



18 September 2020

Director
Perishable agricultural goods inquiry
Australian Competition and Consumer Commission
GPO Box 3131
Canberra ACT 2601

Via email: aginquiry@acc.gov.au

Dear Sir/Madam,

Re: ACCC Perishable agricultural goods inquiry

The Red Meat Advisory Council (RMAC) is a network of producers, lot feeders, processors, retailers as well as livestock and meat exporters representing 77,500 Australian beef, goatmeat and sheepmeat businesses from gate to plate. We work across the supply chain, working together to present a unified industry voice and advice to government.

Our industry has always played a critical role in Australia's economic success story. In 2018-2019, Australia's red meat and livestock industry contributed \$AUD28.5 billion in domestic and export sales. According to the latest MLA State of the Industry Report 2019, our industry directly employed 189,000 people, as well as generating indirect employment for almost 245,000 people. Together, we work with and align on policy with our six members:

- Australian Livestock Exporters Association (ALEC)
- Australian Lot Feeders Association (ALFA)
- Australian Meat Industry Council (AMIC)
- Cattle Council of Australia (CCA)
- Sheep Producers Australia (SPA)
- Goat Industry Council of Australia (GICA)

As well, industry's three service providers, whose roles are:

- The Australian Livestock Export Corporation (LiveCorp)
 - Continuously improving performance in animal health and welfare, supply chain efficiency and market access through the provision of technical services and research, development and extension (RD&E).
- The Australian Meat Processor Corporation (AMPC)
 - Providing research, development and extension (RD&E) services that improve the sustainability and efficiency of the sector.
- Meat & Livestock Australia (MLA)
 - Fostering the long-term prosperity of the Australian red meat and livestock industry by delivering research and development that contributes to producer profitability, sustainability and global competitiveness.

An industry and supply chain of national significance

Red meat production from paddock to plate is a crucial economic and social player for Australia. Our supply

chain is complex, comprising 77,500 businesses and over 100 global markets. Our industry is also one of expansion, with industry growth over the past five years to 2020 ranging between 5.2 per cent and 9.0 per cent within individual sectors¹. Taking into account both direct and indirect employment, the red meat and livestock industry represents approximately 3.6 per cent of Australia’s key industry total employment in 2017-2018². Eighty per cent of our manufacturing facilities and workforce are regionally based³ representing one of Australia’s largest regional employers.

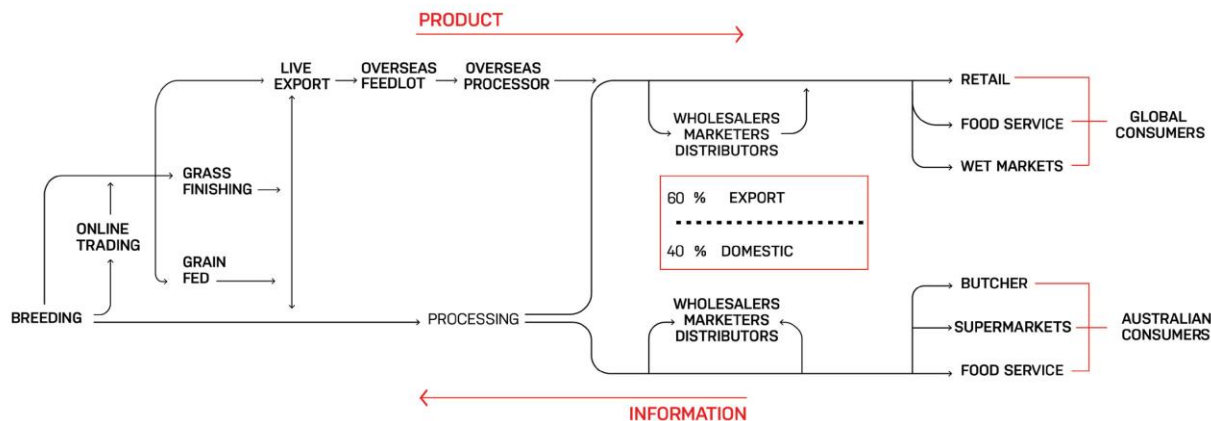


Figure 1. The red meat and livestock supply chain

Perishable agricultural goods inquiry

RMAC welcomes the opportunity to provide input to the ACCC’s perishable agricultural goods inquiry (the inquiry). We note the focus on bargaining powers in supply chains and how these might affect trading practices and efficient operation of these markets.

