A fog descending on Australian agricultural markets

Mick Keogh
Australian Farm Institute

On the 22nd of July, 2011, the Australian Competition and Consumer Commission (ACCC) handed down its findings arising from an inquiry into milk pricing in Australia. The inquiry was initiated when a major supermarket chain commenced heavy discounting of its house brand milk, selling it for $1 per litre, and this was quickly followed by several other supermarket chains. The inquiry was held to determine whether the supermarket chain had breached Australian competition laws, and the issue was also the subject of a Parliamentary inquiry.

The ACCC inquiry addressed two issues – firstly whether the supermarket chain was engaging in milk price discounting mainly for the purposes of reducing competition. Secondly, whether this was a case of “predatory pricing” (where a business that has substantial market power sells products for a sustained period at a price below the cost of supply) again with the intention of lessening competition.

The main conclusion of the ACCC inquiry was that:

The major impact of the reduction in milk prices since January seems to have been a reduction in the supermarkets’ profit margins on house brand milk. These price reductions have benefited consumers who purchase house brand milk.

As a result the ACCC concluded that the supermarket chain’s main objective was to increase its market share, rather than to reduce competition, and there was no breach of Australian competition laws.

What was interesting about the finding was the careful use of the word ‘seems’ in the ACCC statement announcing the findings of the inquiry. The use of the word appeared to indicate that there was some uncertainty about the finding, and suggested that the ACCC may have made the findings on the basis of the information that it had available at the time, which may have had some limitations.

A Freedom of Information (FOI) request that was subsequently lodged with the ACCC seeking access to the milk price data that was used to reach this conclusion elicited the response that virtually all the data the ACCC

(continued over page)
relied on was confidential, and could not be disclosed to third parties. Some very limited information that was made available following the FOI request was heavily redacted, and largely irrelevant to the issue because it came from dairy processors which did not supply supermarket chains.

While the response to the FOI request was not unexpected, it highlighted a wider issue in relation to agricultural markets in Australia, which is the growing lack of market transparency that is making it more and more difficult for farmers to make informed decisions about the prices they receive for farm produce, and ultimately their production decisions.

The issue of market transparency has long been contentious in the horticulture sub-sector (where despite decades of argument it is still no clearer whether agents operating in fresh produce markets are commission agents selling on behalf of growers or traders who take a principle position in the produce they handle). It is now also emerging in the dairy industry post-deregulation, and also in the grains industries where growers often complain that grain pricing and grain pool rules are becoming more opaque and difficult to access. Reliable reporting of grain traders’ stock positions has all but disappeared. The issue of market transparency also emerges on occasions in the livestock industries as open-cry auction systems decline in importance and direct supply marketing arrangements increase; although industry market reporting systems for cattle, sheep and wool provide an important source of independent market information for farmers, and assist with market transparency in relation to these commodities.

It is arguable that in all the transformative changes that have occurred in Australian agriculture over the last three decades, the one key issue that has been overlooked is the importance of market transparency in order to bring about efficiently functioning markets. Policy-makers and industry participants alike were often very keen to remove any statutory interventions in markets in order to ensure that farmers became more responsive to the needs of the market, and in doing so often removed market reporting activities without giving due recognition to their importance.

**Efficient markets**

Neo-classical or conventional economic theory has its foundations in the writings of Adam Smith and others, and contends that perfectly competitive markets (the ‘invisible hand’), free of government intervention, provide the best opportunity for society to maximise the economic benefits able to be generated from available resources. The rapid pace of economic development in nations with relatively limited government market intervention compared with the sluggish growth of many nations with government-controlled markets is often cited as strong evidence in support of this theory.

There are a number of conditions considered necessary for perfectly competitive or efficient markets. These include:

1. buyers and sellers are too numerous and too small to have any degree of individual control over prices
2. all buyers and sellers seek to maximise their profit (income)
3. buyers and sellers can freely enter or leave the market
4. all buyers and sellers have access to the same information regarding availability, prices, and quality of goods being traded
5. all goods of a particular nature in a specific market are homogeneous, hence substitutable for one another.

