

18 September 2020

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



Dear Director,

Re: Perishable Agricultural Goods Inquiry

Sheep Producers Australia (SPA) welcomes the opportunity to contribute to this inquiry. SPA is the voice on issues that affect Australian sheep production businesses. As the successor entity to Sheepmeat Council of Australia which formed in 1978, SPA is the peak industry organisation for sheep and lamb producers. SPA works daily to enhance the industry's productivity, profitability and sustainability by representing all producers to industry decision-makers and stakeholders.

In Australia there are 31,972 producers that have sheep production as part of their enterprise, producing approximately 501,000 MT of Lamb and 230,000 MT of mutton¹. Over the past decade the size of the national sheep flock has decreased, as well as the amount of sheep meat that Australian's consume every year. While there is heightened competition amongst protein options for consumers every year, the options for producers as to where they can sell their turned-off stock for meat has diminished.

Sheep producers do not usually sell direct to the consumer, or in most cases direct to the retailer, although these arrangements do exist. Most of the stock destined for processing is sold direct to a processor or sold through the saleyard (or virtual auction) system where processors can compete for livestock in an open market.

The major supermarkets do purchase significant volumes of lamb (with particular specifications) directly from producers. SPA is aware of the different situation in Australia regarding the concentration of buying power with the supermarkets. Sheep producers are protected to a certain extent given the increasing importance of the export markets which now represent 66% of industry volume¹.

Historically, complaints have existed around the market power of the processors. However, a consistent issue raised by sheep producers in the past few years has

¹Meat & Livestock Australia's Fast Facts 2019: *Australia's sheepmeat industry*
<https://www.mla.com.au/globalassets/mla-corporate/prices--markets/documents/trends--analysis/fast-facts--maps/mla-sheep-fast-facts-2019-1.pdf>

been in relation to the recorded Hot Standard Carcase Weight not meeting the expectation of the producer when compared to the live-weight of stock leaving the property. These disputes will occur from time to time and are usually resolved between the producer and processor, sometimes with AUSMEAT or another party as a mediator. If the producer is not satisfied with the result, they may choose to sell their stock direct to another processor in the future or sell via the saleyard system.

The key to the above is choice. If there is a decline in the number of processors, especially in regional areas, then both the options for a producer to sell direct and the competition at saleyards is diminished. Having viable processors in operation in as many centres as possible is essential to drive this competition (along with rules between the retailers and the processors), which in-turn ensures producers receive a share of the retail dollar.

The market in Western Australia (WA) is an example of where competition is limited. WA is more isolated and has fewer processor operations available to producers. As the sheep flock has decreased over time, this has also reduced the viability of processors to establish new operations. Sheep producers have noted to SPA that when the live export trade is not operating (during the northern summer sheep live export moratorium) there is a noticeable drop in lamb and sheep prices. Tasmania is also an example of such a market due to the limited processing options available on the main island, demonstrated by volume of stock sent to Victoria for processing. SPA is not suggesting any wrongdoing by the processors, simply that it is the result of competitive forces being either in or out of the market.

At a technical level, SPA does have the following issues to consider regarding market information and transparency:

Issue 1: Consistent feedback through Objective Carcase Measurement (OCM)

When selling wool, the wool is tested and growers receive standard feedback on micron, strength, vegetable matter and several other specifications. Sheep producers have raised concerns with SPA about the lack of consistent and adequate carcase feedback from processors and receiving appropriate market signals to improve their product and maximise returns.

SPA is working with Meat and Livestock Australia in advancing OCM technologies to measure carcase traits such as lean meat yield and eating quality. These are initiatives that, with the appropriate feedback channels between processors and producers, should drive both volume and quality parameters and allow producers to compare consistent feedback from processors in the future. Producers will also seek standard information on the fat trimming required, and the best methods to reduce wastage from their product.



**SHEEP
PRODUCERS
AUSTRALIA**

Issue 2: Market Reporting

Sheep producers rely on livestock market reports and other media relaying livestock auction results across Australia for their decision making on-farm. The more information that is available to producers about regional markets, breeds and weight ranges, the better their decision-making process is for deciding when and where to sell stock, as well as longer term decisions around sires and stocking levels.

There have previously been calls made by other livestock industries to have processors publish their price grids. This is an important issue for SPA as there are efficiencies and price premiums available from producing lambs into a particular 'brand' or export program. However, SPA has not supported the regulation of supplying grid prices. Whilst perfect information is seen as a goal of competitive markets, the publishing of all abattoir prices can make it easier for processors to reduce prices more quickly in a market downturn. While the web-based auctions as well as the saleyard system account for a significant proportion of sales and a readily available option for producers, they represent a reliable benchmarking system for producers.

Conclusion:

With the diverse nature and sheer volume of suppliers compared to the number of processors and large retailers, there will always be a need to scrutinise the level of fair competition to purchase sheep and lambs. With improved OBM technologies and feedback mechanisms for the industry, both value and price signals can contribute to the advancement of the industry.

Presently the protections that exist for buyer behaviour are effective, however the most effective feature will be the continued promotion of competition laws and the ability of producers to access assistance when they feel there has been a misuse of purchasing power.

Should you have any questions regarding our submission, please do not hesitate to contact me on 0455 999 130 or via email: scrisp@sheepproducers.com.au.

Yours sincerely,

Stephen Crisp
Chief Executive Officer
Sheep Producers Australia