

**South East Potato Growers Association**

**7 September 2012**

**REF: A91322**

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## **RE: SEPGA application for revocation of authorisation A91057 and substitution of a new authorisation A91322**

### **Response to McCain foods (Aust) Pty Ltd and Safries Pty Ltd joint submission.**

The SEPGA has reviewed the submission from McCain dated 10<sup>th</sup> August 2012 (ACCC website) and refute the submission that the authorisation will not result in any benefit to the public, and also refute that the past authorisation has generated inefficiencies and uncertainty for both parties engaged in collective negotiations in the past.

### **History of negotiations during Authorisation A91057.**

The SEPGA has very few members and they are predominately McCain growers.

The grower based committee has represented the majority view of that group of growers and has five growers elected to negotiate for them. There is a good cross section of growers on the committee. The grower group decided that they were best served by a small group to meet with McCain to deal on price and non-price issues as well as pushing efficiency gains in a non adversarial environment. It is important to note that the negotiating committee does not have sole focus on price only negotiations, but the negotiation meetings have been the only forum for discussing other matters, such as:

#### Agronomy projects

- Nitrogen management
- Phosphorus and Potassium management
- Differing irrigation systems and their management
- Disease forecasting projects (DNA project, and early and late blight forecasting)
- Variety trialling
- Soil moisture monitoring

#### Efficiency

- Freight
- Storage
- Regulated flow (to keep freight cost down and not over capitalise harvest equipment)
- Benchmarking

The quality of this work has resulted in enquiries from other growing areas such as China, Argentina and Tasmania etc for information on addressing similar problems.

Some members of SEPGA have travelled to other parts of the world to visit potato growing areas and are well aware of the cost disadvantages Australia has, this can only be dealt with as a 'whole of industry' focus, including seed, commercial and processing. Visiting other areas also brings new ideas and technology to our region for the benefit of the industry as a whole.

When deciding on price (or as we call it, Base Price or BP) for the upcoming season growers will base their decisions on, change in growing cost, international price of processing potatoes and domestic market price of potatoes and their products.

At all times the SEPGA has sought to commence negotiations as soon as practically possible usually requested in February or March and aims to be concluded by planting time, which is started in September for early supply and main season (representing more than 80%) mid October to Mid November.

### **Past Negotiation Timelines**

#### **2007 negotiations for 2008**

Agreement was reached in October 2007 but eventually concluded in November 2007 after fine tuning the premium for Russett Burbank (preferred variety at that time) over BP. This resulted in a revenue neutral offer and did not match the differential in price growers were offering. A new early season bonus incentive was also negotiated.

#### **2008 negotiations for 2009**

Concluded in September 2008 (this date differs to that in the McCain submission). This was a particularly difficult negotiation, during tough economic conditions as there was huge cost of production increases. A new bruise free incentive (and dis-incentive) program and Quality Assurance program incentives were negotiated.

#### **2009 negotiations for 2010**

Negotiations concluded in October 2009 with significant falls in both price and volume.

#### **2010 negotiations for 2011**

Actually commenced in February 2010 and concluded in September 2010. This was a particularly difficult price to achieve as it was under the cost of production but economic

and market situations required this action. This was a conscious decision to allow McCain to remain competitive against cheaper imported product.

McCain's approach to negotiations in other growing regions may have contributed to significant embarrassment to the industry.

In April 2011 after much deliberation the SEPGA negotiation committee sought to renegotiate the BP for 2011 season. The BP has never been renegotiated after agreement in the past but with changing market conditions and poor growing season this action was taken. At the same time, negotiations for 2012 season were also concluded.

### **2012 negotiations for 2013**

May 2012

This was the first time individual discussions have occurred, whilst the collective bargaining agreement was in place, showing that collective negotiations do not preclude individual negotiations. We agree that they were concluded quickly, but not all growers were given the same conditions and there was no scope for any other discussions. It was a 'take it or leave it' offer. These weren't negotiations, but an offer to growers in a scenario where there was considerably reduced tonnage available and this was offered at a predetermined price. If growers didn't accept the price they would have lost their contract and potentially their business. This method of 'negotiation' caused the growers a significant amount of stress and was not conducive to good discussions on how to further our industry, ultimately resulting in public benefit as described below.

As can be seen above, negotiations concluded, more often than not, prior to the planting season and around the time McCain deals with its markets.

### **Summary of previous negotiations**

The conclusion of McCain that collective bargaining has not worked is refuted. There did seem to be, at times, no rush to finalise contracts but at the same time McCain knew we were committed growers, growing varieties that only they used. If growers delayed planting it would hurt them, more than McCain.

The relationship between McCain and its grower suppliers is interdependent, McCain plants can only process potatoes into French fries, but also its growers only grow varieties which are either 'owned' by McCain or only used by McCain, as other markets are incredibly small.

Commercial processing growers have a close relationship to their certified seed growers as the lead time for seed is far more than just one year in advance. To change from a McCain only variety takes a minimum of four years, from ordering mini tubers to eventual certified seed.

Potato growers have large investments in their business' which collectively would be more than the value of the McCain processing plant, much of this investment is in specialised equipment, planters, harvesters, seed cutting, cool stores, irrigation equipment, transport equipment, which has little value as second hand goods. This investment brings new technology into a business which gives best results for themselves and McCain and therefore any loss in contract would bring dire consequences to their business. There is also investment in the people employed in the industry as their skills take much time to develop and are hard to replace.