Many critics of neo-classical economic theory have pointed out that these conditions are not ever found in ‘real world’ markets, and that therefore perfectly competitive markets do not exist. Nobel prize-winning economist Joseph Stiglitz, for example, argued that there is no such thing as the ‘invisible hand’, especially because of imperfect market information (where one party to a transaction holds a lot more information than the other) and his work and that of other economists has led to a much
greater focus on the importance of information and transaction costs (all the costs associated with contracts and arrangements between market participants) as factors distorting markets.

When markets divert from these ideal conditions, it is argued that society as a whole can benefit if governments intervene and attempt to correct the problem. Neo-classical economists argue that such interventions should be minimised, whereas Stiglitz argued that markets can almost always be improved by some government intervention. Common justifications for government intervention include addressing unfair competition, correcting unequal access to information, reducing negative spillover effects (such as pollution) or encouraging positive spillover effects (such as the revegetation of land to promote biodiversity).

There are a number of different forms of government intervention that have been attempted in the past. These range from ‘strong’ – such as compulsory acquisition, regulation of prices and government stockholding, through to ‘weak’ such as licensing participants, the implementation of industry standards and codes, and requirements to report stockholdings and prices.

In the past, national governments tended to adopt quite strong forms of market intervention, and many of these involved agricultural markets. Over recent decades many of these have been abandoned as markets have been deregulated and international trade has rapidly expanded.

**Australian agricultural market interventions**

Many of the government interventions in Australian agricultural markets prior to the 1990s aimed to address one or more perceived diversions from efficient market conditions. The wool reserve price scheme, for example, was established in 1974 to guarantee woolgrower returns and to prevent overseas buyers taking unfair advantage of the weak bargaining power of woolgrowers. The wheat single marketing desk was established in the late 1930s to maximise returns to growers, to manage wheat exports and to regulate wheat markets following the extreme fluctuations associated with the global economic turmoil of the 1930s. Dairy markets were regulated from 1924 to control dairy exports and to manage the supply and safety of fresh milk. Horticultural markets were regulated, mainly by state governments, to improve grower returns and to prevent unfair competition in fresh produce markets involving perishable goods.

By the early 1990s, most of the government interventions in Australian agricultural markets were judged to be imposing more costs on the economy than benefits, and were therefore dismantled. Despite the heated debates at the time, Australian farmers have now largely accepted the changes and become accustomed to operating in unregulated or ‘free’ markets.

Few would argue, however, that the agricultural markets that have evolved since that time could be considered perfectly competitive markets. Generally speaking, markets have become more concentrated with just one or two participants dominant (for example retail supermarkets, meat processors, dairy processors and fertiliser suppliers) and able to influence prices (as the ‘milk wars’ have clearly demonstrated). In other cases (such as grain markets) restricted access to transport and shipping infrastructure prevents new players from competing, and access to reliable market information about stocks and prices has become more difficult. Contract supply chain arrangements have also been developed between farmers and major buyers which...
restrict the availability of market information, and can constrain the ability of farmers to supply alternative markets.

While recognising these market problems, the challenge for governments is to decide the extent and form of intervention that might be appropriate, but that avoids the distortionary effects of some of the strong forms of government intervention that were adopted in the past. Approaches adopted by governments internationally provide some examples worthy of consideration.

**International approaches**

Agricultural markets in nations such as the United States (US) have been subject to considerable government scrutiny at different times, although the US has generally not adopted some of the stronger forms of market intervention such as statutory marketing arrangements. Instead, regulators in the US have opted for a combination of relatively strong ‘anti-trust’ laws, supplemented with measures that enforce market transparency by making the reporting of prices and volumes mandatory.

