



## **STATE-OWNED ENTERPRISES (AGRIQUALITY LIMITED AND ASURE NEW ZEALAND LIMITED) BILL**

### **Oral Statement to the Commerce Select Committee by Bill Falconer, Chairman of the Meat Industry Association, 26 April 2007**

Mr Chairman

The legislative action proposed in this Bill is highly unusual, and if one were not aware of the background, one would wonder what on earth is going on here.

The general policy statement contained in the Explanatory Note to the Bill is barely illuminating. It says that the Government wishes to prevent competition from occurring between Agriquality and Asure as it considers it would result in a net cost to the Crown as the owner of both entities. This is the only rationale given for the Bill, and, apart from being flawed, it provides no insight as to why the Government wishes to proceed in this way.

The Bill has two parts – the introduction of authority for Ministers to instruct Agriquality not to compete for the provision of certain services, implicitly with Asure; and the establishment of a framework within which a merger of Agriquality and Asure might be progressed.

The Meat Industry's initial briefing on the first of these was provided by the Public Service Association which, in July of last year advised us that it had reached an arrangement with the Government whereby Asure (which employs many of its members) would become the sole and monopoly provider of meat inspection services.

We were stunned that the Government could, apparently, take such a profound decision without consultation with the recipients of those services, who pay Asure around \$40 million a year for them; and that the PSA should have been given or assumed the task of briefing the industry.

Representations to the Minister of Agriculture seeking the ability to participate in the Government's deliberations on this matter have been to no avail. And, to compound the original exclusion, we were forewarned of the Bill only minutes before it was announced to the public. Originally it was not intended that this Committee would seek submissions, and only our insistence has resulted in our presence this morning.

I have to say that in the 47 years I have been in and around Government, I have never seen a major trade organisation be treated so shabbily.

The meat industry processes and markets \$5 billion of meat exports each year – 30 per cent of New Zealand's primary sector revenue, and 17 per cent of the nation's exports by value, but the Government is apparently disinterested in what we have to say on an important cost element in the industry, or on ways in

which inspection services can be provided on an increasingly productive, cost effective and internationally competitive basis.

It is ironic that this should be occurring in designated "Export Year"

The ability of the Government to instruct Agriquality not to compete for the provisions of meat inspection services effectively gives Asure the monopoly provider status the PSA reported it had secured.

The consequences are several:

First, while never used to date, the possibility of competition between the two SOEs – Asure and Agriquality – does provide the opportunity to test whether meat inspection services might be provided more productively and efficiently and thus cost effectively. New ideas and new procedures lie at the heart of doing things better, and that is what competition is all about. Where a service provider has a monopoly there is no incentive to try and do things better, and an inevitability that costs will rise.

The possibility of competition is an important check against abuse of market power, and we cannot believe the Government is indifferent to this reality, and wants to take that check away without putting something equally effective in its place.

Secondly, not only does the Government to propose to take that check away, but the Bill also foreshadows that none of the protections of the Commerce Act would be available to the industry unless the Minister were disposed to invoke its provisions for controlling costs of services. That is draconian. The industry is expected to pay for the services provided, as a matter of commercial contract, but would have little statutory protection against a sole provider exploiting its market position.

Thirdly, it exposes the industry, and thus the performance of a major export sector to the possibility of serious disruption from industrial action. We do not suggest this will happen, but when a Government cuts a deal with a Union, we should not be surprised if the Union subsequently exercises the benefits afforded it by that deal.

Fourthly, the move represents a withdrawal by New Zealand from international action, particularly within the Codex Alimentarius Commission, designed to improve the productivity of the sector by making meat inspection part of a total risk management environment wherein inspection services, within an overall food safety regime, could be provided by private sector agencies or the processors themselves. This is work in progress, but with good support from our major trading partners, and it is regrettable that the Government should now seek to step away from it.

Now, we may have been more amenable to this Bill had there been any sense in it of an awareness of the interests of the recipients of the services at issue. For example, if Ministers are to give instructions to SOEs, why can they not also instruct the sole provider of meat inspection services to have regard to the need to provide services on an efficient, cost effective and internationally competitive basis, and to develop arrangements with the recipients of the services to those ends.

The Bill however, is a crude piece of drafting which has no sense of the dynamics of the industry or of the things which it must do to remain successful in an increasingly competitive international market.

As to the second part of the Bill, it seems that the monopoly provider position which would be extended to Asure under the first part will be enshrined in the new merged entity if and when it eventuates.

No case is made as to why a single entity would serve the Government's interests, or those of the recipients of the services now provided by the separate entities. To those of us in the private sector for whom competition is a way of life, statutorily enshrined, the Government's apparent paranoia about its SOEs having to compete, with the consequences of lowering costs of service and increasing profitability, is curious.

The proposition is a step back from the principles of the SOE model, and legislation should not be advanced to that end without fuller explanations of the rationale, and the opportunity for examination of the potential costs and benefits.

In some of the media material released by the Government in association with the Bill there is an inference that the measures proposed are important to the maintenance of New Zealand's international reputation for food safety and the access to markets this allows. Our members have a vital interest in that reputation, and would be the last to compromise it. Quite simply, New Zealand's international reputation for food safety is not at issue, nor is the question of whether only one aspect of the food safety environment – ante and post mortem examination – is provided by one or more entities. There will be others at this hearing who can speak with authority on this matter if the Committee wishes.

Finally, may I say that no case has been made for the extraordinary haste with which the Government is seeking to push this legislation through – without proper and normal consultation with those who have most at stake in the outcome.

In conclusion therefore:

- the MIA recommends that this Bill not proceed.
- If there are matters of substance which need to be addressed legislatively, in the manner proposed, then we would expect to see the case to be made in some detail, and to be debated comprehensively, and the outcome to reflect the interests of all, involved in the sector and contain checks and balances which ensure that no one sector can exploit interests at the expense of the others.