Our initial concerns raised in a letter to Minister Littleproud⁴, regarding the relatively quick timing of the inquiry’s submission process have been largely allayed through further communication with our membership organisations. We are satisfied to note our Peak Industry Councils have, in general, reported supply chain diversification and therefore resilience to unfair bargaining powers.

Key themes and areas of concern raised with RMAC from our member organisations in relation to the inquiry, that have been further explained within this submission include:

- **Market information and feedback**
 - **Recommend:** investigate systems the government can put in place to assist in providing market information and feedback across the perishable goods supply chain
- **Objective carcass measurements (OCM)**
- **Reporting: competition and fair trading issues**
 - **Recommend:** an education campaign informing the ACCCs current reporting pathways.

¹ <https://www.mla.com.au/globalassets/mla-corporate/prices--markets/documents/trends--analysis/soti-report/mla-state-of-industry-report-2020.pdf>

² Ibid.

³ Ibid.

⁴ A carbon copy of the letter, dated 8 September 2020 was sent to the Perishable agricultural goods inquiry team via email: ag inquiry@acc.gov.au



Further industry issues

AMIC

AMIC has provided a sector specific submission to the inquiry and RMAC defers to this in relation to the post-farm gate views. A copy of the submission has been included at Appendix 1 for the ACCC perishable agricultural goods team's reference.

AMIC's submission has highlighted the range of supply chain pinch points the processing sector is exposed to, resulting from an imbalance of bargaining power. This ultimately impacts on the efficient operation of the sector and its ability to compete fairly in global markets.

The pinch points, which are also relevant to the other market participants and sectors along the red meat supply chain include, but are not limited to:

- High energy costs
- High regulatory burden
- Non-tariff trade barriers
- COVID-19 impacts

CCA

CCA has also provided a sector specific submission to the inquiry and RMAC is aligned with its views on the increased transparency of processors providing publicly available price grids and the Livestock Language Review. As well as ongoing work on the transparency of pricing and price discovery mechanisms through a market indicator review.

Additionally, CCA have highlighted the importance of OCM and value-based marketing founded on yield and eating quality to provide confidence that prices reflect the true value of the product.

RMAC refers the committee to the CCA submission for further information.

Market information and feedback

MLA currently provides market information, trends and analysis; including livestock market reports and price information from processors, feedlots and live exporters across Australia. In this way there is some transparency in the market and an ability for producers and/or businesses to make informed market decisions. There is further potential to assist the red meat industry in making sound market decisions by providing resources such as standardised feedback from the processing sector back through to the production sectors. However, RMAC and the red meat industry acknowledges the difficulty in achieving this due to technology and system use and constraints across the supply chain. For example the reporting system one abattoir uses and has had in place for many years, may be completely different to another abattoir, thereby producing different feedback sheets to processors.

Objective carcass measurement

Red meat producers have highlighted the importance of continuing to improve and roll out OCM technology. In 2017 the ACCC Cattle and beef market study made several recommendations⁵ for over the hooks transactions and grading. These included prioritising objective carcass measurement and sharing OCM data. Feedback from our producer Peak Industry Bodies suggests the feedback gained from this technology would deliver significant value to the red meat supply chain. As well as improving market signalling back to producers thereby improving long term Australian industry performance and product demand in global markets.

⁵ <https://www.accc.gov.au/system/files/ACCC%20Cattle%20and%20beef%20market%20studyFinal%20report.pdf>



Reporting: competition and fair trading issues

Industry is pleased there continues to be an avenue for reporting anti-competitive behaviour available to the agricultural sector through the ACCC's Agriculture Unit⁶. As well as the ability to anonymously report concerns about competition or fair trading issues, should it be required.

