The Cattlemen's Union of Australia Inc.
ARBN 066 763 693
SUBMISSION TO PRODUCTIVITY COMMISSION

The Cattlemen's Union of Australia Inc. (CUA) is a grass roots producer organisation representing some 2500 cattle producers in Queensland, New South Wales and the Northern Territory.

The CUA has considered the document *Impact of Competition Policy Reforms on Rural and Regional Australia* and we submit the following for consideration.

ECONOMIC CONSIDERATIONS

The beef industry is an unregulated market open to free competition for most, if not all, of its history in this country.

It is and will continue to be reliant on a strong demand for manufacturing and high volume type meats. High priced product (with some exceptions eg. grainfed full sets) fills only niche or boutique type markets.

It is, however, a failed market in that expected competitive benefits do not flow to those who have made the efficiencies and expected adjustments either do not occur or are very slow to occur.

Since the mid 1970s, the beef <u>production</u> sector has made great strides in <u>all</u> the areas outlined in the paper Impact of Competition Policy Reform on rural and Regional Australia.

We are acknowledged as having substantially improved productivity, lowered costs and been responsive to users' demands, particularly in the areas of residue and microbial contamination.

However, this has not resulted in the expected benefits of competition for the sector. Incomes, employment and living standards have not risen. In fact, the reverse has occurred.

Because there are many more sellers than buyers, producers are in a price-taking situation and are unable to receive a fair price for their product as we have no real ability to set a fair price. In fact, there are so many more sellers than buyers that, even if producers get together in groups, they can have little influence on the price they receive <u>for the same market</u>.

Over time, this has lead to producers making great strides in efficiency (which usually costs money) for which they have not been rewarded and inefficiency in the processing sector where, until recent times, their first and last port of call in making efficiencies has been to reduce livestock prices.

In recent times, the Booz Allen Hamilton Report, commissioned by the AMLC, into the processing industries of five beef producing nations concluded that Australia had the least efficient processing industry and that the industry only survived as a result of ready access to a cheap source of cattle.

Until recent times, large processors have not felt the need to reform labour to any great extent, introduce effective, new technology or, more importantly, market their product in the most effective way. In order to be effective, most of these reforms need to be lead by the largest processors.

This efficient production sector and an inefficient processing sector has lead to a lot of theorising about how the processing sector can be made more efficient and some of these benefits passed on to producers. Most of this theorising is based on poor economics and will not work.

1. Governments 'assisting' some processors out of the industry so that we are left with fewer more efficient works will not work as the benefits accrue to sectors other than the production sector which is where the benefits of natural competition should fall. Reduction in the number or processors means greater costs for producers, eg. transport costs. There is some concern in Queensland that the majority of processors are concentrated in the south east corner and even more concentration to the south east corner is expected.

2. Marketing alliances and groups are seen as a way forward for the industry but their long term effect on the broad economic scenario is unable to be judged as they are, as yet, in their infancy.

3. Although customers tell us and market research indicates that they are prepared to pay more for and buy more of a more consistent eating quality product, this requirement has not been successfully communicated to producers or processors by market signals and the grading program which is currently being researched and tested has come about as an initiative of the Statutory Authority.

   The extent of demand for this product and its possible effect on the broader manufacturing industry is still to be determined.

Historically, beef has always shown itself to be a very elastic market with a drop in price met with an increase in consumption.

The only price lever that producers ever have is a shortage of supply and processors, customers and the MLA, through the Meat Industry Strategic Plan (MISP) are encouraging us to throw that advantage away by guaranteeing continuity of supply.

A lot of industry money is going into encouraging us to do things that would be trying to defy the expected outcomes in a competitive market.

Another negative aspect of the inability of producers to set price is the capital run-down that is now endemic on an industry-wide basis.

Although producers must meet their cash flow needs on a day to day basis, or they will be gone from the business, insufficient price means that capital replacement is not necessarily taking place at an optimum level to maintain efficiency. Less machinery, water and other capital costs including safety equipment or replacement of unsafe equipment might show a temporary increase in profitability but will eventually come back to bite us. This run-down in infrastructure is being addressed by <u>no one</u>, including governments. The market alone cannot address the problem.

At the very least, the tax incentives for equipment, capital and an environmental rehabilitation need to be made more attractive. this does not benefit the 75% of beef producers who are not making a profit. (ABARE).

Standards of living are also falling in other respects, especially education, telecommunications and health.

Many market observers, including MLA's Dr Peter Barnard, believe that the high female kill in Queensland is indicating liquidation of the herd.

If this is the case, it would seem to indicate that producers are slaughtering females in order to meet their day to day cash flow commitments, as predictions in the medium term are good, with the US our greatest market and competitor expected to have the lowest calf drop this year since the 1950s.

There is some anecdotal evidence that, in some areas, producers are turning off cattle before their target weight and age to meet cash flow commitments.

