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### Hunt Blog Newsletter

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## CATTLE PRODUCERS NEED A STRONG REPRESENTATIVE BODY TO COUNTERACT SUPERMARKET AND PROCESSOR POWER

### PART 1

#### IDENTIFYING THE PROBLEMS

#### Foreword

This newsletter is the first of a two part series on the need to strengthen Australia's grass fed cattle producer representative bodies in order to counteract increasing concentrations of supermarket and processor power.

Part 1 of the HuntBlog newsletter examines

- recent parliamentary enquiries into grass fed cattle levy funded structures and systems and the effect of market consolidation in the red meat industry,
- recent government attempts to curb the deleterious effects of supermarket and processor power on the rural sector,
- recent inquiries and reports by the Australian Farm Institute and the National Farmers Federation into the comparative ineffectiveness of Australian rural advocacy groups compared to successful overseas models,
- the unsustainable plight of the grass fed cattle cash strapped State Farmer Organisation (SFO) based Cattle Council of Australia (CCA),
- compares the relative financial and representative weakness of CCA to successful overseas service fee and levy funded rural advocacy models and levy funded advocacy bodies in Australia, and
- by way of example, explores the different outcomes between America and Australia in the level of government influenced costs and charges on the red meat industry and the cattle producers' share of the retail dollar

Part 2 of the HuntBlog newsletter will

- explore possible funding models for cash strapped SFO representative bodies such as the CCA,

- examine key recommendations of the Grass Fed Cattle Levy Funded Structures and Systems Senate Inquiry that may help strengthen grass fed cattle organisational representation,
- draw some conclusions that seem to flow inexorably from these examinations and the material set out in Part 1, and then
- proffer some solutions for consideration by the red meat industry and government.

## **Part 1 Introduction**

Following allegations of a processor boycott of the cattle sale at the new Barnawartha saleyards in February 2015 over the issue of pre-sale weighing of cattle rather than post-sale weighing, the Federal Senate convened an inquiry into the “Effect of Market Consolidation on the Red Meat Processing Sector”, referred to by some as the “Processor Power Senate Inquiry”.

The Senate Committee was originally due to publish its report by 12 August 2015 but the Senate, as a consequence of intense industry interest in the inquiry, has twice granted itself an extension of time for reporting and is currently due to hand down its report on the effect of processor power on the red meat industry on 5 May 2016.

Over 90 submissions were received by the Senate Committee with respect to the Processor Power Senate Inquiry and there are rumours that the 5 May 2016 Senate Committee report may only be an interim report with the final full report not being handed down until August this year.

The Processor Power Senate Inquiry followed on from the exhaustive 2013/14 inquiry into Grass Fed Cattle Levy Funded Structures and Systems, which received over 400 submissions and led to 7 key Recommendations calling for the strengthening and reform of grass fed cattle industry representative structures.

The concentration of abattoir and supermarket power that has occurred in Australia since the 1990s is a matter of increasing concern to the rural sector generally and the red meat production industry in particular.

Since the 1990s the supermarket share of Australia’s domestic beef sales has risen to about 78.5% which is over twice the supermarket share of Australian beef sales about ten years ago. To the great concern of many, the combined share of national beef retail sales of Woolworths and Coles now amounts to 59% of the total.

A similar concentration of power has occurred in the Australian meat processing sector during the same period with the top three meat processors now processing over 50% of all cattle slaughtered each year.

## **The Changing Structure of the Beef Industry**

As the Senate Committee pointed out in their Report on the Inquiry into Industry Structures and Systems Governing Levies on Grass-fed Cattle, the view that beef processors are able to use their voting dominance on the MLA board to influence the distribution and expenditure of the grass-fed cattle levy is shared by many grass-fed cattle producers.

When the current red meat industry levy system was implemented in 1998 Meat and Livestock Australia (MLA) was established to be the producer levy funded corporation and the Australian Meat Processor Corporation (AMPC) was established as the red meat processor corporation.

As a consequence of a substantial increase in feedlot and backgrounding vertical integration by processors which could not have been foreseen in the mid-90s, processors now pay significant levies to MLA and hold equally significant voting entitlements. Indeed, four of the five biggest MLA vote holders are now beef processors. Further, eleven of the top seventeen levy payers to MLA in 2010-11 owned an abattoir and Swifts, the world’s biggest meat processor, is the biggest MLA levy payer with the highest voting entitlement at MLA AGMs.