The United States Department of Agriculture (USDA) was first given the role of reporting agricultural markets in 1914, in response to concerns about the fairness and efficiency of markets, and in order to administer government food production incentives during World War 1 (Ward 2006). The market reporting system was further expanded during and after World War 2, and coordinated between the US Federal Government and the states, with the main focus being on livestock markets. As markets became more concentrated and marketing systems became more diverse, pressure grew to make reporting mandatory for all types of livestock markets, rather than just relying on reports from major livestock selling centres. The *Livestock Mandatory Reporting Act* was enacted in 1999, and has since been re-enacted, most recently in 2010. It requires all participants in livestock markets to report purchase volumes and prices, including meat processors purchasing livestock directly from farmers or feedlots.

The Agricultural Marketing Service (AMS) of the USDA compiles and publishes market reports based on this information. The AMS also publishes market reports for a wide range of different agricultural commodities, including fruit and vegetables, grain, fodder, dairy products, poultry, eggs, cotton and tobacco. It also has wider responsibilities associated with grading standards, and laws such as the *Perishable Agricultural Commodity Act*, which regulates contractual arrangements in fruit and vegetable markets.

A focus on market transparency is also apparent in agricultural commodity markets operating in Europe. The commodity price reporting systems of European nations have multiple purposes, as some are mandated under European Union regulations (for example Commission Regulation 562/2005 concerning mandatory milk price reporting) to enable EU farm payment schemes to operate, while others are implemented for the purposes of maintaining market transparency, monitoring industry margins and enabling governments to check for potential breaches of fair trading or competition laws (such as the French Rural and Fishery Bill of 2008). The market information arising from these programs is also widely published, in order to ensure farmers have access to relevant and timely market information.

What is evident from these examples is that rather than attempting to regulate markets, the main focus of these measures is on improving market transparency, monitoring industry margins and enabling governments to check for potential breaches of fair trading or competition laws. This, in turn, helps to ensure that farmers and processors make efficient decisions about how available resources should be utilised, creating benefits right through the marketing chain and for the wider community. In addition, greater market transparency acts as a deterrent to anti-competitive behaviour; because it means that there is a greater chance such behaviour will be detected.
Agricultural market transparency in Australia

As noted earlier, Australian governments have progressively deregulated agricultural markets over recent decades. While many of the resulting changes have been of benefit, an unintended consequence has been that markets are becoming much less transparent, and there is therefore an increased risk that these will become less efficient. There is also an increased risk that anti-competitive market behaviour will go undetected, because even though authorities such as the ACCC have legislative powers, a lack of transparent market information makes such behaviour almost impossible to identify or prosecute.

This problem was, perhaps unwittingly, highlighted in some recent comments attributed to the Chairman of the ACCC, in response to media stories about abuse of market power by major Australian retailers (Australian Financial Review 2011). ACCC Chairman Rod Sims was quoted as asking those affected by misuse of market power to provide evidence to the ACCC of such behaviour, but only at the direction of the Minister. Perhaps rather than trying to encourage aggrieved persons to come forward with impossible-to-obtain information, the ACCC should be highlighting that the relevant Minister has the power available to improve market transparency, and in doing so to ensure Australian agricultural markets remain fair and efficient.

A related issue is the quality of available statistics about the agriculture sector in Australia, and the extent to which they might assist in informing these issues. This will be the subject of a Research Report to be released by the Australian Farm Institute later in 2012.

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How will future productivity growth be achieved in Australian agriculture?

The relatively high rates of productivity growth observed in the agriculture sectors of developed nations over the period from 1970 to 1990 appear to have reduced, as the benefits of the post-World War 2 ‘green revolution’ are exhausted. This reduction in agricultural productivity growth rates has limited the rate of growth in total agricultural output in developed nations, and as a consequence constrained the extent to which developed nation agricultural producers have responded to higher prices with increased production. According to ABARES’ latest analysis, Australia’s broadacre farms’ Total Factor Productivity (TFP)\textsuperscript{1} is following a similar trend (see Figure 1).

This phenomenon has direct impact on economic growth as well as farmers’ profitability and is all the more important in the current context of population growth and concern over food security.

