

24 April 2015

The Committee Secretary
Senate Standing Committees on Rural and Regional Affairs
and Transport
Parliament House
CANBERRA ACT 2600

Re: The Effect of Market Consolidation on the Red Meat Processing Sector

My name is John Carpenter. I own and operate a 3,000 hectare cattle-only property on the NSW Northern Tablelands. I am currently running 1,200 head of cattle and employ three staff.

1. Background

On 20 January 2014, I made a submission to the Senate Inquiry into grass-fed levies (my "First Submission") which was recorded as Submission No. 5. The gist of my First Submission was that the industry structure imposed on cattle producers by the passage of the Australian Meat and Livestock Industry Act 1997 ("the Act") had totally failed and that cattle producers were in a dire financial position and that cattle prices were literally at "going out of business" levels.

I recommended that the Act be repealed; MLA be dissolved; the cattle transaction levy (CTL) be terminated; and that the MSA beef grading system be transferred from MLA to the Department of Agriculture where it could be independently and impartially administered.

I further recommended that cattle producers be allowed to vote in a plebiscite on whether they wanted to pay the CTL because this would “settle the matter”.

I would like to record that I strongly support all seven recommendations made by the Senate Committee. Their implementation will eventually lead to the outcomes I have recommended.

I now reproduce some passages from my First Submission which are relevant to the theme of this inquiry.

At Section 3.3

The Beef Industry after years of consolidation is now controlled by five large corporations namely, Woolworths, Coles (and their captive processor Australian Country Choice), JBS Swift, Teys/Cargill and Nippon Australia. Collectively I will call these corporations the “Beef Industry”.

In this submission I will continue to refer to these corporations as the “Beef Industry”. I also note that Nippon Australia has changed its name to NH Foods Pty Ltd.

At Section 3.6

The cattle industry is highly fragmented comprising thousands of family farms across Australia. Competition is completely asymmetrical in favour of the Beef Industry and government has done nothing to level the playing field.

In my view the levelling of the playing field, at least to some extent, can only be achieved by direct and immediate government intervention. The intervention that I envisage will not cost the taxpayer anything. It will result in a

much better product being offered to consumers and eliminate the abuses of excessive market power presently exercised by the Beef Industry.

At Section 3.7

The few remaining single plant processors (e.g. Bindaree at Inverell, Primo at Scone and the Northern Co-operative at Casino) face an uncertain future and will likely be forced into some form of amalgamation. Every time a processor or retailer is amalgamated, it knocks out yet another bidder from the market for cattle. For cattle producers this process is lethal.

It is unbelievable that the ACCC and the Treasurer have recently approved the acquisition of Primo by JBS Swift, thus allowing the dominant processor and feedlotter to become even more dominant. This makes a mockery of Australia's competition laws and is a negative and dangerous development for cattle producers. On 29 January 2015, it was announced that Bindaree Beef was seeking a "strategically aligned partner" who could invest \$100 million into their business. Bindaree's amalgamation into another entity is only a matter of time without an injection of new capital. We will end up with another duopoly without government intervention.

At Section 3.11

Apart from Japan and to a lesser extent the Republic of Korea, beef exports mainly comprise low value, commodity type, manufacturing beef. Exporting this kind of product from high cost, unionised, over regulated Australia will eventually prove uneconomic. Based on these settings, beef processing is on course to become the next car industry.

Since I wrote these words, all three of the car manufacturers have announced the closure of Australian production. Beef processing is also dominated by three large corporations, two of which are wholly foreign owned and one is half foreign owned. Unlike cattle producers, they owe no loyalty or allegiance to Australia and will simply move on when they can no longer compete internationally or when they can no longer buy cattle under the cost of production.

At Section 4.7.3

Buying Australian beef has been described as a “lucky dip”. Sometimes it is good and sometimes it is tough and dry.

The quality of “Aussie Beef” just isn’t good enough. The Beef Industry simply can’t resist the profits that are to be made from selling beef from older cattle to unwitting consumers. These cattle are purchased for very little from farmers and “grid prices” are often further reduced by the application of a plethora of discounts assessed in the sole, incontestable opinion of the processor or supermarket. The Beef Industry is drunk on excessive market power to the great detriment of consumers and cattle producers.