Further, the Senate Committee in the Grass Fed Cattle Levy Inquiry was informed that even though processors contributed only 10% of MLA’s funds, they enjoyed a return of about 33% in terms of levy investments.

Producers and processors with directly competing day to day commercial interests are now both significant stakeholders in the producer corporation, MLA, and there are many that believe that the processors hold far too much sway in the MLA decision making because of the amount of levies that they pay to that corporation.

## **Government Attempts to Explore and Curb the Effect of the Increasing Concentration of Processor and Supermarket Power**

### *Processor Power Senate Inquiry*

The Terms of Reference of the Senate Inquiry into the Effect of Market Consolidation on the Red Meat Processing Sector are set out as follows:

- the potential for misuse of market power through buyer collusion and the resultant impact on producer returns;
- the impact of the red-meat processor consolidation on market competition, creation of regional monopolies and returns to farm gate;
- the existing selling structures and processes at saleyards, particularly pre- and post-sale weighing, as well as direct sales and online auctions, and whether they remain relevant;
- the regulatory environment covering livestock, livestock agents, buyers and meat processors; and
- any related matter.

### *Strengthening the ACCC*

#### *Effects Test*

Concerns about increasing concentrations of supermarket and processing power has also led to the recent introduction of the *Effects Test* by the Federal Government to strengthen the ACCC.

#### *Agriculture Commissioner*

The Federal Government has also recently appointed the Australian Farm Institute CEO Mick Keogh as Australia's first ever ACCC Agriculture Commissioner.

### *ACCC Action*

On 5 April 2016 the ACCC announced that it would commence a market study into the cattle and beef industry in Australia, after the body faced criticism from beef producers for its handling of JBS Swift's acquisition of Primo small goods and for taking no action against nine processors accused of collusion in boycotting a sale at Barnawartha.

Key issues to be covered by the ACCC market study include:

- competition between buyers of cattle, and suppliers of processed meat to downstream customers
- the implications of saleyard attendees bidding on behalf of multiple buyers
- impediments to greater efficiency, such as bottlenecks or market power at certain points along the supply chain
- differences in bargaining strength, and the allocation of commercial risk between cattle producers and buyers
- the transparency of carcass pricing and grading methods
- seeking information on the share of profits among the cattle and beef production, processing and retailing sectors; and
- barriers to entry and expansion in cattle processing markets.

The ACCC has released an Issues Paper providing detailed information on the scope of the study and how interested parties can participate. Submissions for the study will remain open until 6 May 2016, with public consultation forums due to be held in July, followed by the publication by the ACCC of its draft findings in September and its final report in late November.

## **The Need for Strong Farm Sector Representation to Counteract Increasing Supermarket and Processor Power**

These Government initiatives all underscore the need for strong farm sector representation to counteract the commercial effects flowing from the increasing concentrations of supermarket and processor power.

The fact that both the Senate and the ACCC have recognised the need for formal inquiries into these issues is indicative of the disadvantage faced by Australian beef producers as a result of increasing processor consolidation. Clearly, it is imperative for producers to have a stronger and more unified representative body in order to address these problems and lobby the Federal Government to effect meaningful and long-term change.

Recent studies and reports by the State Farmer Organisation (SFO) based Australian Farm Institute and the SFO-based National Farmers Federation have recognised and exposed the structural weaknesses and the inadequacies of Australia's SFO-based rural advocacy bodies.

#### Australian Farm Institute Report

The Australian Farm Institute's (AFI) report, *Opportunities to Improve the Effectiveness of Australian Farmers' Advocacy Groups – A Comparative Approach* published in March 2014 found that, compared to the farming sectors of Canada, New Zealand, France and the United States, "the Australian farm sector is the least 'organised', and has very few examples of successful collective action – either in pursuit of policy or commercial objectives."

#### *Findings of the AFI Report*

The AFI report found that the factors contributing to the difficulties facing rural advocacy groups in Australia include

- the centralisation of major issues affecting agriculture towards the Australian Government and away from state governments
- reduced national economic importance of agriculture
- deregulation of the agricultural sector
- increased scrutiny being imposed on agriculture by environmental and animal welfare organisations, and
- the digital revolution.