The Australian Farm Institute raised concerns over the risks created by decreasing public investment in agricultural R&D in its report *Private sector investment in agricultural research and development (R&D) in Australia* (2010), highlighting the shortcomings of relying on private sector R&D to support future productivity in the Australian agriculture sector. Convinced of the importance of this issue, the Institute is directly tackling the issue of agriculture’s future productivity.

When considering how agricultural productivity growth rates can be maintained or increased in the future, there are a number of important questions to answer. The first is, ‘What is the rate of agricultural productivity growth that needs to be achieved to keep the sector competitive both domestically (in order to secure investment, resources and labour) and internationally?’ The second question is, ‘What are the most promising technological developments that might be available for farmers to help them achieve the required rate of productivity growth?’

In order to tackle these questions, the Institute has recently started a collaborative research project with six researchers. An agriculture-economist tackles the first question and five experts analyse the most promising technologies in plant breeding, livestock, natural resource management, energy and water efficiency, and labour.

This project aims to identify a realistic productivity growth target for Australian agriculture over the next two decades, highlighting the technological changes most likely to achieve this growth. In addition, the report will analyse any existing barriers likely to impede the development of these technologies.

This work is expected to provide a valuable instrument for the Australian agriculture sector to better understand and agree on an ambitious target for future rates of productivity growth required within the sector. The research will act as a base on which to build realistic strategies to achieve the targeted productivity growth.

\textsuperscript{1} ABARES broadacre TFP is a modelled estimate of productivity which is designed to eliminate price effect and other unpredictable effects.

This research is expected to be released by the Australian Farm Institute in Winter 2012.

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**Figure 1:** Broadacre TFP by farm type, 1977–78 to 2007–08.
New Institute research shows that available statistics estimating that transport only represents 4% of total Australian agricultural output are a far cry from reality. The research finds that from farmgate to foreign customer, transport costs for Australian agricultural product represent between 4% and 48.5% of farmgate value, with averages of 8.75% for domestic delivery and 23.64% for international delivery (to the entry port of the foreign market).

These results will be published by the Institute in a new report completed by Garry Goucher & Associates, *Transport costs for Australian agriculture*. These costs have been obtained through 12 case studies including all transport costs incurred by stakeholders along the supply chain (road freight, storage, handling, wharf fees, etc).

While these results cannot be extrapolated to represent agricultural industries as a whole, they demonstrate that for many products, particularly beef cattle and grain, transport costs are a major component of the total cost of production and delivery to destination. As shown in the case studies, the price received by a producer is substantially determined by competition with other countries with individual producers having little or no control over the market prices received. Even in the domestic market, competition from imports is often a significant determinant of prices received. As a result, any reduction in transport costs would largely flow back to producers through higher prices from traders and marketers. This research also shows that for certain routes rail freight can constitute the highest share of the total transport costs.

A particular challenge in attempting to gain a better understanding of agricultural transport costs is that for many products, particularly beef cattle and grain, transport costs are a major component of the total cost of production and delivery to destination. As shown in the case studies, the price received by a producer is substantially determined by competition with other countries with individual producers having little or no control over the market prices received. Even in the domestic market, competition from imports is often a significant determinant of prices received. As a result, any reduction in transport costs would largely flow back to producers through higher prices from traders and marketers. This research also shows that for certain routes rail freight can constitute the highest share of the total transport costs.

The great advantage of this research is that it constitutes a benchmark against which changes in transport costs can be assessed and compared over time. It is also hoped that the Australian agricultural transport costs identified, as part of this research, will be able to be compared with transport costs incurred by agricultural producers in other countries.

The report, *Transport costs for Australian agriculture*, will be released in February 2012, and will be available for purchase on the Institute website.

### Conference – Managing the future of Australian farm land

There is growing competition for access to Australian farm land, as urban, mining, overseas investment, energy and environmental uses shoulder aside traditional plant and animal production. This escalating competition for farm land is creating conflict within communities and generating heated debate about what policies are needed to enable farm lands to be sustainably managed over the long term.

