Australian Meat Industry Council

SUBMISSION to the

Senate Standing Committee on Rural and Regional Affairs and Transport Inquiry

The effect of market consolidation on the red meat processing sector.

July 2015

Australian Meat Industry Council

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1. Executive Summary

The Australian Meat Industry Council (AMIC) is the Peak Industry body representing some 2,000 post-farm red meat industry enterprises. AMIC members include firms processing for domestic and export consumption, smallgoods manufacturers, boning rooms, wholesalers and distributors through to independent retail butchers.

This is a complex industry and AMIC has a role and responsibility to contribute to policy debates and reviews in the wide range of issue areas currently or potentially affecting the sector. AMIC is focused on achieving the best outcomes for the sector, the industry and its members on issues critical to their businesses. In doing this AMIC also supports the Australian farming community and the Australian economy.

Each AMIC member makes its own commercial decisions and AMIC does not become involved in commercial dealings nor in the interactions of companies with agencies.

AMIC interacts with government agencies and works with key industry organisations including the Red Meat Advisory Council (RMAC) and its producer peak council members, the Australian Meat Processor Corporation (AMPC), Meat and Livestock Australia (MLA), and other producer groups.

The red meat industry is Australia's largest and most extensive rural enterprise. The supply chain flows from farms in every State and Territory to retail stores and consumers across the nation and some two-thirds of Australian red meat products are now sold to distributors and consumers in more than 100 countries overseas.

Production and selling of cattle, calves, sheep and lambs is the top source of farm agricultural income in NSW, Victoria, Queensland and the Northern Territory and in the lead three for all States.[1] ABARES has identified the rising contribution of sheep and cattle toward the total value of agricultural production as a trend over time. Around 92% of livestock turnoff is processed in businesses located in Australia.

Altogether, the red meat supply chain makes a substantial contribution to the national economy each year. In a 2012 assessment, utilising 2010 data, AMIC identified the red meat industry accounted for over $16.2 billion in gross domestic product, or 1.3% of total GDP and $7.6 billion in Australian household income.

The red meat industry chain of enterprises underpins more some 1.6% of total FTE (full time equivalent) employed positions in Australia and about 15% of employment in agriculture, around 148,000 FTE jobs in 2010. Through full-time and part-time employment as well as local plant purchasing of supplies and services, red meat processing is vital to many regional areas across Australia.

Red meat processing is also an important market for products from other sectors, and a supplier of products into other industries. Associated industries include building and transport services, hides, skins, oils and fats, and detergents and chemicals.

[1] References for this page: NFF *Farm Facts 2012*; ABARE *The value of the red meat industry to Australia* 2009; AMIC analysis 2012, AMPC *Red Meat Processing Industry* 2011; ABARES *Agricultural commodities* 3.2015.

Domestic consumers are still the largest single market for Australian red meat but in declining proportion. For cattle, exports accounted for 65% of processing output in 2012 and 74% in 2014, with forward projections of 70% or more each year. With 56% of lamb and 96% of mutton now being sold overseas, the Sheepmeat Council of Australia is stressing that sheepmeat too must now be an export-oriented industry.[2]

As ABARES points out that "strong international demand for Australian beef and veal has supported cattle prices during 2014-15" and reduced livestock price volatility. In short, being able to compete overseas and grow exports has held the Australian red meat industry 'above water' during the difficult times since 2002.

Processing sector productivity increases have been key to red meat competitiveness locally and expansion of markets overseas. With slow on-farm productivity growth, holding and building markets depends on continual change in the processing sector.

THIS INQUIRY

Under the Terms of Reference, the Senate Standing Committee on Rural and Regional Affairs and Transport Committee has been asked to inquire into and report on:

> The effect of market consolidation on the red meat processing sector, and in undertaking the inquiry, the committee [is to] consider:
>
> a) the potential for misuse of market power through buyer collusion and the resultant impact on producer returns;
>
> b) the impact of the red-meat processor consolidation on market competition, creation of regional monopolies and returns to farm gate;
>
> c) the existing selling structures and processes at saleyards, particularly pre- and post-sale weighing, as well as direct sales and online auctions, and whether they remain relevant;
>
> d) the regulatory environment covering livestock, livestock agents, buyers and meat processors; and
>
> e) any related matter.

This Australian Meat Industry Council submission provides data, information and analysis to assist the Committee in its deliberations and interactions.

AMIC SUBMISSION – KEY POINTS

- **This is an important review for the Australian red meat industry**.
- The inquiry should bring together information for Senators and other participants to assist understanding of the complexity and vital dynamics of the red meat industry supply chain and of factors affecting prices received by producers for livestock.
- **Market forces steer commercial decision-making at each stage of the red meat supply chain, and this must continue.** The sharpness of the marketplace works to hone businesses and to lift efficiency and productivity so enabling our red meat to compete into world food markets with higher returns along the chain *[Parts 2, 4]*.

[2] References for this page: MLA *Market Snapshot Australia* May 2015; ABARE/ABARES *Australian Commodities* 2011-2015; MLA, *Australian cattle industry projections* 2015; MLA, *Matthews and Ryan, The History of Cattle Prices since 1970*, March 2015; Sheepmeat Council of Australia, submission 128, Senate Committee Inquiry Nov 2014; ABARES, *Agricultural commodities* – vol. 5 no.1 March 2015; The MLA website.

- **Structural and operational changes in the red meat processing sector to increase efficiency, productivity and hygiene standards have been fundamental to the active expansion of markets for Australian red meat overseas.** Beef and sheepmeat exports have underpinned livestock prices through droughts and associated destocking then restocking cycles, and have reduced price volatility *[Parts 2, 4]*.

- Marketplace rigour spurs innovation and streamlining within the framework of Australia's effective competition law supervised by the ACCC. This, along with reform of red meat regulatory costs, will provide the platform essential for further export growth and continuing success of Australia's red meat industry *[Parts 4, 5]*.

- **Red meat processing in Australia is a mature sector depending on high-throughput and low margins. Sector participants compete strongly** in buying livestock through now multiple systems (over-the-hooks, on-farm, saleyard auction, online auction and by contract), in manufacturing a diversity of meat products, and in selling these to a wide range of customers *[Part 3]*.