#### Newgate Review of the Future of Australian Farm Sector Representation

In November 2013, Newgate Communications was engaged by the National Farmers Federation (NFF) and its 29 member organisations to undertake a review into farm sector representation in Australia.

The aims of the review were to:

- Establish the most effective way in which to advocate and develop policy and drive activism within the agriculture sector;
- Create an environment which supports the ability of farmers to operate profitably; and
- Strengthen the voice of the farm sector to increase its regional influence.
- The desired outcomes of this review were to determine if there is support for the idea of changing the representation model and, if so, what form that change would take.

The report summarises the challenges faced by the Australian farm sector in 2013 as follows:

- Effective representation of the farm sector is impeded by structural issues, changing membership, revenue and restricted resources;
- Well-funded and effectively-coordinated bodies for the minerals, energy, services and animal welfare sectors have claimed a greater share of political influence at the expense of the farm sector;
- These challenges exist at a time when effective representation is needed to counter anti-farm activism, and provide stronger voice in policy debates on issues like foreign ownership, farm investment and trade policy;
- If the sector fails to adapt to the new environments its influence, relevance and therefore membership and funding will continue to decrease, until inevitably its capacity for effective representation is lost; and
- The sector is ready to consider revolutionary change in order to secure the future of farm sector representation in Australia.

The Newgate Review concluded that the agricultural sector should unify, reduce duplication and adapt to changes in the modern agricultural environment. The unified structure proposed by the Newgate Review would merge current territory and state farm organisations into a single body. Sector wide resources would also be pooled to

establish a national executive to service the farm sector with “best in class” resources, whilst removing sector wide duplication.

Commodity bodies currently funded by SFO membership would be brought within the unified body, whereas peak bodies funded via industry levies (such as Cotton Australia or Australian Pork Limited) or other means would be independent. The “integrated” bodies would be housed within the national structure, enabling them to draw on the resources at the national and state level to conduct activity on behalf of the commodity. Independent commodity groups could operate outside the unified structure but ideally would be members of the unified model, while associate members (farm services businesses) would still be encouraged where no conflict is identified to join the unified model.

The new representative body would focus on campaigning for strategic policy development at the national level. As agricultural policy is today predominantly dictated by the federal government, this is where the agreed critical issues will potentially be resolved. Resources will also be re-deployed to support greater local engagement with farmers at the local level. Under the proposed representative model, the needs of states and commodity sectors would be supported by dedicated experts in policy advocacy and campaigning.

### **Comparative Strengths of Australian and Overseas Rural Representative Bodies**

#### **1. Cashed Strapped Australian SFO Peak Councils**

The difficulties facing Australian rural advocacy groups identified in the AFI and Newgate reports are exemplified or perhaps compounded in the case of SFO Peak Councils who rely on membership fees for funding as a consequence of the decline in SFO membership since the 1990s. NSW Farmers Association membership has declined from around 25,000 in the early 1990s to just over 5,000 in 2013 and the powerhouse of Australia’s SFOs, Agforce, now has a membership of little more than 4,500 to 5,000. Consequently, SFO membership fees have fallen by about 75% since the current red meat industry organisational structures were put in place in the mid-90s.

The funding issue for the grass fed cattle industries SFO Peak Council, CCA, is now so dire that it threatens the long-term viability of the CCA which is the peak national lobby group for beef cattle producers. Following the CCA’s November 2015 AGM, CCA Chief Executive Officer Jed Matz announced that the CCA had hit “rock bottom” in terms of finances and an alternative long-term funding solution was required if the CCA was to be sustainable.

The press reported that CCA’s net financial reserves at the start of the 2015/2016 financial year were just \$276,813, almost \$300,000 below the previous financial year’s already eroded figure.

The CCA, which has an agenda to influence government policy affecting producer profitability and is meant to play a key role in determining the strategic goals pursued by levy funded bodies such as MLA, openly admits that it no longer has the funds to fully and effectively carry out its role under the current industry organisational structures. Indeed, in the face of criticism by many grass fed cattle levy payers, CCA has resorted to entering into “service agreement” arrangements with MLA, the very body whose operations CCA is meant to direct and oversee. At one stage, CCA was reduced to offering to sell CCA directorships to “corporate” cattle producers for \$20,000.