To engage industry leaders and policy-makers in this debate, the Australian Farm Institute is convening a two-day conference and field trip, on the 28, 29 and 30 of May 2012, in Sydney.

The program includes presentations and discussions on the following issues:
- Australian farming land from a legal and historical context
- The challenge of urban expansion and peri-urban agriculture
- The compatibility or otherwise of mining and agriculture, and how choices should be made
- How new land demand pressures influence land values and farm economics
- Reconciling future conservation and agricultural demands
- The role and rationale of overseas investment

Do Australian competition laws protect our farmers?

Senator Nick Xenophon
Senator for South Australia

A lot has been said about the effect the Coles and Woolworths duopoly has on consumers.

We know that, according to OECD data, Australia has some of the highest rising grocery prices in the developed world.

We also know that consumers are facing fewer choices, both in where they shop and what products are available. But not a lot is said about the other side of the coin: what this lack of competition means for producers.

Along with Lower House MP Bob Katter, I recently introduced a bill to the Senate to require all major grocery retailers to display the producer or ‘farmgate’ price of fresh produce next to the retail price.

The aim of the bill was to give consumers a point of comparison, so they can see the profit margins of the big retailers compared to the prices paid to producers. The bill was referred to the Senate Economics Committee for inquiry.

During this process, the committee heard, over and over, how good Coles and Woolworths were to their producers, how they respected those relationships and supported Australian industry.

But then Peter White, President of the South Australian Farmers Federation, gave evidence.

He told of how he’d heard from producers too scared to speak out publicly for fear of their contracts with Coles and Woolworths being cancelled.

This kind of silencing of critics makes it incredibly difficult when it comes to reforming competition policy.

If producers can’t speak out about problems, how can politicians attempt to fix the system?

But I don’t blame producers.

After all, when Coles and Woolworths have the majority of the market, where else can they go to sell their goods?

I’ve heard personally from producers who are in this situation. They are subject to low prices, changing contracts and unfair terms.

If they make a complaint to the ACCC, the first thing that happens is that the ACCC contacts the supermarket in question to let them know who has made a complaint.

In November, the same Senate Committee completed an inquiry into the dairy industry, and how it’s been affected by the ‘milk price wars’ between Coles and Woolworths.

This inquiry heard from farmers who are receiving as little as 36 cents a litre for grade one milk.

The low prices set by Coles and Woolworths put pressure on suppliers, who in turn have to cut their costs and pay producers even less. Essentially, Coles and Woolworths are dictating how an entire industry should run.

In doing so they are running that industry into the ground.

The inquiry heard from many producers who said they simply could not survive. They said that, even if milk prices rose again, it may not be enough for them to recover.

Perhaps most disturbingly, the ACCC didn’t have a problem with what Coles and Woolworths were doing.

I believe Australia needs a Supermarket Ombudsman to oversee the industry, and act as an independent referee between retailers, suppliers and producers.

This would work in conjunction with a mandatory Horticulture Code of Conduct, which would apply to the entire supply chain, retailers included.

It is damaging to competition for two companies to control such a massive share of the market.

It’s time we looked at the laws that are in place in the US, and other parts of the world, which limit the percentage of market share owned by an individual company.

In the UK, four separate chains hold about 80% of the market between them, the same amount held by Coles and Woolworths here. In the US, the largest chains hold only about 20% each, thanks to laws limiting market share. Coles and Woolworths should each have control of no more than 20% of the market.

Independent retailers, Australian companies and Australian producers are not asking for a free ride. They are merely asking for a level playing field.

Breaking up the Coles and Woolworths duopoly will allow the market to correct itself, and we will all benefit from that.

Senator Nick Xenophon first became involved in politics in the 1997 South Australian election, where he campaigned on a ‘No Pokies’ platform for the State’s Upper House. He ran simply to make a point. Nick scraped in with a little under 3% of the statewide vote.

Over the next eight years, Nick worked to fight the spread of poker machines. He also campaigned on issues where individuals and communities weren’t getting a fair go, including asbestos victims, victims of crime and land tax. Nick was re-elected in 2006 with just over 20.5% of the statewide vote.