- In making commercial decisions to price and buy various livestock offered directly or at saleyards, processor-buyers take into account multiple factors including *[Part 3]*:

    - Processor volume requirements on a given sale day (affected by orders, plant capacity, exchange rate) and current and likely animal supply through other selling paths

    - The specific processing plant they are buying for – with access to particular markets related more to layout and certifications of a plant than to ownership of a facility.

    - Suitability of the livestock for the plant and a given market and the quality of animals. Saleyard usage is declining and livestock quality and quantity through saleyards is generally more variable with higher assessing risks compared to livestock sold directly to plants by producers who work to meet market specifications and so lift their return.

    - Potential costs during and after purchase including fees for saleyard systems, transport, feeding, product yield, government charges (costs flow back to influence prices payable).

    - With knowledge of these factors, whether costs to attend saleyards, or farms, will likely be offset by being able to buy sufficient livestock at prices suitable to market orders.

- Key structural changes, including facility rationalisation with closure of many lower-performing plants over 1980-2005 and some aggregation of companies since (as occurs in mature industries worldwide), has markedly increased the productivity of the sector and competitiveness of our red meat locally and overseas *[Part 4]*.

- Since governments have moved away from abattoir operation, the sector has evolved strongly in response to marketplace pressures for efficiency, productivity and sustained business relationships with suppliers and customers to the benefit of industry businesses and the Australian economy. Aggregation of processors will continue under market forces as will strong competition in buying livestock and in supplying to local and export markets, to the benefit of the whole industry *[Part 4]*.

continued …

- **Red meat industry productivity must keep rising so we can secure world markets against competing foods and to support even current cattle and sheep numbers**. With on-farm productivity growth at low levels, some consolidation within the farming and processing sectors can be expected to continue, along with implementing new technologies, systems and work practices and hoped for attention to external costs including regulations and charges *[Part 4]*.

- **AMIC considers this submission demonstrates that the marketplace is and should continue to be the optimum driver of change** in the scale and operation of businesses along all stages in the red meat supply chain – all within Australia's effective sets of policies and laws that regulate competition and conduct *[Part 4]*.

- **Red meat processing in Australia also faces external cost challenges**. As well as allowing the marketplace to steer sector efficiencies, action by governments is needed to address broader obstacles to productivity and competitiveness.

- Any type of investment in reducing costs should assist returns to livestock producers. Equally, raising processor costs (such as by more regulation of selling systems) will, over time, reduce prices received by producers for their livestock. Two major cost areas are outlined for Committee consideration in relation to producer returns: regulatory costs and charges, and investment in distribution infrastructure *[Part 5]*.

2. Livestock marketplace factors – demand, supply, prices

> "I have not seen the cattle market jump anything like it, and I have been operating here for the past 15 years … We had prime bullocks make 243c/kg and prime cows and heifers top at 220c/kg. Last year we had heavy feeder steers in the 400kg weight range making $650, and last week similar lines returned $1000, topping at 250c/kg." *Gracemere agent Brian Dawson reported in 'Cattle Prices on Fire' by Helen Walker, Queensland Country Life, 22 January 2015*

Livestock supply and meat demand, each influenced by many factors, some with lag effects, interact to make medium and long term price cycles. This January 2015 news article well-illustrates the cyclical variability of prices in Australian cattle markets. MLA website reports also show sheep prices have increased markedly in the last months. The same *Country Life* article also illustrates the multiple drivers behind price and supply interactions in saleyard terminology:

> Record cattle numbers continue to flow into most saleyards in eastern Australia, leaving many cattle producers and stock agents smiling at the sky-rocketing prices. … [At Roma] there are a number of other factors driving the market upwards … "This week's market could also be based on the widespread rainfall forecast for later in the week in the Maranoa district." Mr Holm said beef producers were doing all they could this time last year to look after their country by selling cattle in large numbers due to drought. Now it was time to look after their bank balance, he said.
>
> "The big yardings are due to two factors: One being much needed cash flow, and the much increased return. Last year a producer may have got a return of $40,000 for their consignment, and this year for the same line it could be $65,000 due to the historically higher prices." …
>
> MLA manager for market information and NLRS Ben Thomas said rain over the Christmas period had sparked restocker interest, along with feedlot demand both in Queensland and NSW, driving the EYCI [Eastern Young Cattle Indicator] to a record 447c/kg. "The previous record for the EYCI was set in December 2011 at 428c/kg"…
>
> AgForce cattle president Bim Struss … said the market increase was fantastic news. "The market is all about supply and demand, and it would appear from saleyard reports to date, the market for quality cattle has increased under pressure of numbers." *Queensland Country Life 22 Jan 2015*

Some elements of price cycles relate to pastoral production and livestock supply, and others to demand. A typical cattle price cycle, MLA explains, has two peaks each year, in April and September and three low points in January, June and November. Eastern cattle prices [Figure 1] "started with a bang" and the April average in 2015 was "considerably stronger (24%) than the five-year average". Similarly for lambs [Figure 2].

Figure 1. Cattle – Eastern States Daily Indicator

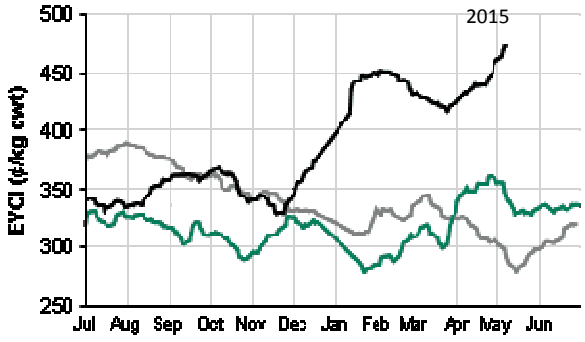
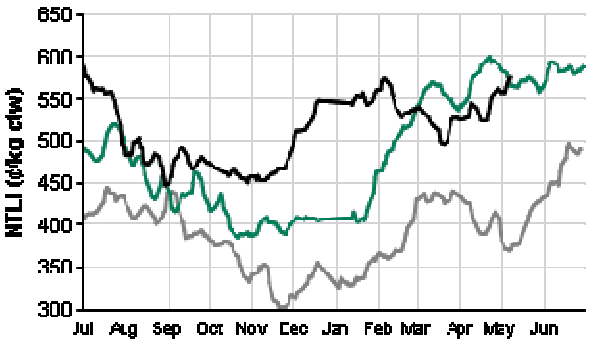


Figure 2. National Trade Lamb Indicator



MLA website 8 May 2015. Black lines 2015, green 2014, grey 2013.

