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## Senate inquiry into the effect of market consolidation on the red meat processing sector

### Introduction

World Animal Protection welcomes the opportunity to provide input to the Senate inquiry into the effect of market consolidation on the red meat processing sector. The perspective from which we approach the issue is that of an organisation opposed to live exports and which advocates for the domestic slaughter of all Australian livestock. The animal welfare principle on which we base our advocacy is that the amount of time animals spend on a journey should be kept to a minimum. Food animals should be slaughtered as close to the point of production as possible to avoid the physical welfare problems caused by transport, e.g. injury, disease and stress, and the mental problems caused, e.g. hunger, thirst, discomfort, pain, frustration, fear, and distress. The economic basis for our advocacy is research we commissioned and undertaken by ACIL Tasman and others that demonstrates there would be economic benefits to Australia if Australia's meat export trade was comprised solely of chilled and frozen boxed meat and carcasses.

World Animal Protection supported the development by the Australian Agricultural Company (AA Co) of its new processing facility at Livingstone in the Northern Territory. We would like to see more livestock processing facilities in Australia, located closer to where livestock are produced.

### Issues

The inquiry's terms of reference refer to the potential for misuse of market power and the impact of red meat processor consolidation on market competition.

On the face of it there is potential for misuse of market power. Most of Australia's beef and sheep producing farms are family operations. For instance, the National Farmers' Federation reports there are some 44,000 farms in Australia producing beef cattle and some 11,000 sheep farms. All of them are price takers. At the same time the meat processing sector, the output of which is largely exported (in 2013-14 some 57 per cent of Australian lamb production, 96 per cent of mutton production, and 70 per cent of beef and veal production was exported), is generally corporatised, relatively concentrated, and largely dominated by foreign interests. As reported in the Australian of

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12 March 2015, Brazil's JBS owns 10 abattoirs and five feed-lots and controls 25 per cent of the red meat processing industry, the US owned Cargill corporation operates a 50:50 joint venture with the Australian Teys family and owns six abattoirs and three feed-lots, controlling 21 per cent, and the wholly Japanese owned Nippon Meat Packers owns three abattoirs and one feed-lot and controls six per cent of red meat processing capacity. Between them JBS, Cargill/Teys and Nippon Meat Packers control 51 per cent of Australia's red meat processing capacity. Livestock producers therefore have relatively few options regarding the ownership of processing plants to whom they can sell their livestock. Similarly with the predominance of Coles and Woolworths in the retail sector and McDonalds in the food service industry farmers have little choice should they choose to enter into sales contracts with the retail or food service sector. In summary the vast majority of Australia's sheep and cattle producers sell their animals to an oligopolistic market, the participants of which are able within the constraints or market strategies determined by their foreign owners and alternative sources of protein, to vary their margins.

Also influencing the financial returns to sheep and cattle producers is the reality that with the exception of facilities in Townsville, Rockhampton, and Mackay (with capacity to process 900, 2,000 and 750 head of cattle per day respectively) and the newly opened AACo facility in the Northern Territory (1,000 head of cattle per day capacity), all of Australia's processing capacity is geographically concentrated in the south and east of the country. In WA processing facilities are in the south west corner of the state, and in Queensland, which accounts for almost 40 per cent of Australia's processing capacity, most facilities are in the south eastern part of the state. Until late 2014 when AA Co opened its new facility at Livingstone there was no processing capacity at all in the Northern Territory.

So for livestock producers in WA, in the NT and in far north Queensland long distance travel of their stock for slaughter is a central component of their farming operations. And even then with the predominance of foreign ownership of processing capacity, the market to which their beef will ultimately be sent is inevitably predicated and dependent on the marketing strategies of processors' foreign owners. Indeed, and as reported in Queensland Country Life on 17 March 2015, for many northern Australian livestock producers the nearest processing facility whose export licence is not locked into the service of its foreign owner is the Northern Co-operative Meat Company facility at Casino in northern NSW.

## Recommendations

As mentioned, World Animal Protection would like to see more livestock processing facilities in Australia such that Australia's meat export trade was comprised solely of chilled and frozen boxed meat and carcasses, and not live animals. For there to be more processing facilities a number of



things need to happen. They need to be profitable and sustainable. They need to be confident of long term and reliable supply of livestock for slaughter, and of ongoing and long term markets for their output. Livestock producers need to be assured of the long term ability of processors to accept their turn-off and to pay reasonable prices. Our view is that progress will be made to achieving these requirements if the following happen:

1. Barriers to entry are lowered and policies developed to encourage new participants/investors. These could include the provision of all-weather infrastructure, investment incentives, tax concessions, accelerated depreciation provisions, and the like.
  - Abandonment or mothballing of abattoirs while retaining ownership of them, thereby effectively discouraging new investors, such as carried out by JBS at their King Island abattoir in 2012, and by Teys Bros at their Katherine abattoir from 2002-2011 when it was liquidated and its equipment cut up and sold for scrap, should be discouraged.
  - We note the recent acknowledgement by the Prime Minister of the high costs of road transport (up to 35 per cent of the price of cattle), and his commitment of an additional \$100 million to be spend on key roads for the northern cattle industry to reduce the risk of seasonal road closures due to floods.
2. Competition policies are introduced to prevent further consolidation of red meat processing above its current level of consolidation.
3. Labour is encouraged to move to regional areas of Australia and to work in meat processing through the provision of attractive wages and training;
  - accompanied by industrial relations reform to allow for greater structural flexibility and responsiveness to changed circumstances. Meat processing has long been considered an industrial conflict prone industry. In a historical context the Northern Territory was the scene for one of the most controversial industrial disputes of the 1980s at the Mudginberri abattoir 250km east of Darwin. We note the dispute in 2012-13 between Teys and the Australian Meat Industry Employees Union during which Teys claimed that processing in Australia cost \$300 per animal, in the US \$150, and in Brazil \$111.
4. Process improvements are encouraged to more efficiently utilise inputs such as water and energy and achieve greater recovery of saleable meat and edible offal.



5. Policies are introduced to encourage vertical integration through the establishment of cooperatives or other structures such that processors and sheep and cattle producers each have a stake in the others' operations and success.
  - This would have the effect of giving confidence to potential investors in abattoirs and avoiding the current situation where investment in processing, especially in northern Australia, is deterred because of uncertainty surrounding the supply of livestock.
6. There is renewed and ongoing emphasis on new and stronger marketing and promotional initiatives to grow existing markets for Australian meat and develop new ones. Australian red meat characteristics such as it being clean, disease free, lean, free range and so on should be promoted.

To conclude, World Animal Protection looks forward to the day when all of Australia's meat exports are made up of domestically and humanely produced boxed chilled and frozen meat and carcasses and not live exports. In the meantime steps of the type we have suggested would result in a more competitive meat processing industry, and one in which processors and livestock producers would no longer have the mutually incompatible and competing objectives they currently seemingly have. There would be economic and employment benefits, especially in rural communities and, importantly from our point of view, they would likely also contribute to positive animal welfare benefits.

We would be happy to discuss further.

Yours sincerely

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