Nick ran in the November 2007 Federal Election and was elected to the Senate with just under 15% of the vote. Nick has continued to push for changes in the key areas of gambling reform, the water crisis, consumer law and food labelling. He believes the most important part of his job is speaking up for people who might not otherwise have a voice.
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This suggests two things – that Coles
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closely in a way it hasn’t before; and
that our current laws may not have
been tested as well as they could.

The two may even be working in
tandem, with the new chair of the
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We explain the purpose of
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purposes unless it also harms the
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in the vertical supply chain.
(Coles’ emphasis)

… really makes you bristle when
you consider that the purpose of the
Competition and Consumer Act is
all about managing behaviour in the
marketplace.

Coles’ statement also does not quite
line up with the object clause of the
Competition and Consumer Act 2010:
The object of this act is to enhance
the welfare of Australians through
the promotion of fair trading and
provision of consumer protection.
(My emphasis)

Note the difference?

So when the AFI asks me whether
I think Australia has appropriate
competition laws in order to ensure
farmers and small business owners
are not subject to unfair practices in
markets that are dominated by a small
number of players, it seems like we are
on a no brainer.

The answer, of course, is never simple.
This has been demonstrated many
times over the last two years via a
number of Senate inquiries and quite
public spats – particularly two relating
to milk contracts and pricing that
focused heavily on the operation of the
Competition and Consumer Act.

Generally I think the Act works well.
However if you follow the old saying,
there is no smoke without fire, the level
of complaint about the behaviour of
the major supermarkets indicates all is
not completely as it could be.
There’s no question, as Coles also says
in its submission, that those down the
supply chain don’t like pressure on
their prices but that is a function of the
market which most players understand
and grudgingly accept. It seems to me
that the level of complaint goes beyond
that type of pressure.

And again Coles provides a hint
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It’s refreshing to see numerous examples of city-based consumers wanting to connect with, and better understand the origins of the food they consume, and to align their purchase decisions based on that information. Examples of initiatives which assist consumers in this regard are farmers markets; fruit and vegetable shop food demonstrations; community gardens and online hubs to align consumers and food producers.

Many of these initiatives are founded on ethical and sustainable production philosophies. The aim is to encourage consumers to purchase locally produced food, or products that have low food miles, a reduced carbon footprint or involve minimal chemical use or improved animal welfare.

A recently launched website, Local Harvest (Fairfax media, 17 January 2012) aims to connect consumers and producers, and uses information from The Guide to Ethical Supermarket Shopping to guide judgements on which food products meet ethical production criteria.

The Guide to Ethical Supermarket Shopping ranks products using company-disclosed information about ethical preference and uses criteria such as ‘ownership’, ‘production systems’, ‘human and animal welfare’ and ‘company record’.

While considered broadly, such criteria may seem sensible and appropriate, but given the subjectivity of these criteria, some real questions arise about what makes one product or company more ethical and sustainable than another?

An examination of the Ethical Consumer Guide website, www.ethical.org.au, provides little guidance about what makes one product more ethical or sustainable than another. Some products are considered outstanding – usually those that claim organic status or are gluten free; praise is given to those that are signatories to covenants such as the Australian Packaging Covenant; accreditation programs such as those maintained by Free Range Egg and Poultry Australia (FREPA) are positively regarded, but subjective criticism is given to any production systems that are intensive, without an evidence-based explanation of why such systems are bad.

Similar subjective guidance for textile fibres is provided by the European based organisation Made-by, which released the Environmental Benchmark for Fibres, July 2011. The benchmark places conventional cotton production and wool, in ‘Class E’ – presumably poor for the environment – whereas recycled cotton and mechanically recycled nylon and polyester are considered ‘Class A’ fibres. The factual basis for the categorisation is not provided other than information that greenhouse gas emissions associated with production are considered; that human- and eco- toxicity parameters are weighted 20%; and that energy and water input and land use are weighted at 13.33%.