Equally, and perhaps more importantly, SFO Peak Councils such as the CCA can no longer claim to represent a majority of cattle producers and therefore lack the necessary moral authority to effectively carry out their charter.

The inarguable reality is that Australia’s grass fed cattle representative body structure is unsustainable and an alternative financially sustainable and truly representative model has to be agreed upon and implemented as a matter of urgency.

#### **2. American Farm Bureau Federation**

An example of a demonstrably effective agricultural industry lobby group can be found in the form of the American Farm Bureau Federation (AFBF) in the United States.

The AFBF, which is funded from fees earned from services to members, is a very powerful rural advocacy group in the United States. While its main purpose is lobbying government, it maintains and increases its membership and thus its funds by offering a number of commercially attractive discounts and services.

The American Farm Bureau Federation has a membership of 6 million “member families”, and a presence in all 50 U.S. States. The U.S. has a total of 2.1 million farms. The AFBF’s success in gaining membership can largely be attributed to the large commercial benefits that members of the AFBF’s State branches receive. Once again, the success of the AFBF in this way provides evidence for the AFI Report’s belief that providing commercial discounts and services is vital to gaining and maintaining membership.

Importantly the provision of commercial services by the AFBF to its members keeps the AFBF close to its members and in tune with their members’ policy needs.

As an example, the Georgia Farm Bureau offers not only commercially attractive discounts in areas such as health and farm services, but also commercial services such as car insurance, life insurance, crop insurance, banking services and marketing services. Further, the AFBF also offers help with legal advocacy to landowners in the protection of private property rights.

All of these discounts and services do not detract from the main service that the AFBF offers which is legislative advocacy – and the AFBF, with its large membership base and commercial services, is a very powerful lobbying force in the individual States and at the national level in Washington.

### **3. National Cattlemen’s Beef Association**

The National Cattlemen’s Beef Association (NCBA) is a consumer-focused, producer-directed marketing organisation and trade association. The NCBA (through direct membership and its State affiliates) represents more than 175,000 cattle producers and feeders. Given that there is a total of 287,000 operations in the U.S. that have a herd of 20 head of cattle or more and had sold cattle the previous year, the NCBA is regarded as being highly representative of cattle producers and feeders.

The NCBA aims “to advance the economic, political, and social interests of the U.S. cattle business and to be an advocate for the cattle industry’s policy positions and economic interests.” The NCBA lobbies Congress to achieve its aims, and funds full-time lobbyists in Washington, D.C.

Beyond the normal lobbying activities of the NCBA there is also a related NCBA – Political Action Committee (PAC), which raises money and accepts donations to help fund political lobbying. The NCBA – PAC aims to raise \$1 million per election cycle (every two years). The NCBA – PAC asks candidates to fill out a questionnaire and explain their positions on policy issues important to the NCBA, and then the NCBA – PAC supports political candidates (from both political parties) who support the U.S. beef cattle industry.

The Federation of State Beef Councils is a division of NCBA that oversees beef and beef production promotion, research, information, and related activities funded by the beef Checkoff levy, up to 50 cents on the dollar of which are permitted to be retained by individual State beef councils and contributed to the Federation.

The Federation, while subject to a sort of financial “Chinese Wall” in relation to the NCBA, and the Cattlemen’s Beef Board which controls the other 50 cents on the dollar of the Checkoff levy have what is described as a “synergistic” relationship with the NCBA and its State affiliates, particularly given the fact that the Federation and Cattlemen’s Beef Board members are nominated by the NCBA’s State affiliates.

For those who wish to read additional material, the 16 October 2014 HuntBlog Newsletter titled “*The Need to Strengthen Australian Rural Industry Advocacy*” examines the NCBA and the U.S. beef industry advocacy structures in greater detail. The 16 October 2014 HuntBlog Newsletter on the NCBA can be accessed by [clicking here](#).

### **4. Other Overseas Levy Funded Rural Advocacy Bodies**

The powerful Canadian farmer advocacy bodies such as the Union des Producteurs are partly levy funded and several levy funded New Zealand rural organisations including Beef + Lamb, DairyNZ and Horticulture NZ have a strong role in policy development, advocacy and information provision.

