



GLYNN WILLIAMS LEGAL
BARRISTER & SOLICITOR
Incorporating Kay & Ruddle Lawyers

Our Ref: 190685
Your Ref:

Director
Glynn Williams B.A., LL.B

Consultant
Richard Ruddle LL.B

Lawyer
Jason Dolbel B.Bus, LL.B

Conveyancing Clerks
Debbie Biggs
Alison Jones

The Director
Perishable Agricultural Goods Enquiry
Australian Competition and Consumer Commission
GPO Box 3131
CANBERRA ACT 2601

18 September 2020

By Email: aginquiry@acc.gov.au

Dear Sir/Madam,

Re: Submission – Tasmanian Processing Vegetable Farmers – Vegetable Processor dominance of the Tasmanian Vegetable Sector

“We Are Going Backwards”

This is a submission on behalf of long-term suppliers to Tasmanian vegetable processors, John Brown and Rick Rockliff who farm in the district of Sassfras.

There are two significant vegetable processors in Tasmania. McCain Foods (Aust) and Simplot Australia.

Background – two international food giants

Both companies are large privately held companies which operate across many hemispheres. Both originate from North America, being Canada and the US respectively.

Simplot Australia commenced its operations in Australia when the J R Simplot Company acquired Birds Eye, Leggo's, Chiko and Edgell from the failing conglomerate Pacific Dunlop.

McCain Foods commenced its operation in Australia. McCain purchased the Copper Kettle vegetable processing plant in Smithton in 1984. It since the early 2000's has only operated potato processing at its Smithton Plant.

“We are going backwards every year.”

The contributors to the submission are long experienced farmers and well-established businesspeople. They recount direct experience of decline in absolute terms in prices paid by McCain and Simplot over decades since the commencement of business in Tasmania by each company respectively.

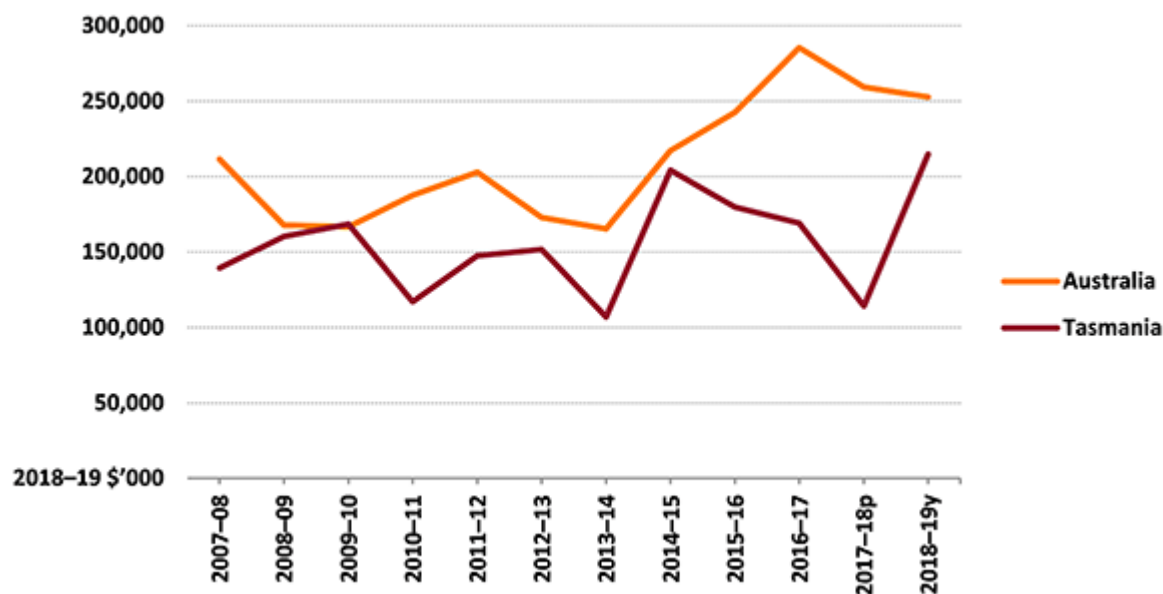
A common theme is the **complete inability to negotiate adequate returns** or any increases in crop receipts.