Without a sound objective basis to compare similar products – either food or textiles, there is a real risk that consumers will be directed towards what they think are ethical and sustainable choices but in reality are no more than one organisation’s subjective opinion about what is sustainable and ethical.

Keep up-to-date with discussions of current issues in Australian and international agriculture policy by visiting the Australian Farm Institute’s blog and chat room ‘Ag Forum’ at: www.farminstitute.org.au
Australian and international farm policy news

Will the government deliver on water infrastructure upgrades?

The latest version of the proposed Murray-Darling Basin Plan was released in late November for 20 weeks public consultation, and received much criticism from the irrigation industry and environmental interests. Most criticism focused on the ‘number’; 2750 gigalitres to be recovered from the river system by 2019 and allocated to the environment. It is apparent that most of this water is to be recovered by buying back irrigation entitlements, with governments and the MDBA again showing a marked reluctance to invest more heavily in irrigation infrastructure upgrades as a first priority. There was also considerable criticism that despite the volumes of environmental water proposed, there is no obvious plan for the use of that water, and a marked reluctance to spell out exactly how the community will be able to judge whether the water is being used effectively and efficiently – a requirement that is being placed on irrigators but apparently not on environmental water managers.

Irrigators and regional communities have expressed anger at the proposal, saying the ‘number’ is too high and that agriculture has already contributed its share via previous buybacks. Environmental groups say the ‘number’ is not high enough, and unfortunately the so-called ‘science’ in support of the plan provides little guidance as to who is right or wrong.

Lean meat back on the table

The National Health and Medical Research Council (NHMRC) recently released revised Australian Dietary Guidelines, www.eatforhealth.gov.au, for consultation. A positive change from the first draft of these guidelines is that lean meat should be back on the shopping list. The first draft attempted to incorporate ‘environmental’ considerations into dietary guidelines, but it seems the authors may have discovered how complicated it is to try and make judgements about the environmental credentials of different foods. Lean meat and alternatives are recognised for their protein contribution to diets, but also for important nutrients including long-chain omega 3 fatty acids. The guidelines recommend eating from a wide variety of nutritious food groups including vegetables, fruit, wholegrains, lean meat, poultry, fish, eggs, low-fat milk and yoghurt.

So what of Durban?

Little was expected from the 17th Conference of Parties (COP17) to the United Nations Framework Convention on Climate Change (UNFCCC) but some analysts believe the results were almost as good as could be expected, given global economic turmoil and the uncertainty of climate change science.

There was never an expectation that a global legally binding agreement would be delivered at Durban, but agreement to ‘develop a protocol, another legal instrument or an agreed outcome with legal force’ applicable to both developed and developing countries by 2015 for implementation from 2020 was seen as a major step forward. Inclusion of both developed and developing countries in a future agreement eliminates one of the most significant barriers to a future international agreement on the issue.

Parties agreed to extend the Kyoto Protocol to 2017, but of the major countries that have ratified the Protocol, Canada has withdrawn, and Russia and Japan are not sure starters. Their reluctance to re-sign is mostly due to the fact that the Kyoto Protocol currently only covers about 15% of global emissions, compared to 30% when originally negotiated. It is anticipated Australia, New Zealand and the EU will re-sign and extend the life of the Kyoto Protocol, the first commitment period of which expires in 2012.

Extension of the Kyoto Protocol provides some certainty for the flexible Clean Development Mechanism (CDM), which has been the source of the bulk of internationally-traded carbon credits. The uncertain future of the CDM prior to Durban had resulted in a significant reduction in CDM projects over the last 12 months.

A thriving CDM market is important to Australia, because the Australian Government’s ‘Clean Energy Future’ legislation has been enacted to establish a carbon market from July 2012, and Treasury projections are that Australian businesses will need to import up to 400 million international carbon credits annually in order to meet the national target of an 80% reduction in net emissions by 2050.

