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Senator Glenn Sterle

Chair, Senate Standing Committees on Rural and Regional Affairs and Transport

Australian Parliament

Canberra – Australia

14th April 2015

Subject: Submission to the 'Inquiry into the effect of market consolidation on the red meat processing sector' – undertaken by the Australian Parliament's Senate Standing Committees on Rural and Regional Affairs and Transport.

Submission Number: 1

Dear Sir,

I welcome the opportunity to make a submission on this important topic in regards to efficiency gains both made and required in the red meat processing sector to continue to deliver attractive returns to the livestock producing segment of the Australian farming sector.

Background

My company, Fletcher International Exports, is a family company and supplies customers in over 90 countries with lamb and sheep meat, wool, skins and byproducts from 2 large abattoirs located in Narrikup, Western Australia and Dubbo, New South Wales. We have a capacity to slaughter, process and directly market over 4 million head per year. We also own and operate large broad acre cropping, lamb breeding farms and an intermodal rail and grain export facility. In total we employ over 1100 Australians.

We have been sourcing, processing and marketing lamb and sheep meat from Australia to global markets for more than 40 years. We hold vast experience in relation to this business, its competitiveness, its complexities, its threats and opportunities and the dynamics of international trading in goods and currency.

History

To understand where we are today, we must understand where we were as little as 25 years ago.

Council and government ownership of abattoirs proved to be a monumental mistake as they were poorly managed, inefficient and reliant of government handouts to survive. We know this as more than 45 of them have closed or gone bankrupt during this time. This caused economic and personal hardship for many regional towns, cities, livestock producers and suppliers due to poor returns. Not a single council abattoir remains.

Products were a commodity and sold by too many companies to too fewer markets. The result is a race to the bottom on price and often a lack of understanding of customer requirements and therefore weak brands that were too small to market globally.

What is left are efficient, competitive and customer focused private enterprises with no government assistance competing in a highly competitive global protein market. Australia's red meat sector competes with highly efficient global processors of chicken, pork and buffalo. If efficiencies are not found continually, the Australian red meat sector does not survive and producers do not get returns that attract them to produce sheep or beef.

I would like to look back over the past 25 years and make some commentary on both efficiencies gained and productiveness driven and then on what we see as gains that remain to be made.

1. **Governments failed and exited the meat processing sector leaving private enterprise**
    a. To drive more competitive and efficient management to ensure a fair days work. Factories employ large amounts of capital and labour if they do not run at capacity everyday they go broke. History shows governments could not do this.
    b. To allocate capital more efficiently for better return

2. **Processor exporters have built stronger brands dragging sheep and lamb meat out of commodity status**
    a. By moving from carcase to carton trade to allow packaging that unlocked globally competitive container transport to any global markets
    b. By marketing of exacting products to specific customer requirement from a boneless lamb shoulder in a Japanese restaurant to a lamb rack on an American cruise line to a mutton leg in a Indian curry house in the UK. This allows us to unlock the full value of the carcase.
    c. In 25 years we have increased markets over 400% and the mouths we can reach by over 300%

3. **Processor exporters have pushed a revolution in livestock transport to drive efficiency**
    a. Trucks in the 90's have as few as 3 decks in some regions are now replaced with 6 and 8 decks
    b. Some government abattoirs only accepted stock receipt during daily operating hours adding cost and animal welfare constraints to livestock carriers. Most now accept 24 hours allowing better transport management and 'backloading'.

4. **Processor exporters have pushed revolution in container transport, to drive further efficiency**
    a. Road movement have moved from one to as many as 3 containers per trip
    b. Rail has moved from inefficient state government services to privately owned and highly efficient rolling stock that allows us to be a global leader in efficient container movement.
    c. Shipping lines are far more efficient with global reach enabling the growth of markets
    d. Airlines from Asia and the Middle East with sophisticated cold chain allow efficient and effective fresh meat markets to open from Asia through the Middle East and onto to the

EU and Africa. Spectacular growth is now clear to see in Australian export statistics to the Middle East since 2004.

5. **Processor exporters have vertically integrated into further byproduct production and marketing including**
    a. In house meat meal, tallow, blood meal, petfood, wool and skins production and products
    b. Directly marketing each of these items to over 20 countries
    c. Transporting them in the most efficient manner
    d. To mechanise and computerize processing to ensure better quality and more efficiency
    e. To become much more energy efficient.

6. **Processor exporters have invested greatly in Quality Assurance, Meat Safety and Training**
    a. This helped create products that are global leaders in quality and shelf life allowing us to serve chilled markets by container nearly anywhere in the world. Therefore following the global growth of supermarkets and malls as has taken place in the EU and USA originally and then onto Asia, the Middle East and now onto China and India in the future, displacing traditional wet markets.
    b. This has also up skilled our staff become more safe, efficient and productive.

7. **Industry has absorbed the government inspection service**
    a. Government historically provided and paid for all inspection services. Industry is now paying full cost and doing most tasks through their QA departments.
    b. This has provided better quality outcomes for our product by assisting with feedback on animal health to producers.
    c. It has also unlocked efficiencies as private enterprise are far better at managing staff in an efficient manner.
    d. This is a significant cost absorbed by processors.