Choice in supply is missing in Tasmania. There is no market linked mechanism. Instead, these arrangements benefit the Processor as they are supply/yield-based arrangements.

The statistics of declining profitability are readily available. For instance, considering the ABARES Farm Financial Performance for Tasmania in terms of vegetable industry farms it is indicated that Tasmania had an estimated 243 vegetable growing farms in 2017-18. Farm cash income for Tasmanian in vegetable growing farms declined 31% in 2017-18 with vegetable receipts decreasing by 7% as a result of lower vegetable prices. Total cash costs in contrast remain steady because of increased expenditure on interest, fuel, oil, grease, and fertiliser.

A consistent indicator is that farm cash income in Tasmania on vegetable growing farms is markedly lower than on mainland farms. The overall lack of ability to cater for the fresh market due to Tasmania's relative isolation (estimated at just 4% of vegetables) sees significant dependence on McCain and Simplot.

The graph of cash income for vegetable growing farms from 2017-18 to 2018-19 is set out which gives in stark detail the relative situation of Tasmanian farms to mainland. This does not take into account additional costs that Tasmanian farmers incur on crop inputs due to factors of freight costs and distribution systems:



<https://ausveg.com.au/resources/economics-statistics/australian-vegetable-production-statistics/#1510789881100-d76128a0-7c76>

Tasmania has an overwhelming exposure to the processing sector which is limiting net incomes.

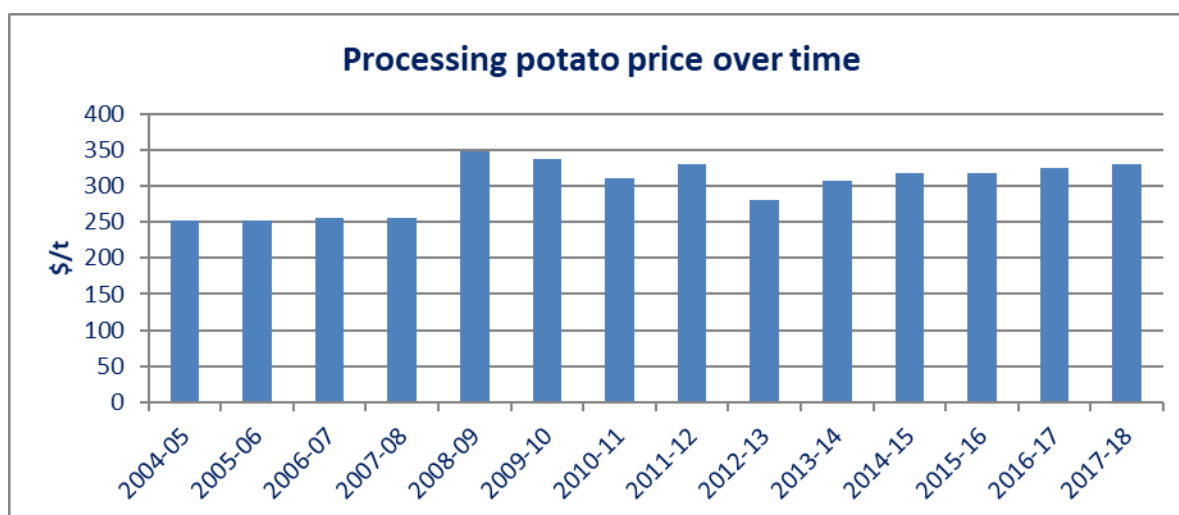
The absolute market power of the two processors at 70% of vegetables grown in Tasmania sees a ceiling on profit opportunities with no relationship to the natural ebb and flow of price, demand, climate and other variabilities that can lower yield and add to crop costs. In a 'normal' market this leads to return increases to the farmer but not in Tasmania where the Processor captures the gains.

The facts are that Tasmanian vegetable farmers have a relationship of dependence on their processors and are locked into annual supply arrangements where in other states, even with sales to supermarkets, market prices can go up and down.