As red meat processors have experienced over many decades, a confluence of market factors and realities including exchange rates can cause sharp price ups (or downs) to the benefit of selling producers or at times to benefit buying agents and processors.

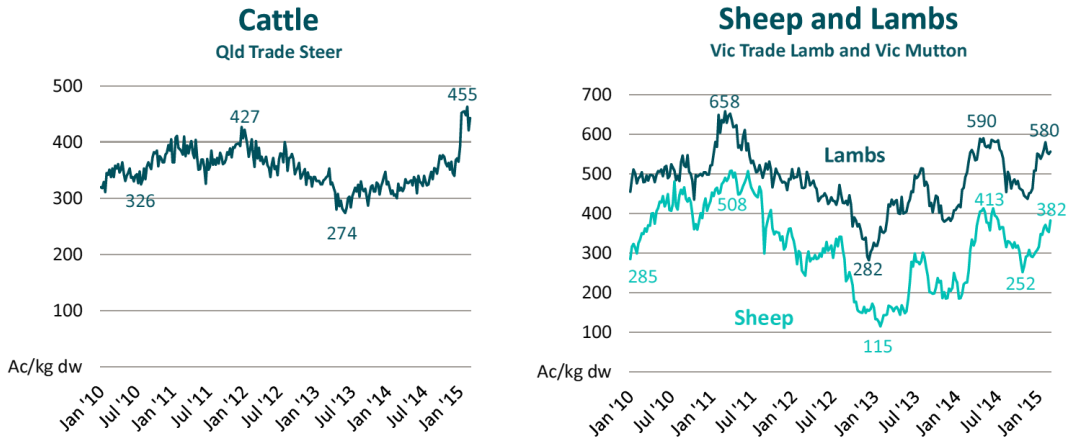
If higher or lower livestock prices continue then participants in the marketplace react. With strong prices, farmers move into livestock but at the end of the chain consumers start buying alternative foods so reducing red meat demand.[3] When livestock supply slows, lower throughput and higher costs tighten processor margins. As has occurred cycle by cycle, some processing plants become unviable and close, or they have to be acquired by other firms to keep running.

At times of high livestock supply, such as drought sell-offs, processors can increase plant throughput and fulfil meat contracts at moderate prices and this assists holding of consumer meat demand in difficult times. Processing businesses, usually operating on low margins, can allocate new funds to plant maintenance, investment in new floors and lines, and to keeping trained employees, as well as to reserves to sustain the business, and the industry, when cash-flow tightens.

Occasionally global marketplace swings can lift demand and prices paid for Australian meat even as producers are selling off livestock and processing throughput is high, giving a short term bonus to processor exporters (such as in 2014 after a difficult 2013). Equally, convergence of factors at times can deliver boom pricing to livestock producers as occurred for cattle at the start of 2015.

Within broader livestock price cycles there can also be marked price changes week by week. This can be disconcerting for some producers even though such variability is a long time feature of supply, demand and competition in Australia's diverse and open livestock marketplaces. The following ABARES graphs on weekly prices illustrate both the price fluctuations of an active marketplace and longer term price cycles.

Figures 3 and 4. ABARES Weekly Livestock Prices 2010-2015



AMIC recognises the years 2011 to 2014 were difficult for many livestock producers. Widespread and extended drought brought an influx of livestock into selling markets by necessity and prices also fluctuated with daily demand-supply forces. Yet, notably, as seen below, the market price cycles are at higher levels than the mid 1990s.

[3] See recent news reports, eg: 'Sausage and steak lose sizzle as beef prices bite', *Sydney Morning Herald* 9.7.2015

In March 2015, the MLA website raised the question, *Cattle prices: are they the highest they have ever been?* MLA analysts answered 'yes' but 'no'.[4]

> Producers, with a long enough memory, often comment that the prices they received in the 1970s were much better than what they receive at present – and that is in fact the case, when taking into account the effects of inflation. … That said, the low points of 2013, due to widespread drought conditions causing a huge influx of cattle onto the market, did not dip as low as the troughs of the 1970s, following the global beef crash … volatility in cattle prices has decreased markedly in recent years, greatly reducing the price risk of being a participant in the industry.

The largest peaks and troughs had been over 1973-83 but in a rather different red meat marketplace. Many livestock producers likely still remember the 1970s peaks, but perhaps less so the response by demand and economic drivers that brought about a crash in 1981-83 then a sharp reduction of herd numbers and livestock supply.

Not until the mid-1990s was there a more sustained price recovery and a rebuilding of the Australian herd. The next graphs are from MLA's, *The History of Cattle Prices since 1970*. The second also shows tighter cycles in real cattle prices since the 1990s.

Figure 5. Quarterly national yearling cattle price 1971 to 2015 [MLA, NLIS]

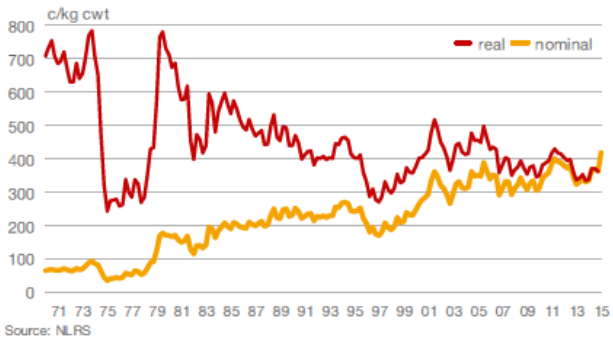
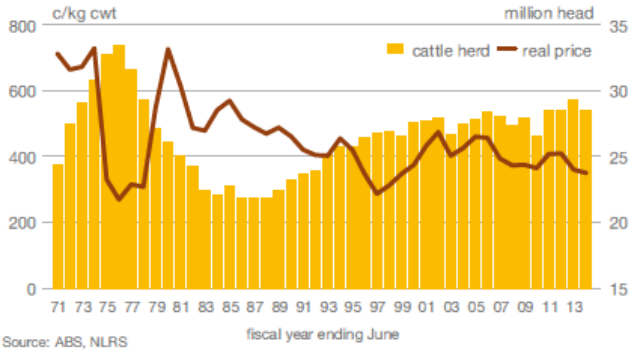


Figure 6. Australian cattle herd and real price 1971 to 2014 [MLA, ABS, NLIS]



This Senate Committee's Grass-fed Cattle Levy report of September 2014 recorded a series of producer comments on cattle prices. These included that Queensland prices had fallen 40% since 2001, that "while cattle prices have declined by 30 per cent over the past decade, producer costs have risen by at least 30 per cent", that "grass-fed cattle prices have declined every year by approximately 40 per cent from 1998 to January 2014". Also, "producers were getting $1 per kilogram in 1978 and that while cattle numbers have remained steady since then (at around 28 million), cattle was sold all over Queensland in 2013 at well under $1 per kilogram" [Report 3.29 to 3.32].

