed countries. The extent to which supermarkets are responsible is debatable but the shelf space and promotions devoted by supermarkets to so-called 'killer-foods' must bear some responsibility. Have supermarkets influenced agricultural practice by favouring foods which can be transported conveniently in a food chain – as well as those which have a visual appeal and uniformity in size and shape - rather than those which are healthy or sustainable. Do supermarkets search for increased margins rather than nutrition or are the two objectives compatible? **Has research and development compounded this tendency through a skewed allocation of research resources to three or four major crops and an ignorance of traditional highly nutritious food varieties?**

Opportunities for Farmers

6. The revolution has created opportunities for farmers to gain access to quality-differentiated food markets and to raise incomes, mostly in their own countries. Amongst producers, it will be the innovative that flourish and grow. Small fresh fruit and vegetable producers within reach of urban centres in Indonesia, by devoting a greater proportion of their tiny land-holdings to fresh fruit and vegetables over rice, have grown larger, buying or renting land from their less innovative neighbours. There are opportunities for countries like Australia to become the source of ultra fresh and processed products in near Asia[6] given a much better understanding of the Asian consumer and their markets and provided mindsets of farmers, exporters and producers change, and brands are built in these markets. In Africa, smallholder producers, even in food deficient countries, by focusing on export oriented high value agriculture can earn higher

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[4] Dr Daniel Suryadarma: There is little doubt that supermarkets in Indonesia provide high quality products at lower prices.

[5] David McKinna: There are short term benefits but long term disadvantages for consumers.

[6] John Glover: Australian food has a reputation for quality and safety and needs to exploit this better. The great challenge for Australian companies in Asia is to understand consumers and their needs.

incomes, which in turn improve their food purchasing power leading to poverty alleviation[7]. **Should policy encourage exports?**

7. But the farmers' share of the food dollar continues to decline, an inevitable corollary some say of lower food prices. According to this view, the past 15 years have seen a dramatic transfer of market power (and money) away from farmers and towards a handful of large international food corporations. The growth of local markets (such as farmers' markets) and mini-marts may reverse or slow this trend. **But farming investments suffer and as a consequence do consumers and the poor of the world also suffer as we drift towards global famine?**

Retailers, Processors and Value-Adders

8. Processor and value-adder margins are now below the levels needed to fund reinvestment to ensure the sustainability of these businesses[8]. At the same time, regulators have been reluctant to confront the issue because fundamentally, lower grocery prices are good for consumers' (and voters) although some might argue that in the longer term consumers will pay as farmers, processors and value-adders go out of business.

9. The advent of third party logistics suppliers in Thailand has leveraged on international experience and capabilities to improve standards, speed of service, value of service and helping retailers offering more fresh produce, and wider variance of items at a lower delivered cost. The evolution of one major processor and value adder included the promotion of ready to eat, value-added food and the development of its own logistics firm.

10. Retailers are also affected by the revolution. In Indonesia, for example, it has the potential to drive traders in the traditional markets out of business. But the main cause of their decline[9] might be internal problems and increasingly bitter competition from street vendors. An overhaul of traditional market management systems may enable the traditional traders to compete and survive alongside supermarkets – what Reardon calls symbiosis and co-evolution. In Thailand, the supermarket revolution can create problems for small retailers, farmers and processors who are not equipped to meet the new competition and requirements from supermarkets. On the other hand, the Metro Cash and Carry experiences could be a way to support local retailers, sustain quality and safety standards and produce for consumers, and assist and assure farmers of better returns. Urban traffic congestion and rising transport costs may well encourage a return to more localised retailing.

The Challenge

11. If the current "industrial" agribusiness food model is not going to last, should we prepare for a world in which there will be a consumer rejection of what they see as cruel, chemicalised mass-production of foodstuffs. Nervousness over so-called GM food, even if it is misplaced, perceptions of cruelty in the slaughter of livestock, and an increasing preference in some segments of society for vegetarian and 'organic' produce (now being catered for on supermarket shelf space) may be part of this syndrome. Some see clear signs of a major consumer revolt taking hold in the middle classes of affluent societies. On the other hand, there appears to be a growing demand for meat and processed foods in emerging economies. Is the true extent of the so-called consumer revolt as much to do with media-hype as a genuine market response? **Is this only an issue for the rich world and in any case where does the balance lie?**

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[7] Richard Lovell: One market is not enough – suppliers need to diversify to spread risk

[8] David McKinna: Processor margins are now too low to support the reinvestment needed for global competitiveness.

[9] Suryadarma: Traditional markets are declining but supermarkets may not be the main cause – traditional traders near supermarkets and those with no supermarket nearby both had revenue declines.

12. Our challenge is to find a way that will allow the farmers to reinvest, reduce waste, encourage agro-biodiversity and still have a safe, healthy and efficient food chain for urban consumers. Donors, governments, NGOs and the private sector have important roles to play through infrastructure and knowledge dissemination in helping small farmers and firms weather the double shock of increased competition and demands from the supermarkets on the one hand and a rise in government regulation for food safety on the other. **How might policy makers respond?**

13. Many companies have recognised the need to promote sustainable production and consumption models to sustain their own profitability over the next 20 to 50 years and are investing accordingly. The market, at least in some societies, may respond to favour health, sustainability and diversity. Developing country governments need policies, such as have been developed in Thailand, to facilitate third party logistics suppliers to invest with confidence in ways that serve the national interest, improve standards, speed of service and so on. The PNG Women in Agricultural Development Foundation, working on a vastly smaller scale, seeks to help smallholders (mainly women) through agriculture and business training, brokerage and lobbying services. **Can other government programs, by enhancing the capacity of small farmers to link with markets through experiential and other learning processes help farmers to acquire the skills and attitude to benefit from market chains? Or should this too be left to the market?**

14. If the question of intervention is narrowed down from the generic 'they must do something about it' to the more specific options for public policy, the answers are less forthcoming, especially if the options are costed in terms of increased spending and therefore taxation (of somebody), or reduced freedom of individual choice. **Does Australia's experience with the ACCC offer some hope? Or is it seen as a blunt instrument?**

Conclusion

Are there implications in all this for Australia's aid program both in terms of the priority to be accorded to agricultural research and development in general and to assistance in the efficacy of the operation of national, regional and global food chains in particular? ACIAR already has programs in this area, a number of them undertaken in partnership with AusAID. The recent review of the Australian aid program provides a context in which such support can be explored further. A member of the Review Team, the Hon Margaret Reid, who appeared on the Q&A panel in the final session of the day, said that there were no one size fits all remedies to be applied through aid programs which must be responsive to the needs of Australia's developing country partners. But, as The Hon Margaret Reid said: "Australia has much to offer in agricultural research and development for global food security".

This Conference has shown that this contribution has potential throughout the whole food chain, from 'farm to fork'[10].

[10] Title of the presentation by Mr Richard D Lovell