It would be opportune for the ACCC to follow up this inquiry with an education campaign for industry reiterating these reporting avenues, including what evidence may be required to make an acceptable report in order for actions to be taken.

Further information

Our industry is large and complex, and RMAC works to ensure our supply chains are operating optimally for the benefit of all involved. We would be happy to discuss any of the areas raised within this submission with the ACCC agricultural perishable goods team. Our interim CEO, Ron Cullen can be contacted via email: secretariat@rmac.com.au for further information.

Yours Faithfully,

Don Mackay
Independent Chair
Red Meat Advisory Council

⁶ <https://www.accc.gov.au/focus-areas/agriculture>



Appendix 1. Australian Meat Industry Council submission to the ACCC perishable agricultural goods inquiry

18 September 2020

Attention:

Director
Perishable Agricultural Goods Inquiry
Australian Competition and Consumer Commission
GPO Box 3131
Canberra ACT 2601
Via: aginquiry@acc.gov.au

Dear Sir/Madam

Re: Perishable Agricultural Goods Inquiry

About AMIC

Australian Meat Industry Council (AMIC) is the Peak Industry body representing some 2,000 post-farm gate red meat industry enterprises. AMIC members include businesses processing for domestic and export consumption, smallgoods manufacturers, boning rooms, wholesalers and distributors through to exporters and independent retail butchers.

The Australian red meat supply chain makes a substantial contribution to the national economy each year by accounting for over \$16.2 billion in Gross Domestic Product (GDP), or 1.3% of total GDP and \$7.6 billion in Australian household income.

The post-farm gate meat industry employs around 200,000 people directly and indirectly and represents various levels of the livestock supply chain.

Summary

AMIC welcomes the opportunity to provide its views on the ACCC Perishable Agricultural Goods Inquiry, which is focused on the bargaining power in Australian supply chains. AMIC notes the ACCC's concerns around the potential for the relative imbalance of bargaining power, which may lead to decreased efficiency in multiple agricultural industries. AMIC is pleased to be able to advise that in general, the Australian red meat supply chain is well diversified, and as such is more resilient to the concentration of bargaining power at particular points of the supply chain. As a result, Australian cattle, sheep, and goat producers have enjoyed record farmgate returns for their livestock at different stages over the past five years, with beef cattle prices currently the highest in the world.

AMIC would like to highlight that the processing sector is exposed to a range of supply chain pinch points that result from an imbalance of bargaining power, which ultimately impacts on the efficient operation of the sector and our ability to compete fairly in the global markets. These include, but are not limited to:

- High energy costs
- High regulatory burden and therefore high cost of compliance
- Non-tariff trade barriers (NTBs)
- COVID-19 impacts

AMIC, in requesting that the ACCC considers these high level impacts on processing margins in this review, understands that the ACCC has already been active in reviewing the relevant areas under its remit, including: the Inquiry into the National Electricity Market, which has resulted in the implementation of a Default Market Offer (DMO); and the Gas Inquiry which delivered its latest report in July 2020, identifying the widening divergence between domestic price offers and the LNG netback price.

Australia's position in the Global Market

The Australian red meat supply chain is uniquely positioned, with trade central to viability. Australia currently exports most of the red meat produced, with 2018-2019 exports accounting for 70 percent of beef¹, 65 percent of sheepmeat¹, and 90 per cent of goat meat² produced.

Although Australia does export the large majority of red meat produced, Australia does not control sufficient market share to influence the global prices and must accept prevailing prices in a market. As a result of this, export markets, exchange rates, international competitors, non-tariff barriers (in some cases) and trade agreements are largely responsible for setting the Australian market prices for these products. Australian exporters are generally considered to be 'price takers' in the global market and are susceptible to the inherent unpredictability and fluctuations.

Reducing Barriers to international competitiveness

Australia's ability to maintain competitiveness in the global market is hampered by overhead costs such as energy, labour, and regulatory burden, with these being significantly higher than Australia's main competitors¹. Due to this, the Australian red meat industry is fighting to remain competitive on an international market. As the red meat sector is highly reliant on trade, it is vital for the entire supply chain that Australia can continue to export and improve competitiveness.