The current European financial crisis has affected demand for carbon credits and created an excess of supply of permits from the EU ETS. This means Kyoto compliant carbon credits are currently trading at historically low prices. To prevent a collapse of the carbon market, the EU is discussing how to intervene in the market and restore competition. Global uncertainty regarding carbon markets and climate policy is affecting investment in the sector.

What next for the live cattle export market?

While not necessarily a surprise for beef producers in northern Australia, the announcement by the Indonesian Government confirming that it intends to reduce import quotas for Australian live cattle to 280,000 head in 2012 (down from 520,000 head in 2011) is yet another blow for the northern beef industry. While Indonesia’s President has said the decision was in line with the country’s policy of being more self-sufficient in beef production, many in the industry believe the announcement is a payback for the manner in which the Australian Government implemented the suspension of live cattle exports to Indonesia in 2011.

Recent AFI research highlighted that the transport costs involved in trucking northern cattle to domestic markets makes the option unprofitable, and is also likely to result in an oversupply of beef into domestic markets which will lower farmgate prices. The weight and breed requirements of the Indonesian market are specific to that market, and mean that producers’ ability to modify production to meet the requirements of other live export markets will take some time.
In the news

In November, the Institute held its annual Australian Agriculture Roundtable Conference in Melbourne. Nikolai Beilharz from ABC’s ‘Victorian Country Hour’ reported from the Conference on the issue of Chinese investments in Australian agriculture as well as covering this year’s ‘Great Debate’ topic of whether agriculture has gotten off lightly in climate change policy. *The Weekly Times Now* article, ‘Consolidation the key: Teys Australia’ (16/11/11), presented a synopsis of Tom Maguire’s speech from the Conference including the opinion that, ‘Australian processors needed to get bigger so they could compete against giant global players in export markets.’

As implementation of the Carbon Tax looms closer the Institute has been widely sought for comment. Institute staff were interviewed by *ABC Rural* for the stories, ‘Carbon for Dummies’ (9/11/11), ‘Global climate treaty could help Australian farmers’ (12/12/11), and ‘ABARES says dairy farmers will be biggest losers from carbon tax’ (21/12/11).

Potential rorting of the new Carbon Initiative was discussed in *The Weekly Times Now* article, ‘Fraud fear on Carbon Initiative’ (17/11/11), by Leslie White.

In the EU, the first phase gave free permits so participants could get familiar at no cost,’ Mr Keogh said. ‘The second phase tightened that and in the third, it became a fully fledged trading scheme – so they tried to crawl before they walked.’

While he admitted he was supportive of the CFI and the fact Australian farmers would be financially rewarded for their climate efforts, Mr Keogh said there was a chance of ‘fraud and bad dealings’ arising from the scheme.

‘The real risk will be people getting credit for things they haven’t done,’ Mr Keogh said. ‘But the alternative is massive costs.’ It is widely acknowledged the EU scheme was rorted with payments made for sequestration that never occurred.

Lucy Knight’s *ABC Rural* opinion piece, ‘Murray-Darling environmental water wasted in “trial and error” reforms’ (1/12/11), quoted recent Institute research:

*Its report, Making decisions about environmental water, found major ‘inconsistencies’ and ‘shortcomings’ in the use of Murray-Darling Basin water bought by the government.*

It said scientists, environmentalists and economists agreed water was not being properly managed or monitored.

Out and about

Recently the Institute’s Executive Director, Mick Keogh, has spoken at:

- Liberal Party Rural and Regional Breakfast, Canberra
- The University of Adelaide Debate at the Waite, Adelaide
- Australian Agribusiness Association Breakfast, Adelaide
- Cosgriff Orchard Legal and Rabobank ‘Carbon and its Ramifications for Farmers’ Seminar, Echuca, Victoria
- Agribusiness Yarra Valley Dinner, Mount Dandenong, Victoria
- Australian Institute of Agricultural Science and Technology Food Security Conference, Adelaide
- Climate Change Research Strategy for Primary Industries Forum, Coogee Beach, NSW

The Institute’s Research Officer, Gaétane Potard spoke at:

- Ebor Beef Inc Stakeholder Forum, Armidale, NSW

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