Processors claim that they are price-takers on the world market. The fact that Australia is selling the cheapest meat in the world (Dr Peter Barnard, CUA Convention 1998) would suggest that there is some room to bargain.

They (processors) also claim that $A currency devaluations are no longer passed onto them. Our client countries are better bargainers than we are as no other competition in the world matches us on price.

Australia has the reputation for having a very low rate of residue violations and the lowest rate in the world of microbial contamination. However, we are constantly having new impositions made on us with no increase in price. These things include such things as Vendor Declarations, Vendor Liability Legislation, Quality Assurance and National Livestock Identification.

Once again, they are an increase in cost for no extra return. We are not gaining any benefit for efficiencies we have made and our reputation as a 'clean green' supplier counts for nothing.

AUSTRALIAN COMPETITION AND CONSUMER COMMISSION

Trade Practices Legislation has proven itself to be not very user-friendly to the beef industry.

Its ability to stop predatory pricing had proved unsatisfactory and some government, bureaucratic and industry personnel have the view that, because some of the smaller processors may go out of business sooner or later, it may as well be sooner rather than later.

We do not hold that view. The benefits of competition between processors should accrue to the production sector for as long as possible.

Any dumping which occurs as a result of predatory pricing must also be recognised as driving down the price for our product in major markets. This drop is not easy to regain.

However, because our share of a market eg. Japan, is measured in volume rather than price, large quantities which make our market share look more attractive do not really raise the ire of our statutory authorities and such companies receive no censure.

In competitive, deregulated markets where price takers operate, the Trade Practices Act and particularly the sections which govern predatory pricing needs to be strengthened and prosecuted more vigorously so that conviction can be obtained more easily.

Equivalent US legislation seems to be pursued more vigorously to ensure that adequate competition exists.

Even at the relatively simple level of price collusion at saleyards or in paddock sales, there has been an inability to prove any wrong doing as the potential complainants are reliant on doing business on an ongoing basis with those against whom they may make a complaint.

Some economic observers of the industry believe that, if there were a severe rationalisation of works so that there were fewer, larger and more efficient works, we would benefit from better livestock prices.

This ignores the fact that the primary responsibility of processors is to their shareholders.

With less competition between works, it will be even harder for producers to extract a price and a fair deal where grading of animals is determined by company graders.

It also ignores the fact that, with less competition, there will be even fewer incentives to introduce efficiencies other than reduction in cattle prices. Business usually attacks its greatest cost first and for processors the greatest cost at 80% is the cost of livestock. (Meat Processing Consultative Committee Report - Queensland).

In conclusion, observation of markets where price takers operate and have been in operation for a long time should show that, eventually, they run beyond the benefits of competition where the expected benefits do not flow to the appropriate sectors.

TELECOMMUNICATIONS

With global markets changing rapidly and depending on a multitude of factors, it will be vital for Best marketing Practice that rural producers have access to the Internet so that they can follow world trends in their commodity or commodities. Many rural services are not presently of a high enough standard to be able to access this service.

Basic rural telephone services do not come near the standard offered in urban areas.

Times to technicians attending to faulty lines is longer and some lines are so poor that they will not operate a facsimile line efficiently much less the Internet.

Under present guidelines for the privatisation of Telstra, Public Service Obligations only fall for attention to lines within a certain time frame with existing technology in that area so quick service to fix a faulty, inefficient line still leaves one with an inefficient line.

EDUCATION

The tertiary retention rate for rural students is much lower than for the urban population. One of the major causes for this is the lack of access to Austudy because of the net asset value of the family farm.

It is quite possible, particularly in the last eight years of severe drought and low commodity prices to have a very high net asset value and a negative cash income.

Many children have been brought home from school because parents can no longer afford the fees and the children are required to work.

This situation is not being addressed adequately and even total exclusion of the family farm from the assets test may be insufficient to turn the situation around.

RURAL DOCTORS

The Commission is well aware of the shortage of rural doctors and the measures being taken to attempt to alleviate the situation.

One recent problem is a decision by the Immigration Department to police a regulation requiring foreign doctors to complete their Medical Board Examinations <u>before</u> they come to Australia to work in the Public Hospital system with Australian Residency Status. Previously, doctors were being allowed Residency Status and to practice in the Public Hospital System but were only able to take on private practice after completing their board examinations.

This change of attitude has already led to problems in some rural and regional hospitals.

SERVICES IN RURAL TOWNS

The closure of services in rural towns has been well documented.

Banks, hospitals, schools, court houses, railway services and post offices have exited country towns at an alarming rate.

This, in turn, effects the viability of local service industries such as service stations, hotels and grocery stores.

One possibly unforeseen consequence of government and semi-government services leaving country towns is that the relatively well-educated young women who come to work in these places often married the local rural boys and stayed. This at least explains some of the reason why 8% of rural men and 25% of rural women have some tertiary education,

With most country girls seeing little future for themselves in the rural areas and moving to cities there is a severe shortage of young women to be life partners for the young rural men.