[4] www.mla.com.au/Prices-and-markets/; MLA, Matthews and Ryan, *The History of Cattle Prices since 1970*.

It is difficult to reconcile these perceptions on prices given weight in the Committee's 2014 report with Figures 5 and 6 and with Figure 7 showing the Eastern Young Cattle Indicator price graphed from thousands of daily data points from MLA's spreadsheet.

Figure 7. Eastern Young Cattle Indicator price (EYCI) – Aug 1996 to Apr 2015

The following summary of major factors affecting livestock prices is based on extracts of the MLA *History of Prices* paper and from ABARES reports as referenced.[5]

- **Macro-market demand and supply circumstances of the 1960s and 1970s were unique and now long past**. With genetic advance and rising export demand cattle numbers grew rapidly in the 1960s to an all-time peak in 1976. Beef exports lifted to 28% in the 1960s and 33% in the early 1970s. Then from 1973, demand and prices dropped sharply with the end of export agreements with Britain, global economic oil-shock downturn and cattle oversupply in many countries. Herd numbers started to fall (with a good season lag as farmers held stock hoping for higher prices). Excess product lowered retail prices in Australia even as it spurred consumption.

- **Industry growth in the late 1980s and 1990s turned on major new markets, Japan and Korea, with moderate seasons and growth of cattle numbers along with farm and processing productivity** – more saleable beef from the same labour and resource inputs. Big-step production productivity advances included eradication of brucellosis and tuberculosis, stronger reproductive performance and lower mortality rates, expansion of the feedlot sector and live export trade and Bos Indicus breeds in the northern herd. Cattle price low points in 1996 and 1997 are attributed to large drops in demand due to the major BSE issue in the UK and an E. coli outbreak in Japan, as well as a peak in USA cattle numbers and meat output.

- **Drought has been a major driver of Australian cattle marketplace dynamics since 2002.** A 1-in-100 year drought occurred in 2002-03 and again in 2006-07. The herd dropped by 4% each time with the flow of cattle to sale with their condition reflected in prices. After some price recovery across the still dry 2004 and 2005 and moreso over 2010 to 2011, drought returned in 2013 and sell-off resumed. In the wet years 2010 and 2011, as producers restocked, real prices lifted 4% and 11% respectively.

[5] References: ABARE, Australian commodities 2006, meat outlook to 2010-11. ABARE, *Australian Beef 07.2, Financial Performance and Production to 2006-07*. ABARE, 2009, *The value of the red meat industry to Australia,* also: Australian commodities 2010, *Productivity growth*.

- The other major price and supply effect was the success in building demand from overseas markets. From 2000-06, beef exports grew to over two-thirds of production in value terms particularly to the US and Japan. This was assisted by BSE issues in Japan, the US and Canada. MLA calculated Australia's increased share of the premium Japanese market due to BSE scares boosted cattle prices by 3% in 2004, 6% in 2005.

- In 2007, ABARE assessed that, at least in south-eastern Australia, most producers appeared to be financially well positioned to manage herd recovery from drought once seasonal conditions improved.

- ABARE projected some recovery of prices before a flattening for most broadacre commodities after 2007-08 again based on macro-trends (such as currency exchange rates). ABARE did not anticipate a return to widespread drought within five years.

- ABARE analysis since 2009 has reinforced the major factors and trends affecting red meat industry economics including selling prices being received by cattle and sheep producers and earnings by processors and all in the supply chain. In particular, drought effects, domestic demand shifts from red meat to alternatives, rising demand for red meat overseas, and variations in exchange rates.

Looking forward on sheepmeat, lamb and mutton, in mid 2014 MLA recorded that the flock had dropped to 72.2 million but was expected to regrow. Lamb exports would set a new record in 2014, mutton exports would decline 7% and live sheep exports rise 16%. MLA forecasts at February 2015 project flock expansion out to 2019 to about 74 million and a corresponding decline in sheep-meat supply. Then a rise in lamb and mutton meat output and exports from the rebuilt national flock.[6]

The ABARES outlook also sees a sheep flock rebuild to some 76 million head in 2020.

> Saleyard lamb prices are forecast to rise in 2015–16 as a result of lower turn-off, growing export demand, and the effect of an assumed lower Australian dollar… Assuming a return to average seasonal conditions in 2015–16, sheep prices are forecast to increase by 17 per cent… This reflects a slowdown in adult sheep turn-off and greater restocker demand as producers begin to rebuild flocks. Flock rebuilding is expected to drive higher prices for breeding ewes in particular. As sheep numbers build up over the medium term and turn-off starts to rise again, saleyard prices are projected to decline gradually to… 2019-20.

MLA projections for cattle and beef anticipate a further decline in herd numbers then moves to restock and cattle price increases, with significant falls in processing throughput – even to shock levels for Australian meat processors.

