

6 July 2010

## **Australian Beef Association Submission to the ACCC Against the Acquisition of Rockdale Pty Ltd by JBS Swifts**

- **The Australian Beef Association**

The Australian Beef Association is a national, representative body focused on improving profitability for the beef industry by giving control and ownership of industry projects and policy back to members. The Association is a non-profit organisation founded by concerned industry people in 1997. It is the first nationally elected meat body in Australian history.

The Australian Beef Association is a democratic industry body which is run by a board of 15 directors, each of whom represents a district in Australia. Boundaries for the districts were established based on cattle numbers.

As at July 2010, the Association had a financial membership of 800 including beef producers, livestock carriers, stock agents and processors. Members include some of the larger producers in Australia and also some of the smaller producers. In total, producers hold over 2,000,000 head of cattle.

The majority of members of the Australian Beef Association are cow/calf operations which would be particularly sensitive to a decline in feeder cattle price that would result of JBS Swift purchased Rockdale.

### **Statement of Issues**

Speed and Scale of JBS Swift acquisition of beef processing and feed lotting in Australia.

- **Distortion of Power in the Australian Beef Chain**

The ABA made detailed submissions to the ACCC Grocery Inquiry in 2008 on the huge “mark up” by Australia’s supermarket duopoly. The two largest supermarkets account for over 50% of retail beef sales domestically. Australian producers only get 27% of the consumer dollar whilst American and UK producers get from 43 to 50 % of the consumer dollar.

Now, in three years we have seen JBS Swift move from nothing to 25% of Australia’s beef killing capacity. Their acquisition of Rockdale Beef would lift this to nearly 27%. JBS/Swifts currently has a kill capacity over 9 Beef Processing plants of approximately 8,580 head per day and is listed as the No 1 Processor of beef in Australia. The four biggest processors now kill 49% of the nation’s cattle. The acquisition of Rockdale would take this statistic to over 50%.

- **Time to Question the Breakneck Speed of JBS Swift Growth**

We believe that this is the time to question how far JBS Swift is to be allowed to go. If they were to continue at their current rate they would have over 50% of the kill by 2013. We are very aware of the precarious state of many Australian processors who do not have access to the extremely low interest loans that the Brazilian Development Bank grants to JBS Swift.

The high and increasing cost of road transport in Australia has made the geographical placement of meat processing, feedlot and grain growing areas even more important for any profitability of vertically integrated beef processing and feeding operations. Rockdale Beef's position is important.

- **What would happen if JBS Swift was to go Bankrupt?**

This would leave Australia's beef processing in a pre Government intervention state of the 1960's. This time Government is unlikely to invest in beef processing facilities.

- **Feedlot Domination**

If Rockdale feedlot were merged with the existing JBS/Swifts Feedlots at Griffith and Barraboi a combined capacity of 110,000 head in the Riverina and Northern Victoria would exert considerable buying power for not only feeder cattle but also feed grains in one of Australian's prominent grain growing areas.

JBS/Swift would also have the added advantage of combining this market power with strategically located feedlots at Toowoomba, Mungindi and the Liverpool Plains.

Current feedlot capacity of JBS/Swift is 110,000 head and the purchase of Rockdale would increase this to 163,500 head.

The ABA therefore expresses its concern on the sale of Rockdale, as it is a key site.

- **The Effect of Increasing Market Power**

The basic business principles of increasing profitability of a vertically integrated meat processing and cattle feeder entity such as JBS/SWIFTS is to source cattle and feed from the cheapest source and sell the meat and by-products for the most money. Increasing capacity and geographical spread of feedlots and processing works by the purchase of Rockdale by JBS/Swifts would increase market power of one entity giving it an increased ability to set prices.

Multi-National beef processing companies have the ability to source cheaper finance under better terms than Australian beef farmers and local processors. This gives them an unfair advantage to expansion and own the cattle for a shorter period than producers. The ABA believes that the ACCC should investigate this anomaly when making their decision on the acquisition of Rockdale by JBS/Swifts.

- **JBS has a History of Engaging in Anti-Competitive Prices**

Dow Jones Newswires reported in November 2007 that JBS SA Friboi Group was among a number of Brazilian companies which, after a 2 year investigation by the Brazilian Justice Department Anti-trust Division, were accused of engaging in anti-competitive practices. JBS SA was reportedly charged with "anti-competitive prices for co-ordinating price agreements among themselves in order to keep cattle prices low when purchasing livestock for slaughter. JBS denied the charges however in a subsequent news article, JBS SA reportedly agreed to pay \$8.5 million to an anti-trust fund, as a result of the charges and agreed to end the practices that were allegedly anti-competitive.

This example demonstrates that it is highly likely that the Australian feeder cattle market would be subject to co-ordinated interaction by JBS Brazil given that the company was reportedly accused and found culpable based on the payment of restitution.

- **Conclusion**

ABA requests that the ACCC takes this Rockdale Beef acquisition inquiry to analyse the potential impact of JBS Swift of Australia's beef industry. Its potential dangers, any advantages, its funding in relationship to Australian and Japanese processors and feed lotters.

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