The past five years have been the most volatile in living history in regards to cost changes both up and down, market pressure from imported processed products and therefore changes in BP. While SEPGA will agree that settlement of BP and contract terms at a late date is not what its member growers want, the commitment of the growers to continue with potato production without a contract in place shows how 'locked in' growers are to the industry.

The individual negotiations that took place in May 2012 showed that even with collective bargaining in place this still allowed McCain to bargain as they saw fit. To say that individual negotiations were more efficient needs clarification, in terms of time the old system would take approximately 15 to 20 hours of the field directors' time which was also spent discussing other matters. Individual bargaining for the Safries growers took in total more than 30 hours of both the field director and purchasing director's time with very little room for input on other matters. If efficiency is seen as agreement at an early date then perhaps more effort needed to be made when collective bargaining. The success of individual negotiations cannot be gauged at this time, but without time given for other matters such as deliveries, variety change, incentive programs it cannot continue in its current form without some change.

A major difference in this year's negotiations was that growers were unaware that Directors were attending our region for negotiations. Growers were 'put on the spot' and asked to sign a confidentiality agreement before any discussions would ensue. The Growers were not in a confident position with all facts at hand as they were unaware of the purpose of the Directors meeting with them. Many growers had not the experience or skills required to negotiate in this manner. This did not allow for constructive and beneficial discussion regarding all aspects of potato growing as well as price.

The growers committee stopped having input into incentive clauses a couple of years ago at McCain request as there was going to be a new regional contract in place ,as yet this has not been presented. Incentive clauses take upward pressure off BP movement by rewarding higher quality potatoes.

## **Seed Grower implications**

Going back more than 20 years there was a requirement of McCain processing growers to use at least a minimum amount of certified seed potato (1 ton seed per 20ton contract). Over the years that requirement was taken out of the contract but processing growers were well aware of yield and quality benefits associated with quality seed. Along the way a price was settled on which was always related to the contract price of potatoes, specifically a ratio.

Seed growers start with an order from the market (processing growers) for a particular variety. They then put in an order for mini tubers (between \$1 and \$2 each, \$100 to \$200/kg) and then grow these out by several generations (years) until they have a cost effective generation (around 50 cents/ kg).

Having a ratio style price gives seed grower's confidence to start the process and continue in the seed industry.

Processing growers know that seed cost is a significant proportion of overall potato cost and this price is constantly under review. The seed potato industry is well aware that margins are going to be at much reduced levels in the foreseeable future, and efficiency gains are the best way to remain competitive.

As the seed industry is under review, a collective bargaining authorisation would allow group negotiations to give the seed industry confidence in continuing to produce certified seed and therefore the processing industry quality seed.

## **Public benefit**

The SEPGA welcomes any productive negotiation with McCain which involves all growers and gives equal access to all. Industry development is what we are striving for which can give the ongoing efficiency gains which is needed to remain competitive. Negotiation can take differing forms either collective bargaining or individual or some other form which hasn't been discussed at this point.

Public benefit takes different forms also.

- It can be in keeping a viable local industry, which provides employment and involves other business suppliers.
- A Quality Assurance (QA) program gives customers' confidence that they are buying a quality product. The environmental module within our QA system allows for a focus on not just production but also a conservation perspective.
- Efficiency gains for both growers and McCain
- Pricing (as discussed below)

Although we as growers are not privy to the exact price or profit margin of a McCain produced French fry (due to commercial in-confidence), we do have the ability to monitor pricing at either supermarket level or Quick Service Restaurant (QSR).

At the QSR the price per serving has remained constant regardless of price increases to raw product and even when there are falls in raw product price.

At supermarkets the price for 1kg bags of frozen French fries is a little harder to read because much of the sales are due to 'specials'. Five years ago French fries were RRP \$3.20 to \$3.30 but were always on sale at \$3.00 kg. At this moment French fries are RRP \$4.00 kg but are still on sale for \$3.00 kg. There are other sale prices in the market at the moment such as McCain SuperFries 2kg at \$1.99, that particular low price was not seen five years ago.

Fresh potatoes on sale at the same supermarkets five years ago were averaging about \$1.50/kg where as currently potatoes are averaging more than \$2.50 kg

So changes in processing potato prices do not necessarily mean changes in frozen fry prices or QSR prices.

While SEPGA recognises that the raw product cost is a factor in the retail price, it isn't the only one. We also recognise the need to work with McCain as an industry to be as competitive as possible. This will only be achieved if we work as a group, not as individuals.

Efficiency gains and incentive programs which are discussed at negotiation meetings are a major public benefit. They strive to keep the industry viable and are a major tool in avoiding raw potato price rises.

### **In Closing**

**The SEPGA sees a benefit in having an authorisation due to the positive achievements in its use up to date. The ability to collectively bargain has given us a forum to work together to better the industry as a whole. There are no other forums for this type of discussion. Importantly the granting of a collective bargaining agreement does not preclude the individual from negotiating individually.**

**Andrew Widdison**

**Potato Grower & Chairman South East Potato Growers Association**

**On behalf of SEPGA members.**