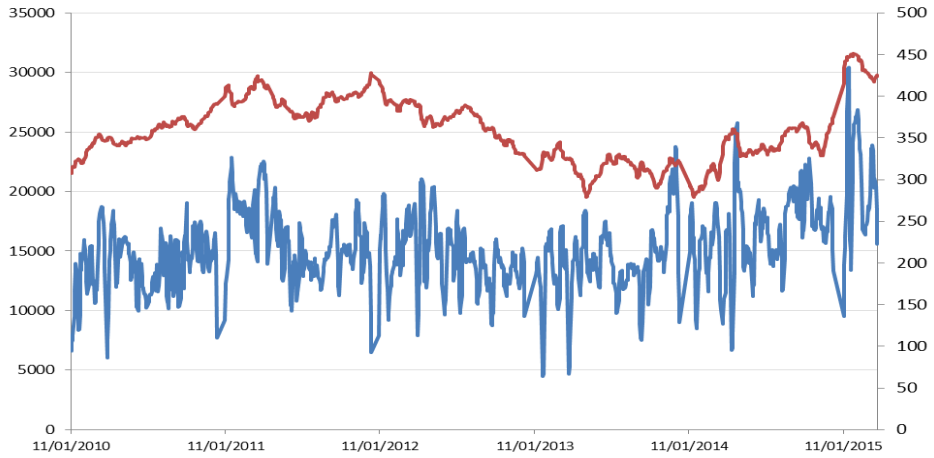
> The Australian cattle herd is expected to decline to 26.8 million … by June 2015 – … from … a 35 year high cattle herd to what will be a two decade low herd, in the space of just 24 months. Australian adult cattle slaughter during 2015 is expected to decline 15% year-on-year, to 7.8 million head 2015.
>
> Beef production is expected to decline in 2015, largely the result of a dramatic reduction in slaughter, to 2.91 million tonnes cwt – 14.1% lower year-on-year, which is actually a relatively normal annual volume.
>
> After breaking the Australian beef export record for the third consecutive year in 2014, at 1.29 million tonnes swt, a significant [future] decline is projected … [reflecting reduction in livestock supply].

[6] References: MLA website, MLA Matthews and Ryan, *The History of Cattle Prices since 1970;* MLA, Thomas and Matthews, *Australian Sheep Industry Projections 2015;* ABARES Conference 2015, Gleeson, *Livestock - Emerging markets, competitiveness and farmgate returns*; ABARES, *Agricultural commodities* vol. 5: 1 March 2015.

Cattle price increases are also forecast by ABARES, in the order of 16% in 2015-16, due to ongoing strong international demand for Australian beef and veal as well as herd rebuilding, so tighter supply. Strong export demand for meat is expected to continue over the medium term, supported by an assumed lower Australian dollar and tariff reductions in some major markets.

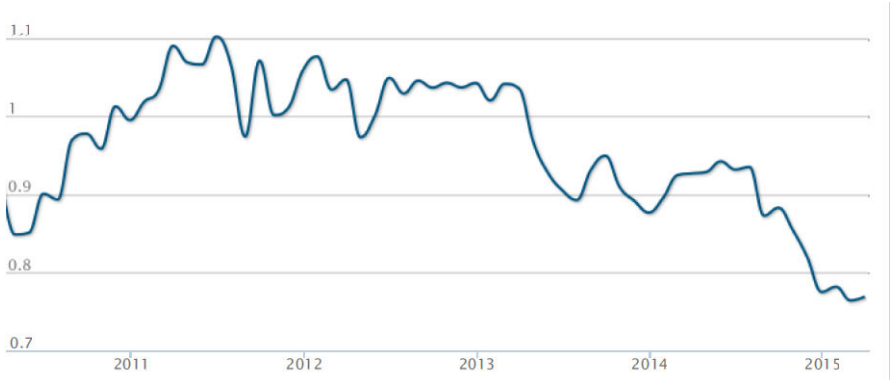
Within livestock price trend lines and cycles, there are price fluctuations by day, by week, by location and livestock type. This is a characterising feature of an open, active Australian marketplace for livestock trading in an increasingly global context. Price (and supply) fluctuations are clear in Eastern Young Cattle Indicator (EYCI) prices from 1996 in Figure 7, and in EYCI data on prices and numbers from 2010 in Figure 8.

Figure 8. Eastern Young Cattle Indicator price (red) **and head sold** (blue) **2010 to 2015**



Exchange rate influences on demand from large and smaller overseas buyers, alone could account for much of the fluctuation in daily prices that producers see. With a higher Australian dollar, overseas customers can buy less Australian product with their money. Flowing through to processors and livestock buyers, local prices fall. Also the reverse – the $AU fell 2% against the $US in December and a further 8% in January as saleyard livestock prices were fast rising.[7]

Figure 9. Australian dollar to US dollar exchange rates 2010 to 2015 [OzForex website]



[7] MLA website, meat & livestock weekly market reports.

In summary, it is important for the Committee and for industry participants along the supply chain to take into account the mix of demand and supply factors that continually influence livestock prices, and of time lags in some of the factor effects.

Australia's commercial cattle, sheepmeat and processing industries exist because domestic and overseas consumers want to eat red meat products (demand) and because the Australian pastoral and processing industry can deliver (supply) products at prices buyers can and will pay before they turn to other foods.[8]

Major factors and trends influencing red meat industry economics and so earnings along the supply chain (cattle and sheep producers, processors, service firms) are:

- ***drought effects*** on feed costs on-farm and in feedlots, animal turn-off and slaughter rates, demand for sheep and cattle for restocking, saleyard animal quality, and less obviously, impacts on drought and difficulty on productivity and competitiveness
- ***domestic market shifts with price*** – local consumers take some 30% of beef, veal and lamb product (less of mutton and offal), they move from red meat to poultry and pork when red meat prices rise and they return to red meat when retail prices fall
- ***overseas meat demand*** against competition, trade barriers and shifts to and from other products or suppliers, with developing country markets becoming more vital, and
- ***exchange rate fluctuations*** flowing to prices that can be paid by processors and buying agents including in the saleyard. With now 65%-70% of Australian red meat exported, a stronger Australian dollar makes our exports more expensive overseas, reducing the quantity of Australian meat demanded and purchased by those markets.

Over the last ten years, prices producers received for livestock have broadly tracked the demand from export markets counterbalanced by numbers and quality of stock being sold due to climate and time-of-year (overlaid at times with strong exchange rate effects). Exporter efforts to open and expand overseas markets have delivered for the whole industry. Red meat exports have supported cattle and sheep prices during difficult drought periods and price volatility has narrowed, assisting business planning and reducing the price risk of being in the industry.

The two overarching and major price drivers are (i) domestic and overseas consumer demand shifts in response to meat price itself and competitor supply and (ii) seasonal impacts on need to sell livestock and the quality of livestock sold.

AMIC considers there is no basis for attributing cycles of lower or higher prices for cattle or sheep to lesser industry trends such as some level of aggregation among processing companies [Part 4].