8. **Industry has contributed to its own R&D and marketing and worked with government for market access**
    a. This has created some value and had some ongoing benefits but is grossly inefficient and ill targeted due to bloated bureaucracies, self-serving consultants and a lack of customer focus.
    b. There remains too many factions with competing interests in this area all collecting statutory levies. This results in a lack of direction, reluctance to change, slow movement and inefficiency. It creates mistrust and politics between factions.
    c. The processing and farming industry has rationalize yet industry bodies refuse to change in a world moving ever faster and we often end up being the architect of red tape.
    d. It is my view we can be much more efficient and gain better outcomes by sheep, lamb and wool working on R&D, marketing and access separately to beef in a smaller, united and focused body. This would leave beef to work as one.

9. **Industry has reformed and revolutionized Work Health and Safety (WHS). A proud achievement.**
    a. Through training and awareness
    b. Through automation, use of protective equipment and safe work practice.

10. **Competition has never been stronger for livestock in the market.**
    a. A number of sale formats are present providing livestock producers with a number of options for sale. Saleyard, forward contract, over the hook, paddock and online. Farmers can choose to use any or all formats depending on the individual circumstances including the farms geographical location, stock type and size.
    b. Competition is strong with 7-8 highly efficient meat export companies competing for livestock in most regional markets on any given day.
    c. Processors have to ensure factories with large capacity are full every operating day of the year for optimal efficiency. This is done while managing supply increases and decreases and market fluctuation depending on season, festivals and economies as well as a perishable product.
    d. Any consolidation has allowed global brands to be formed and marketed to over 90 countries, hence allowing maximum increase in farm gate returns as products move away from commodity status.
    e. Cost of regulation is the main area for understanding and improvement to drive efficiency.

11. **Industrial Relations has been largely calm and productive**
    a. Private processors have been able to manage workforces for better safety, efficiency and productivity gains over this period.
    b. The result has ensured containment of costs and productivity gains that have allowed the red meat processing industry to remain competitive against highly efficient low cost global processors of competing protein.
    c. This is not a case of job done, it is an endless quest.

Current Environment

These gains have been so far reaching that we estimate that Australia is processing a sheep today at the same cost as 25 years ago.

In the same period farm gate returns have increased from $5 to $100 for mutton from $20 to $120 plus for lamb.

It is also commendable that during this time livestock producers have also made tremendous gains in on farm efficiency whilst battling the elements of drought and flood that Australia is known for. Gains include animal health, wool and meat production per head and lambing percentages.

It is critical to never miss the opportunity of identifying our next set of efficiencies and reforms required to keep our industry globally competitive.

To understand how important this is you must accept that it is the customer's choice on value and quality to eat Australian lamb or beef. There is no doubt of our quality, it is world best.

Value is a different issue completely as consumers can eat lamb from Africa, Buffalo from India, Chicken from Brazil and Pork from the EU and Canada if it is thought to be of better value.

Future

The only way to increase farm gate returns and still provide value to customers is to continually drive efficiency and reform.

It is my opinion that those requirements in no particular order are as follows.

1. **Reform to industry R&D, Marketing and Market Access**
    a. For R&D, technology companies and processors have to work together to target development work to efficient outcomes and customer focus.
    b. Processors are highly involved in working directly with customers now all over the world and should be running more of their own marketing programs rather than relying on MLA to preform these tasks for them.
    c. Processor and exporters are the most experienced in international marketing and access. This has not been acknowledged and the skills utilized to the fullest extent in the past. Government must work more closely with processors and exporters to move forward with global market access.
    d. Benchmarking to New Zealand is also valuable as they have had free access to the EU and 10 year start on free trade to China and lower wages, no payroll tax and no Superannuation.

2. **Continual development of road, rail and port access, fees and efficiency against world's best.**
    a. Road weight and truck lengths to safely accommodate efficient freight movements.
    b. Fixing and replacing aging rail infrastructure to ensure globally efficient rail industry.
    c. Benchmarking port efficiency and costs against world's best and driving reform. It costs more to take delivery a container from the Sydney port zone then it does to transport it from China to Australia.
    d. Benchmark all export fees from certification and export accreditation to government charges and legalization fees and drive reforms like paperless export documentation systems

3. **Reform of Government tax system including payroll, company, superannuation and energy**
    a. Benchmark against our global competitors
    b. Understand where we are uncompetitive at every level
    c. Government charge increases at all levels need to be pressed to remain under inflation just like private sector enterprise.

Conclusion

If Australia is to have a successful red meat sector it must be world's best at every point in the supply chain from paddock to plate. Those that are not competitive in that system will fail and those that are competitive will succeed by being efficient in all areas of business and driving significant reforms.

Government can assist by negotiating favorable market access for Australian red meat products in all global markets, free of economic and technical barriers.

Industry is best placed to prioritise and then capitalize on those access gains.

Government can also provide an export framework free of inefficiency and drive infrastructure investment in road, rail and ports to ensure a globally competitive export sector.

I am available as required to make further comment on this most important enquiry.

Yours Sincerely

COMMON
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Roger James Fletcher

Managing Director

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