At Section 4.7.3

MSA does not exist for the exclusive benefit of producers or processors or retailers. It is, in essence, a system to protect consumers and the interests of the consumer should be its one and only focus.

Australia is in the absurd and very weird position of having two beef grading systems, MSA and the “AUS-MEAT LANGUAGE”. MSA was developed by MLA with the almost certain approval and consent of the Department of Agriculture, the RMAC and the CCA. The Australian Beef

Association (ABA) has stated that MSA has cost \$200-\$300 million to develop and administer. Directors of MLA have publically stated without any reservation that MSA is the “best grading system in the world”. MSA has been described as an objective, science based system that takes all the guess work out of buying beef. The AUS-MEAT LANGUAGE is exactly the opposite, subjective, confusing and under the iron fisted control of the processors. It is a relic that should have been abolished upon the introduction of MSA.

Australia desperately needs a single national beef grading system free from the influence and control of the processors and the supermarkets and focused solely on the interests of the consumers. In other words, this game needs an independent umpire who is empowered by legislation to weigh, access and grade carcasses by objective standards of eating quality and yield. Governments have enacted reams of legislation designed to protect consumers. A national beef grading system would easily fall into this category.

2. Producer Share Update

In my First Submission, I provided a calculation showing that Australian cattle producers received only 26.5% of the average retail price for beef. This calculation was based on data sourced from MLA and its associate company AUS-MEAT LTD and has never been disputed by anyone. I also referred to a report by the Congressional Research Service of the USA dated 27 September 2013, which showed that US cattle producers received 49.4% of the retail price. I commented:

At Section 3.9

This huge differential between Australia and the United States strongly suggests that something has gone very wrong in Australia.

I now update this calculation:

AUSTRALIAN CATTLE PRODUCERS SHARE OF RETAIL BEEF PRICES		
1) Average retail price/kg of beef, December 2014 quarter (Source MLA)		\$16.59
2) Over the hook price/kg of a 260-280kg (cwt) MSA steer in April 2015 (Source MLA)	\$4.46	
3) LESS: Co-product credit at \$197.46 per head for a 274kg (cwt) trade steer at December 2013 (Source MLA) converted to dollars per kilogram	\$0.72	
4) Net price per kilogram	\$3.74	
5) Price grossed up for retail meat yield at 68.7% (Source AUS-MEAT LTD)		\$5.44
Cattle Producers' share		32.8%

Despite the improvement over the past 15 months, this share still compares very unfavourably with the US. The USDA Economic Research Service reported in February 2015, that US farmers received a producer share of 55.2% of the retail price for Choice Beef. This huge differential is also confirmed by a comparison in the price of feeder steers. In April, 2004, MLA was reporting a feeder steer price of \$2.40/kg. In the US, April cash prices for feeder steers quoted on the Chicago Board of Trade were at USD 2.13/lb. which converts to AUD 6.08/kg at an exchange rate of 0.77. Unbelievably US producers are getting 2.5 times more for their live cattle than Australian producers.

This huge differential, in my view, can be put down to the following factors:

- i. The failed industry structure, created by the Act and funded largely by producer levies, has allowed the Beef Industry to capture all of the premiums while simultaneously moving costs back to cattle producers.
- ii. The abuse of excessive market power by the Beef Industry which is a direct result of extreme concentration.

The competitive position of cattle producers in the beef supply chain has been so badly prejudiced that only government intervention can restore some measure of equity.

3. Recommendations

- 1) I repeat the four recommendations made in my First Submission.

- 2) Prohibit by law or regulation any further acquisition, merger or combination of beef processing or feed lot capacity involving the Beef Industry.
- 3) For all cattle sales made on a direct to work/over the hook basis, appoint a single government agency to independently weigh, assess and grade carcasses.
 - i. Weight to be determined after slaughter without any trimming.
 - ii. Grading to be solely calculated in accordance with MSA.
 - iii. AQIS staff are already in all major processing plants and have an effective veto over operations. They would seem to be well placed to carry out these functions. Their cost should be borne by the vendor (i.e. cattle producer) to eliminate any processor objection.
- 4) Processor or retailer discounts levied against over the hook sales would only apply to carcasses:
 - i. That fall outside the weight range
 - ii. That fall outside the fat coverage range
 - iii. That fail to grade MSA
- 5) All beef sold at retail in Australia, except mince, must be MSA graded
- 6) Update, improve and streamline MSA as follows:
 - i. Only cattle under 30 months of age be eligible for grading
 - ii. Grading to be done by carcass not by cut

- iii. Restore grading by 3/4/5 stars and abolish the use of boning groups
 - iv. Add a carcass yield grade determination to MSA exactly the same as used by the USDA
- 7) Return the “Industry Fund” (currently about \$45 million) to Consolidated Revenue.