There is also no basis for attributing daily or weekly livestock price ups or down to aggregation trends among Australian producers, processors or retailers. Indeed, with exports now near 70% of product output, weekly and daily prices can be markedly affected by the $Australian/$US exchange rate and other conversions.

[8] References for this page include: MLA *Market Snapshot Australia May 2015*; ABARE, *The value of the red meat industry to Australia*, 2009; ABARES, *Profitability and productivity in Australia's beef industry* 2015; ABARES Conference 2015, Gleeson, *Livestock - Emerging markets, competitiveness and farmgate returns.*

3. Selling and buying livestock

Today's livestock marketplaces operate through a mix of selling and buying systems featuring increasing information levels and declining use of auction saleyards.

Producers now have multiple pathways for selling their cattle, sheep and lambs. With the internet, they also have unprecedented sources of information on farming meat animals, factors influencing livestock prices, price trends and selling options, and on current prices for cattle and sheep (from MLA, agents, rural media, processor grids).

Determining whether and when to sell on-farm, or direct to a processor, or to deliver a load of animals to a local or a regional saleyard, is a commercial decision each time and by each livestock production business.

Such selling decisions reflect factors as variable as the type, health and quality of the animals, grazing outlook, feed costs, numbers of stock flowing to market, transport availability, prices on offer at auction or from processors buying for end-markets or feedlotting, enterprise finances and personal circumstances of the producer.

Most livestock are purchased by Australian meat processors or supermarket buyers on-farm, at saleyards or at the plant, to go feedlots or if suitable in type and quality, straight into a processing plant.

Processor-buyers take commercial risks to get the right product to meet importing country and buyer requirements. Processing converts the livestock to a saleable meat product and adds substantial value but at considerable cost (operating, distribution, compliance and regulatory costs, plus overheads).[9]

In making a commercial decision to price and buy various livestock offered directly or at saleyards, processor-buyers also take into account multiple factors including:

- Processor volume requirements on a given sale day (affected by orders, plant capacity, exchange rate) and current and likely animal supply through other selling paths
- The specific processing plant they are buying for – access to particular markets is often related to layout and certifications of a plant, not to ownership of the facility.
- Suitability of the livestock for the plant and for the market (eg. breed, HGP use), and the quality of particular animals producers are delivering to the plant or the yards. As the MLA website points out: "Producing livestock that meet market specifications is one of the most obvious methods of improving [producer] profitability".
- Potential costs during and after purchase including fees for saleyard systems, transport, feeding, product yield, government charges (costs flow back to influence prices payable).

With knowledge of these factors, case-by-case decisions are made on having buyers attend saleyards or farms. That is, will costs of attending likely be offset by the buyers being able to purchase sufficient livestock at prices suitable to orders?

[9] Industry reviews and submissions as well as public reports have well-documented the regulatory costs of the processor's operational and trade environment. Productivity Commission reports in 2008 and 2009 recognised "red meat exporters incur greater costs and more regulatory intervention than other primary product exporters".

3.1 Deciding to sell livestock – multiple options and information sources

Processing sector initiatives such as direct buying of livestock, enhanced by arrival of the internet, have advanced post-farm operational efficiency and assisted farm returns. Options for selling and buying are now wide, and with processor-buyers focussed on purchasing animals to meet precise specifications, the proportion of livestock sold by auction in saleyards is in a declining trend. The 2000s saw producer and buyer shifts away from saleyards for cattle and sheep due to higher certainty, return for producer effort and savings in costs and time.[10]

> ***2004 Sheep***. Greater focus on lamb and mutton production has had a dramatic effect on the selling methods used by producers. In 1990-91, over 50 per cent of all sheep and lambs were sold in the paddock and almost all the remainder were sold at auction. During the late 1990s, there was a steady decline in paddock sales, and increased sales over the hooks… During the 1990s, increased competition between the meat industries and low sheep profitability resulted in the sheep industry readjusting from a production driven system to a more market focused system, driven by consumer demand. Processors and manufacturers now place more emphasis on purchasing products that meet their precise specifications, with demand increasing for larger leaner lambs. *ABARE 2004*

The MLA and Australian Wool Innovation (AWI) website, *Making More from Sheep*, 'selling options' page, provides a guide to livestock producers. This summarises current selling methods with positives and cautions *from the perspective of a sheep farmer* planning their production enterprise through to selling their livestock output. It says:

> Auction sales [saleyards] generally offer wider competition and convenience with the price established at the point of sale. They provide immediate sale with all stock types and lots of any size accepted. Prices can be compared and no [producer] marketing skills are required. However, transport costs and saleyard dues add to the cost of production. …
>
> Paddock sales. … has the advantage of minimum costs for selling, handling and transport. Limited marketing skills are required and risks are lower than other options. [However], competition is limited and sheep producers rarely receive carcase feedback. Buyers prefer large numbers and an assessment of weight and fat score range is an advantage in price negotiations. … favoured for store stock trading.
>
> Over-the-hooks sales. Sheep producers receive clear market and price signals for carcase and skin quality. Feedback is available to assist in future management decisions and to perfect assessment skills. Costs for selling, handling and transport are minimal. A flat rate or grid is used to determine price. Lambs can be sold at the optimum time in terms of market readiness and pasture use efficiency. … also reduces exposure to market volatility … Stock must be accurately assessed for sale to avoid price penalties.
>
> Forward price contracts take much of the risk and uncertainty out of marketing. Sheep producers receive clear market and price signals for carcase and skin quality. Feedback is available to improve the production system and costs for selling, transport and handling are minimal.
>
> AuctionsPlus is an electronic on-line web based 'sale by description' system for a range of livestock. It allows commodity transaction, reserve price setting and legal change of ownership without the seller, buyer or product having to come together physically … Sheep producers retain full control of their stock and are assured of market value or better when protected by the reserve price set ….
>
> Emerging selling options. A payment system based on lean meat yield is available as a selling option in one Australian … plant. Lean meat yield is … measured using carcase imaging technologies. [This] rewards those … who carefully manage for optimum weight, muscle and fatness of their slaughter lambs.

For cattle sellers, similar guidance is provided on the MLA website and the FutureBeef website for northern producers. They stress that "critical variables and decisions [on] the cost effective selling method vary between locations and species".