According to ABARES 2017-18:

Selling direct to processors

Vegetable-growing farms that received more than 50% of their total vegetable receipts by selling directly to processors were mostly medium sized farms, with mainly outdoor vegetable operations. Around one-half of these farms planted 5 to 20 hectares of vegetables and accounted for 9% of the gross value of vegetable production. Another one-quarter planted around 20 to 70 hectares of vegetables and accounted for 17% of the gross value of vegetable production. The average area planted to vegetables by these farms was around 48 hectares per farm. The average farm cash income of vegetable-growing farms selling mostly to food processors was \$197,200 per farm in 2017-18.



Source – DPIPWE (Tasmanian Department of Primary Industry Parks Water and Environment) <https://dipwwe.tas.gov.au/agriculture/investing-in-irrigation/farm-business-planning-tools>

Farm overhead costs are **not addressed** by the DPIPWE figures.

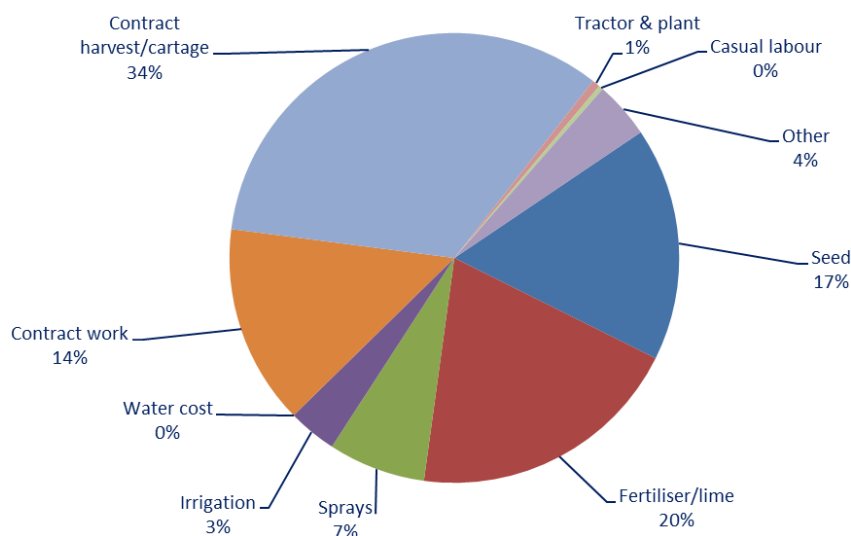
True farm inflation must take into account increases in fixed costs. Such fixed costs include Council rates, Insurances and Capital purchases for equipment do not feature in Gross Margin calculations. For smaller farms the ability to replace, renew and invest is directly limited by suppressed cashflow and slim or risky margins.

According to ABARES 2017/18 figures the average net return per tonne for potatoes for Australia was \$429 per tonne which is proportionately more than the \$330 indication from the DPIPWE figures for Tasmania. Given the size of Tasmanian production it can be seen that Tasmanian prices also drag down the national averages:

Unit price received	\$/t	429
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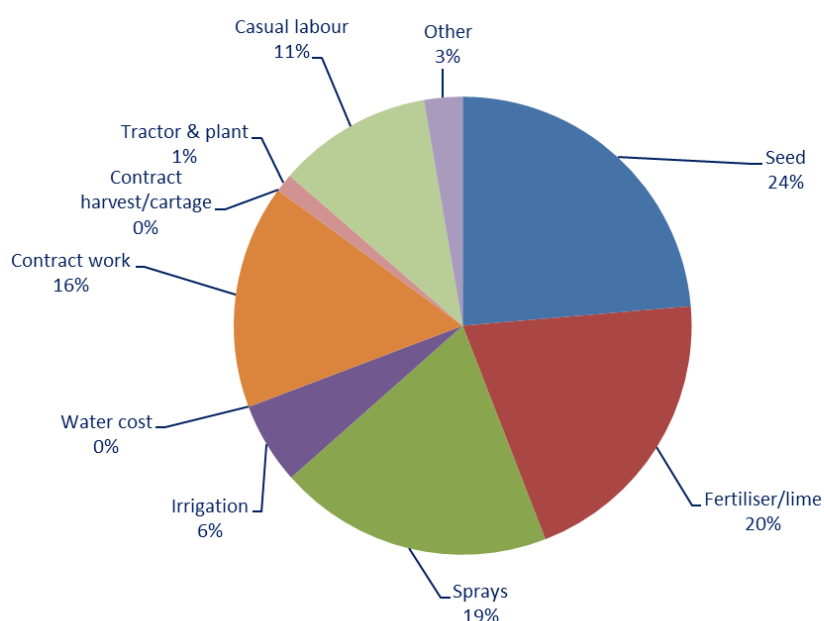
The spread of potato crop variable costs is shown here (noting 0% attribution to water cost, capital expenditure and depreciation):