These recommendations would immediately improve the quality and consistency of Australian beef and level up the playing field, at least to some extent, for cattle producers. The Beef Industry will, of course, hate these recommendations because they will no longer be able to write their own rules and will be forced to compete against each other for quality cattle.

4. Further Observations

In support of my seven recommendations, I make the following further observations:

- 1) The reservoir of trust and good faith in the beef supply chain evaporated years ago. From bitter experience cattle producers know they are being “screwed”. Cattle producers have no faith in the Beef Industry or the “Prescribed Bodies” (i.e. RMAC, AUS-MEAT, MLA, CCA, AMPC, AMIC, ALFA, ALEC, LIVECORP) appointed to act as the government’s chosen regulators. Years of miserable prices, unfair carcass discount and mandated, unproductive industry programs (i.e. NLIS, LPA, NVD) have annihilated producer returns literally to the point of bankruptcy for some. According to the ABS the median age of farmers is 53 years with fully 23% being over 65

years. In a decade many of the survivors will be approaching geriatric status raising some life threatening issues for Australia. There is no new blood taking up farming because all of the returns have been stolen right from under the government's nose by the processing and supermarket sectors. Who is going to produce the food the "dining boom" or the grandiose Asian food bowl scheme? Who is going to control the noxious weeds, the feral animals, the vermin and the bushfires? In short, who is going to love the country? Certainly not the multinational processors.

- 2) Consumers of beef, our ultimate customers, and people whom we should cherish, have been cheated for decades by the Beef Industry. Beef consumption per capita continues its relentless decline. The practice of putting low quality beef from older, inferior cattle on the same shelf as good quality beef creates the well-documented "lucky dip" effect and drives disappointed consumers to the white factory meats. Consumers have no choice. They have to buy whatever the supermarkets are dishing up and cannot select between different quality grades of beef. This is not the case in the US, Canada, Korea or Japan where the national government grades beef and consumers know exactly what they are buying.
- 3) Cattle prices are the single biggest input cost for the Beef Industry. There is a strong incentive, therefore, to maximise the supply of cattle in order to minimise this cost. This explains, for example, the opposition to live exports. I quote from the April 2010 edition of THE MEATWORKER the official journal of the Australian Meat Industry

Employees' Union, Queensland Branch, edited by Mr Brian Crawford, Queensland Branch Secretary:

One of the most pleasing developments has been the formation of a group of interested parties. Several meetings have been held with major processors i.e. Swift Australia Pty Ltd, Teys Bros, Nippon Meat Packers, Fletcher International, the Union and World Society for Protection of Animals (WSPA) with a view to co-ordinated and united campaigning on the issue.

The issue being the live export trade and how to stop it. If the Senators are looking for evidence of collusion, this admission by the union secretary may bear further investigation.

- 4) There is no real competition between the three largest processors or the supermarket duopoly for live cattle. Their direct to works prices, specifications and grids are either identical or almost identical. This reality has recently been confirmed by no less an authority than Mr Brent Eastwood, the chief executive of JBS Swift, Australia's largest processor. I quote from the 16 April 2015 edition of The Australian newspaper which printed remarks made by Mr Eastwood at the Global Food Forum. Mr Eastwood is reported to have said:

The labour costs are massive, utility costs, infrastructure costs ... red tape, country restrictions. All these things cost and unfortunately in this sector – the farmer ultimately takes the hit for that.

Heaven forbid that the processors be put in a position where they actually have to compete with each other – far better to push all of

these costs onto the backs of struggling cattle producers! The extraordinary arrogance of these remarks reinforces the case for immediate government intervention to restore a free and fair market.

5. Conclusion

In an age of universal deceit, telling the truth will be a revolutionary act. – Eric Arthur Blair writing under his pen name of George Orwell.

Cattle producers have been fed a diet of lies for the past twenty years. It is time for the truth to be told before it is too late.

John Carpenter