[10] ABARE 2004, *Australian lamb*; ABARE 2009, *Australian Beef,* mla.com.au/Prices-and-market including downloads on prices; elders.com.au/livestock/market-and-sales-reports/sales-results; makingmorefromsheep.com.au.

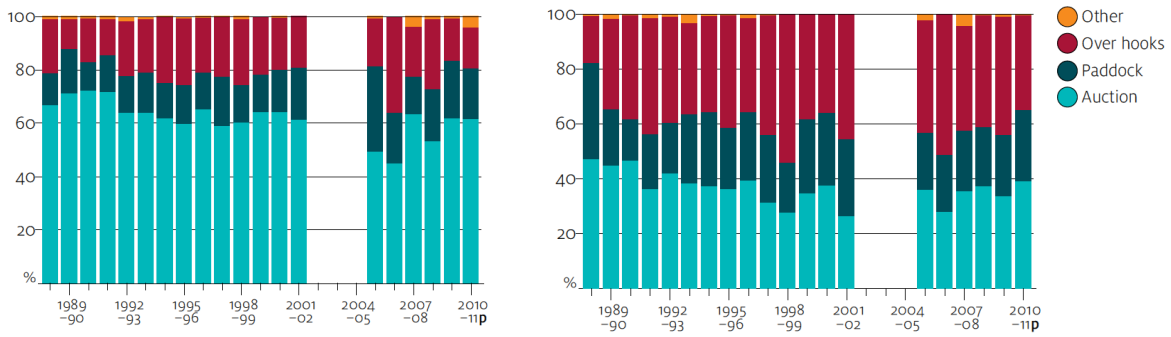
As tabulated in Appendix A, these websites[11] include useful information on selling options for cattle producers (paddock, direct delivery, saleyard or internet auction, contracts, alliances) taking into account buyer needs and noting inefficiencies and costs for buyers will affect prices.

Such a choice of selling options for livestock producers reflects the evolution of the active and competitive Australian livestock marketplace working to reduce costs. This boosts productivity and competitiveness in all markets for meat including within Australia, and lifts returns to each enterprise along the red meat supply chain.

Over-the-hooks sale, paddock selling and saleyard auction are the main methods with online auction rising. As explained by ABARES in a 2012 report, saleyards are used more in the south, by smaller-scale producers, and for a diversity of animal types including mixed lots and animals in poorer condition. So, saleyard selling can rise at times and in some locations even within the general downward usage trend.[12]

> *ABARES*. Australian beef cattle producers sell cattle primarily through auction, in the paddock and over the hooks. AAGIS data indicate significant differences between northern and southern Australian producers in preferred method of sale.
>
> In southern Australia the auction system remained the main method of sale in 2010–11 with just over 60 per cent of beef cattle sales. Auction sales are most favoured by producers, particularly in southern Australia, who have smaller herds and who sell in small lot sizes. Generally, these producers are located in more closely settled areas where distances to saleyards and freight costs are relatively small. Typically, these areas also produce and trade a range of cattle types, including store, finished and stud, which are able to be sold at auction.
>
> Larger herd size producers are more likely to sell over the hooks or in the paddock because they are able to generate larger sale numbers. Direct methods of sale, such as over the hooks, can also reduce the carcase damage and loss of meat quality caused by additional handling involved in saleyard and auction sales.
>
> In 2010–11 the proportion of cattle sold at auction in northern Australia was higher than over the hooks sales for the first time since 2000–01. This appears to reflect increased demand from restockers for young cattle sold at auction [and availability of sales and price information to enable producers to assess options], together with a small increase in the proportion of cattle directed to the domestic market as numbers of cattle sold for live export were reduced relative to the high numbers in 2009-10.

Figure 10. ABARES 2012. Beef cattle selling methods, Southern Australia left, **Northern Australia** right



[11] MLA website 'Selling Options'; FutureBeef website (a collaboration of Departments of Agriculture and MLA).

[12] ABARES, 2012, *Australian beef - Financial performance of beef cattle producing farms 2009–10 to 2011–12*. AAGIS is the Australian Agricultural and Grazing Industries Survey. Data changes explain the 2002–2005 gap.

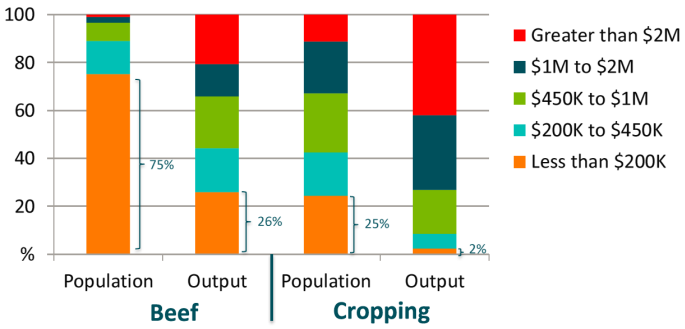
3.2. Selling: livestock supply, processor requirements, saleyard issues

Premium livestock are increasingly sold directly to processors or in the paddock, or by forward contract or alliance pathways. These producers seek – and generally obtain – a higher price for their specialised attention to buyer specifications.

As ABARES points out, saleyards are the main pathway for producers with smaller herds who sell animals of varying standard and type in small lots, and for disposal of poorer stock including store animals in dry times and old breeding animals.

Quick cash payments are important for some producers including where livestock is a small part of a mixed enterprise or a side to employed work.[13] In southern regions, many properties with cattle are small scale (75% of properties give 26% of output).[14]

Figure 11. Farm population and output by industry, measured on 2012-13 total receipts, ABARES 2015



Farm and financial circumstances, understandably, motivate some producers to choose to sell through saleyard when it suits them, rather than implementing systems for turning off premium livestock for sale through more certain price systems.

Processors consider livestock purchased on contract generally comply more closely with their needs as producers work to supply to the contract specification and grid. Saleyard buyers face greater variability and less information, so more risk. This puts another commercial limit on prices payable in saleyards along with overall demand, exchange rates, or match of the livestock with a particular plant or market orders [3.3].

For livestock producers selling on farm or by contract to specifications, risk of price variation is also reduced. Higher security was noted by the Australian Competition and Consumer Commission in reviewing prices during the 2006-07 drought period.