The New Zealand levy funded bodies can be compared to the Australian research and development corporations (RDCs) as the funding structures and missions are similar. However, in New Zealand, these organisations are entitled to conduct advocacy activities, the latter being understood as a technical contribution to policy preparation and evaluation.

French agricultural advocacy chambers provide a comprehensive range of policy development, advocacy and services to French rural industries. The French agricultural chambers operate through a pyramidal organisational structure involving national, regional and departmental sectors with regional and national chambers both being active in policy development and policy analysis with the regional chambers providing services at a local level to farmers.

French Agricultural Chambers funding is obtained from the following sources:

- 45% from land-based taxes
- 24% from the provision of services
- 25% from public partnerships, and
- 6% from others.

## **5. Levy Funded Rural Advocacy Bodies in Australia**

There are also many examples of Australian rural industry bodies that are funded either wholly or in part by levy funds.

For instance, Australian Pork Limited is an Australian levy funded rural industry body that carries out representative functions, marketing and R&D all under one roof. Levy funded Australian Pork Limited, unlike its red meat industry counterparts, sets its own policy and is responsible for the delivery of that policy. Thus there is no structural dysfunction between policy setting and service delivery as there is with MLA.

Other Australian levy funded rural bodies that develop policy for their industry and in practice advocate for the implementation of that policy include Australian Wool Innovation, the Australian Egg Board and the levy funded dairy industry body. Indeed, over the years Hunt Blog has sat on the opposite side of the table to senior staff of the levy funded MLA in various State and Federal Ministers' offices arguing the pros and cons of the introduction of some policy or the other and the infamous incident of the then Cattle Council CEO being left outside Federal Agriculture Minister Ludwig's office for 2 hours whilst Minister Ludwig discussed the Indonesian Live Export Ban with MLA Chair Don Heatley in 2011 is well known.

As discussed above, it is common knowledge that the SFO based Peak Councils are no longer able to raise sufficient income from membership fees to properly fund their activities as a consequence of declining membership. This Peak Council funding problem was recognised when the current red meat organisational structures were put in place in 1998, hence the decision to allocate the interest earned from the red meat industry RMAC Levy Reserve Fund to the red meat industry Peak Councils.

Whilst Minister Joyce has suggested that the new representative body for the cattle industry should seek to create a funding base by providing membership services, he has also acknowledged that it will take some years for such a body to raise enough funds from membership payments to allow it to adequately fulfil its funding requirements.

## **Comparisons Between Australian and American Livestock Industry Taxes and Differing Shares of the Beef Retail Dollar**

### **1. Australia's Uncompetitive Government Influenced Costs and Charges**

Compounding the problems created by the concentration of power in the processing and retail sectors is the fact that the Australian red meat industry continues to be burdened with increasingly uncompetitive government issued costs and charges compared to their foreign competitors.

The 2001 *Study on the Impact of Government on Industry Competitiveness* by S.G. Heilbron ("the Heilbron Report") on the impact of uncompetitive government influenced costs and charges on the Australian red meat industry, which was commissioned by MLA, found that in 2001:

- Australian producers paid one third of their revenue in Government influenced costs and charges;

- New Zealand producers paid one sixth of their revenue in Government influenced costs and charges;
- American producers paid one eighth of their income in government influenced costs and charges; and
- Australian meat processors paid twice as much as U.S. meat processors in Government influenced costs and charges.

Since the Heilbron Report was published in 2001, total government charges in Australia have increased by an immense \$14.26 per head, with this increase consisting of the cost of the National Livestock Identification System (NLIS), increased MLA and AMPC levies, and the 100% AQIS fee recovery. This \$14.26 per head cost translates into an additional burden of more than \$100 million per year on the Australian red meat industry.

Australia's overseas competitors in the red meat industry, including the United States, New Zealand and Brazil, have not suffered similar increases in their government influenced costs and charges since 2001. Additionally, Australian beef processing costs are AU\$200.00 per head higher than costs in Brazil for grass-fed cattle processing, and \$150.00 per head higher than the U.S. for grain-fed cattle processing. These extra costs put the Australian beef industry at a further disadvantage of more than \$1 billion per year on the processing costs of the 8 million cattle slaughtered in Australia each year compared to their Brazilian and U.S. counterparts.