Australia's red meat suppliers could compete more effectively in global markets, by addressing current barriers including regulatory burden, energy costs and non-tariff trade barriers, which in turn allows for sustained ability to maintain competitive prices for livestock.

Energy Costs

The persistently high energy costs faced by industry threaten Australia's red meat sector, with Australia's utility costs being significantly higher than Australia's main competitors. The 2018 *Cost to Operate Report*³ showed that Australia's electricity and fuel costs, as a percentage of United States costs were 202.7%; and Argentinian costs, 136.6%. AMIC believes that the ACCC should continue to prioritise its Inquiries into the domestic energy market, including the Gas Inquiry and the Inquiry into the National Electricity Market, and make recommendations that seek to improve the reliability and affordability of the energy supply to the Australian meat processing sector .

Regulatory Burden

In comparison to Australia's main competitors, regulatory fees are 3.4³ times higher than the United States and 4.5³ times higher than Argentina. Brazil has no regulatory costs, as they are covered entirely by Government. AMIC is working with the Federal Government to modernise the Australian meat export meat inspection and certification system to reduce this cost of compliance.

Non-Tariff Barriers (NTBs) for trade

There are multiple beneficiaries of resolving trade barriers and forging new trade relationships, including the wider meat industry supply chain, from producer through to exporter. In 2017, industry research (Harris Report) estimated that NTBs cost the supply chain in excess of \$3.4bn per annum, a figure which is likely to be higher in 2020.

AMIC believes that greater effort needs to be directed into effectively maintain and grow export opportunities for the Australian meat supply chain, through effective negotiations to reduce non-tariff trade barriers. To this end, AMIC is working closely with its supply chain partners and industry service providers, as well as governments, to develop and implement strategies to reduce NTBs.

Covid-19 Impacts

COVID-19 has resulted in an additional and significant challenge for multiple perishable goods exporters, as there has been an almost complete halt of international flights, and usual cargo carrying on passenger flights essentially reduced to nothing. This led to a serious gap for the exportation of premium, high value products such as meat. To combat this, the Australian Government instigated *the international freight assistance mechanism* (IFAM). IFAM has provided an excellent support for exporters, however it is coming to an end as the year closes. This will result in the product dictated as high value by global markets, which would usually result in a premium price for producers, will not be able to enter the usual markets.

AMIC believes that without the extension of IFAM, the cost of freight will increase to a level that will not be feasible for most exporters. To continue supplying premium product to the global market, continued Government assistance is vital, until a point that international flights have increased to a number which can provide viability.

Further, the current industry COVID restrictions in Victoria continues to cause significant disruptions to efficient market dynamics, including: government-mandated workforce restrictions on processing establishments which directly affects the livestock throughput; the subjective public health directions which cause operational disruptions when a case of COVID is brought onto a facility by a worker; and international market suspensions when a case is reported.

In cases where supply of carcasses and meat has been restricted, pre-existing contractual arrangements between processors/wholesalers/supermarkets/retailers may mean that some domestic outlets may not receive sufficient quantities of product in the specification they require.

AMIC has expressed its concerns in relation to the domestic food supply chain to the Victorian government and is continuing its advocacy program to seek supply chain improvements.

If you have any questions regarding this submission, or should you wish to engage on AMIC's recommendations, please contact AMIC on the detail supplied below.

Yours Sincerely,



Patrick Hutchinson
Chief Executive Officer
Australian Meat Industry Council

AUSTRALIAN MEAT INDUSTRY COUNCIL

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References

1. MLA, *Market Snapshot Australia – Beef & Sheepmeat*, 2019, MLA, Sydney
2. MLA, *Global Snapshot GOATMEAT*, 2020, MLA, Sydney
3. SG Heilbron Economic & Policy Consulting 2018, *Analysis of regulatory and related costs in red meat processing*, AMPC, Sydney