Processing potato variable costs



Processing beans are another example of decline, with prices reducing over the last two decades. Tasmanian DPIPWE analysis of returns updated May 2018 show the very slim margins based around meagre growing returns:

Processing beans variable costs



Analysis of Terms of Trade

Given the close to fixed price, yield only model for processor growers, deteriorating terms for cost, both variable and fixed is of empirical relevance.

ABARES - <https://www.agriculture.gov.au/abares/research-topics/agricultural-forecasting/farmers-terms-of-trade> (Kirk Zammit and Matthew Howden Research by

the Australian Bureau of Agricultural and Resource Economics and Sciences Research report 20.3 March 2020)

The revisions to farm costs and prices paid in this update result in an increase of both measures over recent years. ... while the value of farm production increased rapidly, net farm cash income for the sector increased at a slower rate because of rising input costs.

Where is the profit from Tasmanian crop sales going? Not to the farmers.

Routinely, since the arrival of McCain and Simplot respectively into the processed vegetable sector the companies have informed growers of the need for international competitiveness, as if it were a universal lowest common denominator.

This directive, used to reject cries for better pricing, has been put to farmers individually and in groups and has been supported by minimal or very minor price increases to product offerings and in some years, reductions. The theme is one that has been in a sense bought out in a parallel way in public through the last decade with references in particular by Simplot about the risks to the Australian grown frozen vegetable sector.

A factcheck.aap.com.au deals with the claims by Simplot through the last decade about its profitability. The conclusion is that the primary claim of the content that Simplot Australia is **not far away from closing** has been determined as false and unequivocally so.

The AAP analysis relates back to events in 2013 when Simplot Australia then announced the threat of closure loomed over its Bathurst, New South Wales, and Devonport plants. It cited poor financial returns, high domestic manufacturing costs, cheaper imported alternatives, and the high Australian dollar. As their Managing Director Terry O'Brien said in June 2013, "the frozen and canned vegetable categories have been chronic profit underperformers for years".

As reported by AAP in 2014 Simplot Australia signed a five-year deal with supermarket giant Coles to supply Australian grown vegetables with that arrangement expanded in 2016 as Coles turned to Simplot to source another 6,000,000kg of Australian grown vegetables to replace overseas vegetables. AAP reports that Simplot Australian recorded a 62.3 million profit for its US parent company in 2018 alone. In April 2019 it announced a 51.3 million investment to its processing plant in Ulverstone Tasmania.

These references can be found at factcheck.aap.com.au the following link

<https://factcheck.aap.com.au/social-media-claims/is-australias-last-frozen-vegetable-company-close-to-closing>

According to AUSVEG an overview of the Australian vegetable industry indicates that the Australian vegetable industry had a gross value of 3.45 billion dollars in 2016-17 which was roughly in line with its average value over the preceding 20 years. This is said to be 6% of the total value of Australian agricultural production. It occurs against

a backdrop of significant population growth and indicates that despite the growth in demand by absolute numbers of people eating food the value of production has not been shifting.

The data indicates that potatoes are the biggest vegetable commodity with potatoes the most valuable crop. The AUSVEG chart for average Australian vegetable farm finances indicates an increase in receipts and cash costs from 2006-07 to 2016-17 by a multiple of nearly three but actual farm cash income very close to flatlining over that time. The average per farm is indicated at \$250,000 dollars and yet the average farm cash income for Tasmanian vegetable farms for the relevant period is much less.

Desire to appear

In the event that hearings are held I seek the opportunity with and on behalf of my clients to participate.

Your acknowledgement of this submission is awaited.

Yours faithfully,

GLYNN WILLIAMS LEGAL

Per: 

Glynn Williams

glynn@glynnwilliams.com.au