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Mr Paul Lindwall
Presiding Commissioner
Regulation of Agriculture
Productivity Commission
Level 2 15 Moore Street
CANBERRA ACT 2066

Dear Mr Lindwall

I am the Chair of the Australian Meat Processor Corporation ("AMPC"). The AMPC is the dedicated research and marketing body for the Red Meat Processing Industry under the Meat and Livestock Australia (MLA) Act 1997.

The beef processing industry is an important industry both regionally and nationally because the industry accounts for \$18.2 billion of value add, \$6.7 billion in household income and approximately 105,000 FTE jobs including flow-on effects.

AMPC acts as the Meat Processor Body, which includes providing services, and procuring and providing leadership in the provision of services, relating to Research and Development and Marketing in the meat processing industry for the benefit of its Members and meat processors, and the community in general.

The AMPC recently commissioned a report on the nature of competition in the beef processing industry as a contribution to the consideration of issues by the Australian Competition and Consumer Commission in its market study of the cattle and beef sector. According to the ACCC, the market study's purpose is to examine competition and transparency in the supply chain, and consider whether there are impediments to competition and efficiency at various stages of the supply chain in cattle and beef markets.

The AMPC commissioned research by SG Heilbron Economic & Policy Consulting that provides empirical data and other relevant information to inform the research and analysis of the issues being examined by the ACCC. The analysis of these issues in the report is undertaken from the perspective of meat processors by analysing what processors actually do to compete – that is, how they buy cattle; process (or 'make') them into meat products; and then sell them.

I am submitting this report to your Inquiry because your Inquiry's recently released Draft Report analyses a number of competition issues to which the attached report is directly relevant, and in turn your report reaches a number of conclusions that are directly relevant to the ACCC's Market Study.

In particular, your Inquiry report reaches the following conclusion on page 29:

“The existing competition regulation and oversight is adequate for managing concerns about abuse of market power by supermarkets and traders engaging with farm businesses. The current focus on the potential for the misuse of market power by wholesale merchants and supermarkets engaging with farmers is not well supported by evidence.

Suggestions to amend section 45 of the Competition and Consumer Act 2010 (Cwlth) are unlikely to increase the adoption of collective bargaining because they do not address significant economic disincentives and a cultural aversion in the agricultural sector to participating in cooperatives. Introducing an ‘effects’ test to section 46 of the Act is also unlikely to shield farm businesses from intense competition in retail food markets (Page 29)”.

These conclusions are directly applicable to the beef processing sector. The analysis in the beef processing report attached similarly concludes that there is no justification for changes to the current competition policy settings relating to livestock producers and beef processors, and points to the lack of evidence for the need to make changes thereto.

In addition, your Inquiry produces a draft finding on page 433 as follows:

DRAFT FINDING 11.2

“Existing competition regulation and oversight is adequate for managing the risk of supermarkets abusing market power in their dealings with farm businesses and wholesale merchants (Page 40)”.

The Commission has previously noted that a high evidentiary burden is not sufficient to justify amending section 46 (PC 2014f). Further, amending the regulation to include an effects test may itself bring regulatory risks, particularly if the threshold invoking the test was set too low (Page 433)”.

The beef processing report attached expresses almost identical concerns about the regulatory risks associated with introduction of an effects test in the context of beef processing.

Most significantly, your Inquiry points to the following powerful conclusion on page 433:

“The wrong focus?”

Competition policy reform has contributed significantly to agricultural productivity in Australia by enabling the reallocation of land, labour and capital to their highest value uses both within and between farm businesses (Gray, Oss-Emer and Sheng 2014). The current debate about imbalances in bargaining power overlooks the co-dependence of businesses along agricultural value chains. There are potential benefits from shifting the focus from potential misuse of market power by wholesale merchants and supermarkets to innovations that develop new commercial arrangements and enable farm businesses to participate profitably in globalised value chains (Page 433)”.

The beef processing report attached concludes in almost identical terms about the focus needing to be on addressing the means by which small farm businesses can benefit from the development of a competitive internationally integrated beef processing industry rather than a focus on using competition policy.

Your Inquiry report in particular is to be applauded for pointing out the co-dependence of businesses along agricultural value chains, which echoes the beef processing report's conclusions.

I note however that your report only comments on competition policy relating to farmers and wholesalers/retailers, and does not specifically refer to processors. As I have pointed out above, your report's conclusions also effectively apply to processors, who are an essential part of the co-dependent value chain which your report correctly identifies.

It would accordingly be entirely appropriate to extend your conclusions to apply to processors as well as wholesalers and retailers in your Final Report.

If you wish to discuss any aspect of this submission, please do not hesitate to contact me.

Yours sincerely,

Peter Noble
Chairman