

PROCESSING COST COMPETITIVENESS

Project Report Reference: 2019-1011

Date: 16 January 2019

Project Description

This project has the following components:

1. Produce processing cost data for New Zealand augmenting Project 2017-1062, including sheepmeat and beef, supplementing the data gathered and reported on in Project 2017-1062.
2. Scope the potential for collaboration between Australia, Argentina and Brazil in analysing processing cost competitiveness as recommended by Project 2017-1062. This entails undertaking the preliminary steps necessary to explore the potential, means and benefits of collaboration between Australia, Brazil and Argentina in exchanging research information and analysis of processing cost economics. The project includes an exploratory investigation in Brazil and Argentina to follow up on the indications of interest received and assess the potential, means and benefits of collaboration. A report has been produced with recommendations for appropriate action.
3. Assess the potential for an application for grant under the COALAR project to assist in funding the collaboration above

This Snapshot covers components 2 and 3 as summaries have previously been produced for the results of the New Zealand analysis. The project will enable the red meat processing industry to be better prepared to deal with intensifying international competition by having the information and analysis needed to improve cost and regulatory outcomes for the industry.

Project Content

The South American collaborative research component of 2019-1011 identifies the potential for collaboration between Australia, Argentina and Brazil in analysing processing cost competitiveness as recommended by Project 2017-1062. The latter project found that Australia had a major processing cost disadvantage against the South American countries, which were increasingly gaining access to Australian high-value export markets for beef. The overall objective of the project is to improve the understanding of red meat industry processing costs economics and means of improving cost economics by the red meat industries of Australia and Argentina/Brazil, through the sharing of information and collaborative research, and thereby increase the economic benefits flowing to the red meat industries and broader economies of the three countries.

A longer-term subsidiary aim is to potentially provide AMPC with independent sources of information on the market activities of processor competition by the two countries concerned for Australian exports.

Milestone 5 of the project entailed the development of a plan for a potential collaborative research project between Australia, Argentina and Brazil on processing cost economics; Milestone 6 entailed the conduct of investigations in Brazil and Argentina to scope the potential for a collaborative project; Milestone 7 reported on the results of the investigations; Milestone 8 discussed the feasibility of a grant under the Federal Government's Council for Australia Latin American Relations (COALAR) grant program; and Milestone 9 was the final report of the project and this Snapshot.

Project Outcome

It is concluded, on the basis of the research and investigations conducted for the purpose of this project, that there is a viable pathway towards effective collaboration with researchers identified in Brazil and Argentina on processing costs economics that will generate value for the red meat processing industry in Australia consistent with the aims of project 2019-1011.

There is a pressing need for such collaboration. The South American countries are able to produce red meat protein at extremely low cost. To illustrate this, the 2017-1062 CTO Report indicated that Argentina could produce beef for around 25 per cent lower cost than Australia. Information obtained in the course of research for this project suggests that a larger scale, more efficient export plant could produce beef with a further reduction of around 30 per cent in cost. And so-called informal processors who avoid taxes and other regulatory costs can produce at 40-60 per cent below formal regulated plants. The red meat industries of the countries investigated in this project have aggressive trade enhancement and market access strategies aimed at markets traditionally supplied by Australia.

Having a deeper understanding of the processing cost economics of the countries concerned and their drivers, through collaborative research would provide the Australian industry with invaluable information and intelligence on the nature of the challenges and opportunities generated by this new era.

On the basis of the scoping exercise undertaken for this project, it seems appropriate to commence a collaborative initiative in a modest way and largely informal manner. Once the relationships between the participants have been developed, more formal arrangements can be established.

The first part of this process would be the holding of two separate workshops in Australia for representatives from the Australian industry and collaborators from each of Brazil and Argentina respectively (for reasons of the sensitivity of the information concerned) with two key objectives:

1. To understand the methodologies and results of research on processing costs undertaken by the various cost studies in Argentina and Brazil;
2. To assess the potential for the collaborative project to identify further research in each country on key parameters of costs to explore in more detail the drivers of improved efficiencies e.g. labour, regulatory costs and potential to exchange results.

The one day workshops would be held under the auspices of AMPC and the participants would be AMPC representatives, the Australian consultants responsible for Project 2017-1062, the researchers in Brazil and Argentina, and Australian industry and Government representatives (to be determined by AMPC). The workshops would be followed by one day field trips for the Argentinian and Brazilian researchers to visit one or two processing plants. This will help place the Australian costs data in a practical context. Based on the research and investigation undertaken in this project, it is also concluded that it is feasible for part of the project's costs to be covered by a COALAR grant. Accordingly, it is recommended that:

1. AMPC consider a proposal for the conduct of the international collaborative research workshops and associated activities with representatives from Argentina and Brazil; and
2. AMPC make an application for a COALAR grant covering the travel costs of one representative from each country to participate in the events.

Benefit for Industry

The project will deliver value for Australian red meat processors in the following ways:

1. Information will be provided on costs of processing in Brazil and Argentina that will augment that produced under 2017-1062 and provide additional insights into the cost disadvantages faced by Australian processing. The international investigations have already produced additional information (discussed above) which has added perspectives about the dimensions and urgency of the competitive challenges posed by the Argentine and Brazil processing industries. The proposed workshops will augment this significantly.
2. Broader information on processing in the two countries will be provided by experts that will enable the Australian processing industry to better deal with the challenge posed by those countries processing industries. The information proposed to be provided in the workshops will broaden the knowledge base of the Australian industry and help it develop actions, (including in the economic and policy spheres) that will benefit the industry.
3. The project will set the scene for deeper research that will help the Australian industry understand the productivity differences and drivers in all three countries, and hence help improve processing costs economics and competitiveness in Australia. Already the research on project 2017-1062 has been used to make representations to Governments at Federal and State levels and by individual processors in their operations to improve cost competitiveness. A deeper understanding of cost drivers will augment this process.
4. The project will provide the foundation for longer term collaboration, with the imprimatur of the Australian Government through the COALAR process, that will facilitate closer trade, investment and technology relationships. South America not only provides competition in trade for Australia but also investment in Australian processing. There is potential for a deeper engagement on areas of research, technology, policy and commercial relationships, which can develop from the small initial step proposed.

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