According to MLA, on average, a beast is traded 1.7 times during its lifetime which means that when the \$5 levy on each sale transaction is applied the total transaction levies paid on each mature beast slaughtered is \$8.70. When the 60 day pre slaughter notional transaction levy is applied the figure becomes close to a transaction levy of \$9.80 for every beast slaughtered. When the AMPC cattle slaughter levy which amounts to \$1.51 per head for an average 252 kg beast is added it can be seen that total transaction and slaughter levies amount to about \$11.31 a head, around \$3 or 27% of which is being paid by processors.

In contrast, American and Canadian cattle producers pay a \$1 checkoff transaction levy for each beast sold.

## **2. Australian and American Cattle Producers' Share of the Beef Retail Dollar**

The July 2015 Department of Agriculture submission to Processor Power Senate Inquiry that the Australian farmers' share of the retail value of primal cuts in 2013 and 2014 was 36% compared to 55% received by American farmers of the U.S. retail value of primal cuts.

The Department of Agriculture Report did however say that U.S farmers' share of the prime cut retail value varied between 68% in 1973 to 42% in 2010, and Australian producers' share of the retail dollar has trended down from more than 50% in the 1970s and cattle producer industry calculations suggested that the Australian producer share of the retail dollar over the last decade or so has fluctuated from below 30% to around 44% which is currently being achieved as a consequence of the current high sale yard cattle prices.

The Department also noted that the margin between sale yard and export prices had steadily declined from 417 cents per kg in 1973/74 to 151 cents/kg in 2010/11, rising over the next 3 years to 300 cents/kg in 2014/15.

Importantly, the Department's submission also points out that U.S. beef production is largely grain fed compared to the largely pasture-based Australian production system, which means that cattle production costs are higher in the U.S. than in Australia and that labour costs are higher in Australia than the U.S. Indeed, the world's largest meat processor, JBS Swifts, estimates that processing costs in Australia are \$150 a head higher in Australia than in the United States, largely as a consequence of Australia's higher labour salaries. This increased cost of production, when applied to a whole of beast consumer value of \$3,000, would account to a 5% share of the consumer dollar differential between Australia and America.

The Department also points out that exported domestic retail prices are not directly comparable in either America or Australia because of the differing extent of value adding between the export and domestic markets in both countries.

The bottom line remains however that after all these ameliorating factors are taken into account, it appears to be common ground that Australian cattle producers receive a lower percentage of the retail value of their cattle than their American counterparts. We note that this has occurred in spite of greater supermarket consolidation in parts of the United States than in Australia, such as the 72% market share that Publix Supermarkets and Wal-Mart have in the State of Florida.

### **3. The Effect of Strong Industry Representation on Livestock Taxes and Producers' Share of the Beef Retail Dollar**

Whilst it is not possible to provide definite evidence in support it appears safe in common sense terms to suggest that part of the reason for the discrepancy between the American and Australian producer's share of the retail dollar and its lower tax and costs burden in America compared to Australia can be laid at the door of the relative strengths of the two countries' representative rural advocacy groups.

Particularly when considering the strength of the producer advocacy group the NCBA and the beef advocacy group the Cattlemen's Beef Board compared to the relative weakness of the CCA and cross sector, producer/processor, and beef/lamb structure of MLA.

As a result of the declining influence of SFOs in the last 25 years and the shift in responsibility for agricultural policy from the states to the federal government, the Australian grass fed cattle industry clearly has a need for a powerful and more effective lobby group in order to have its say with the federal government for the implementation of policy changes that would benefit Australian grass fed cattle producers.

#### **Part 2: Conclusions and Solutions**

Part 2 of this newsletter detailing HuntBlog's conclusions and proposed solutions to the current lack of an effective and unified representative advocacy body for the grass fed cattle industry in Australia will be released next week. In the meantime please visit [www.huntblog.com.au](http://www.huntblog.com.au) for a synopsis of the conclusions reached in next week's Part 2.

You can also visit [www.huntblog.com.au](http://www.huntblog.com.au) if you would like to make a suggestion and for further information and commentary on Australian cattle reform issues.