Australian Pork Limited

ACCC Inquiry into Perishable Agricultural Goods

September 2020

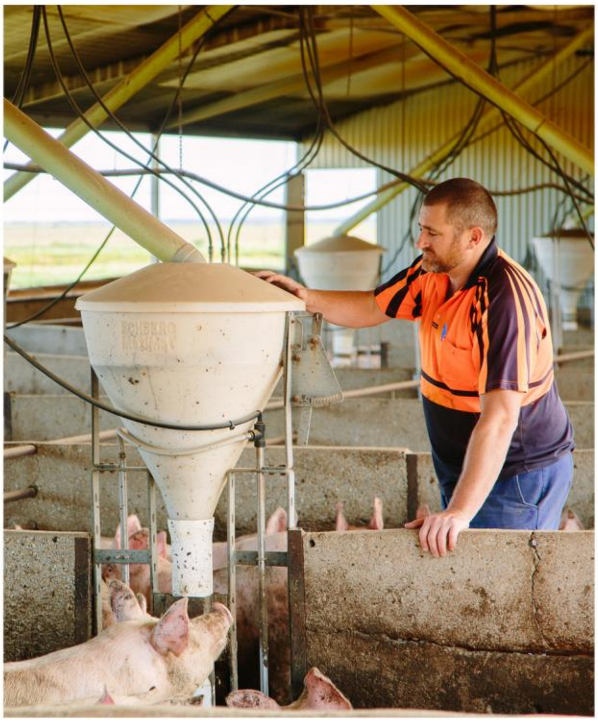

Table of Contents

1. Executive Summary

Overall, commercial arrangements in the Australian pork industry appear to be reasonably balanced and considered, especially when considering larger trading agreements. This is largely due to these larger agreements being struck between sophisticated buyers and sellers. However, this is not common across the entire industry and APL believes there is an opportunity to support smaller, less informed producers via additional reporting mechanisms which provide greater market information and feedback.

Recommendation 1 – Explore opportunities to develop systems that government can put in place to support greater market information and feedback across the perishable goods supply chain.

2. Australian Pork Limited

Australian Pork Limited (APL) welcomes the opportunity to make a submission into the Australian Competition & Consumer Commission (ACCC) Perishable agricultural goods inquiry, noting the focus on relative bargaining power of supply chain participants and this effects trading practices and market efficiency.

APL is the national representative body for Australian pork producers. APL is a producer-owned not-for-profit company combining marketing and export growth, research and innovation, and policy development to assist in securing a profitable and sustainable future for the Australian pork industry.

3. Contribution of the Pork Industry in Australia

As the most consumed meat globally and the second most consumed meat in Australia, pork is an important part of our diets. Australia's domestic sow herd numbers approximately 270,000, housed in approximately 4,400 registered sites nationwide. In 2019, the Australian pork industry produced around 400,000 metric tonnes of pork of which 9% was exported.

The domestic pork industry plays a vital role in contributing to Australia's food security owing to the restrictions that Australia's biosecurity laws place on the importation and sale of fresh pork from overseas. All fresh pork consumed in Australia is domestically sourced.

In a typical year, the pork industry, including pig production, primary and secondary processing, and wholesale, contributes $5.3 billion in gross domestic product to the Australian economy and supports about 36,000 jobs nationally. The industry is largely based in regional Australia, with the largest volume of production sourced from Queensland, Victoria, and South Australia, respectively.

4. Industry Context

The Australian pork industry is a national industry. A pig may be grown in Victoria, slaughtered in South Australia, further processed in New South Wales, and be found for sale in several states and territories less than a week later.

The Australian pork industry is largely reliant on Australian consumers shopping for fresh (perishable) pork, accounting for over 70% of total Australian pork produced. Fresh Pork is a relatively concentrated business at all levels of the supply chain. Out of this 70%, approximately 18% finds its way to foodservice outlets and 52% finds its way to retail outlets. The approximate breakdown of retail outlets in terms of volumes of pork sold is as follows:

- Woolworths 14%
- Coles 12%
- Butchers 11%
- Aldi 6%
- Other retailers 9%

The 70% of fresh pork is itself made up of three groupings of market mechanism:

i. Large retailers buying pigs either directly from producers or from processors who aggregate from a pool of producers (often the producers are known to the retailer)
ii. Large and small retailers contracting processors or wholesalers for specific cuts and volumes at specific prices
iii. Small retailers buying generally from a wholesaler/distributor often from smaller producers

Each of these mechanisms is further considered below.

5. Large retailers buying pigs either directly from producers or from processors

This market mechanism accounts for approximately 25-30% of all Australian pork produced, around half of all retail volume. Interactions generally have a high degree of transparency and are negotiated between sophisticated buyers and sellers. Retailers have defined specifications, which generally have more stringent "A grade" requirements to meet their desired shopper needs. These additional needs are recognised in the agreements that are struck on prices between retailers and suppliers (be they with producers or processors). This results in large retailers with agreements in place that flat the volatility in pig prices created by other market mechanisms.

There are numerous examples of long-term agreements, some of risk sharing and some very long-term relationships. There are commercial relationships with the two largest supermarket chains that have extended for 18 and 22 years. These relationships also often include mechanisms for price fluctuations based on known input cost fluctuations, such as grain prices.

Whilst large retailers certainly do have power in the market, we have found no evidence of misuse and producers involved in this market mechanism report no problems outside of normal commercial negotiations.

6. Large and small retailers contracting processors or wholesalers for specific cuts and volumes at specific prices

This market mechanism also accounts for around 25-30% of Australian pork production. This mechanism incorporates some large retailers, many butchers and independent retailers (both supermarkets and foodservice).

This mechanism also has a range of agreements and they are typified as an agreed price for an agreed specification of a cut for a defined period of time. These time periods can be quarterly, monthly, or weekly, and are generally agreed and communicated in advance. The sharing of risk occurs in the larger volume agreements generally based on longer term forward periods and can include adjustment mechanisms for input cost changes, such as feed. Much of this business is conducted by sophisticated wholesalers who deal with the top two hundred or so largest producers in the pork industry. Many of these arrangements are long-standing and have stood the test of time.

We would make the observation that, generally, angst in relationships only tends to erupt when there are significant increases or decreases in prices and the wholesalers and producers do not have long term agreements in place. When this occurs, imperfect information about market prices in wholesale can put producers, who are unaware of movements in wholesale prices, at a disadvantage. This could be remedied by mandatory wholesale prices reporting by cut, similar to the USDA.

7. Small retailers buying generally from wholesalers/distributors often from smaller producers

This market mechanism accounts for around 10-15% of Australian pork volume and tends to have the largest number of steps in the value chain. Frequently, this mechanism will include a producer, abattoir, wholesaler, and distributor before the product is delivered to the retail outlet.

Typically, this mechanism operates for approximately 4,000 smaller producers servicing niche or local markets. These producers generally see pork as part of their business, but it is not necessarily their primary focus. As a consequence, many producers in this category may have only one or two customers and are less likely to have solid on-going agreements. These producers are particularly vulnerable to changes in the market.

Theoretically, this should be the closest to "perfect competition" with many buyers and sellers. However, as outlined in the mechanism above, the imperfect information creates market asymmetry and lags as traders maximise margin during periods of volatility. This could be remedied by mandatory wholesale prices reporting by cuts, similar to the USDA.

AUSTRALIAN Pork®

PO Box 4746 Kingston ACT 2604 Australia
T: 02 6270 8814 | F: 02 6285 2288
www.australianpork.com.au

ABN 83 092 783 278