> Both Coles and Woolworths provided details of their actual buy and sell prices to the ACCC. Throughout 2006, the average buying price for beef for both supermarkets was above and more stable than the EYCI [Eastern Young Cattle Indicator]. The sharp decline in the EYCI in the December quarter was not reflected in the supermarkets' average buying prices.
>
> There appears to be two key reasons for this. *continued …*

[13] "Periurban agriculture in the five mainland States produces in the vicinity of 25% of Australia's total gross value of agricultural production. … This is in line with the estimate made by the USDA that agriculture associated with metropolitan areas in the US accounts for 30% of the nation's total agricultural production, and the estimate made by industry and NSW Department of Primary Industries officers that the farm gate value of agriculture in the Sydney Statistical Region is $1 billion (12% of the State's total production grown on less than one per cent of the State's agricultural land)." NSW Department of Agriculture website, 2005 figures.

[14] ABARES, Gleeson, 3.2015, *Livestock – Emerging markets, competitiveness and farmgate returns*.

> First, the direct supply agreements provide a degree of risk management, with prices negotiated some degree in advance. Second, as direct supply agreements and other forms of vertical integration remove an increasing number of livestock from 'traditional' saleyard markets, these markets have potential to become more volatile.
>
> Similar results applied to lamb; however, the supermarkets' average buying prices were not as stable as for beef. This appears to be due to greater seasonality in lamb production and less reliance on direct supply agreements. *ACCC 2007*[15]

AMIC members recognise saleyard auctions across Australia will continue to be a pulse-point of livestock trading and a frontline of selling-buying competition.

However, it is a daily commercial decision for each processor-buyer to attend a particular saleyard auction taking into account supply and demand factors discussed in these sections (as it is to decide to visit a farm or accept a direct livestock delivery).

On occasions, decisions to not attend a sale might converge for smaller saleyards, just as lack of seller commitment of stock leads to sale cancellations from time to time.[16]

From long experience, AMIC members submit that potential price opportunities do and will attract buyers from all directions. Livestock saleyard dynamics are well-illustrated by this recent rural news report on the southern lamb trade.

> THERE was plenty of hype last week surrounding JBS Australia's decision to cut lamb processing by 20,000 head a week … from its Victorian and South Australian plants, claiming it was responding to oversupply and reduced export demand.
>
> But the fanfare had no flow-on impact on the markets that followed. If anything, JBS Australia's move spurred competitors into action.
>
> At Griffith, NSW, last Friday, 10,000 lambs were sold and the market topped at $204 a head for extra heavy export weight lambs. Selling agent, Mark Flagg, Barellan, said the sale was the best they had all year in Griffith across the board for both the lamb and mutton markets. … He had expected the market would have come back, given industry talk about JBS Australia processing plans earlier in the week.
>
> A buyer from JBS Australia was at the sale as per usual, he said. "JBS were doing what they said they would – they weren't buying the big lambs, but they were there poking along buying the numbers they required in that middle range - light and medium export weights," Mr Flagg said.
>
> Thomas Food International (TFI) was strong on heavy export lambs … Junee abattoir was also competitive, according to Mr Flagg. …
>
> Norman C. Bellamy director, Damien Stephenson, Cowra, said there were no repercussions at the Cowra market last Friday from JBS Australia's swift move to reduce processing numbers. "It's that time of year when a lot of processors will take a shift off or shut one of their plants down". … [Another agent] said all buyers were active at Cowra last week … *farmweekly.com.au 13 May 2015*

[15] ACCC, 2007, *Examination of the prices paid to farmers for livestock and the prices paid by Australian consumers for red meat,* A report to the Minister for Agriculture, Fisheries and Forestry, February.

[16] For instance, the January 2014 cattle sale at Charters Towers, scheduled first of the season, was cancelled due insufficient numbers of cattle. "The cattle are very light coming out of last year, such a bad season and the people are waiting desperately to get some rain so they can put some condition and weight onto their cattle to make them really saleable." ABC Rural website, 24 January 2014.

3.3. Buying: Suitability of stock for plants and markets, saleyard issues

Red meat plants generally have one or more specialised processing lines arranged for animal type and for efficiency in fulfilling requirements for particular markets in Australia and overseas. Various countries (EU, Japan, USA) and customers (Coles, Woolworths and others in Australia) require specific forms of accreditation of plants and certification of the output meat products including offal.

There are 170 different market entries within the Federal Department of Agriculture *Manual for Importing Country Requirements* where Australia has opened market access for red meat.[17] Within that set about 20 that are uniquely different from any other. In addition, there are differing Halal certifiers for different halal markets. All facilities must be registered by the Commonwealth or a State government.

The AUS-MEAT website posts lists of abattoirs and boning rooms around Australia and whether they have accreditation for export, for processing cattle, sheep, pigs and/or goats, and for offal. The site also links to lists of plants approved for EU, USA, China, Russia, Mexico, Malaysia and Vietnam. Each processing plant is separately accredited even if part of a company group owning a number of establishments.

Whether purchasing over-the-hooks, in the paddock or through a saleyard auction, the processor-buyer has in mind the plant type and capacity, volume of orders, price limits including exchange rate conversions, suitability of animals for the plant and need to maximise returns from a carcase often by selling parts to different markets.

With higher certainty that livestock will meet requirements, processor-buyers can realistically pay a better price at any level in a price cycle. The *Making More from Sheep* website warns producers that less data and higher variability affect prices.

> … regardless of the selling method, the buyer will either pay on an estimated or actual weight of carcase with a skin value added. As a general rule, the less information the buyer has available, and the more variable the livestock, the more conservative (and lower) the estimated value.

Buyer specifications. For years, advisers have stressed to producers that most times "the article being sold is meat", and that in saleyards and paddocks buyers tend to be more cautious in assessing weight, conversion to meat, and other suitability factors. [18]

MLA and FutureBeef websites are emphasising that livestock producers who work to meet processor-buyer specifications will likely benefit through higher returns.

> Producers should regularly evaluate market opportunities depending on feed supply, their financial circumstances and changes in market price. Remaining open to and aware of alternative market options is crucial. There may be a better price … through a different [selling] option or a better match for the range of product specifications a producer can supply. In order to remain flexible it is important that producers remain well informed of market trends and movements. The National Livestock Reporting Service (NLRS) provides information designed to keep producers informed of market movements. This information often illustrates the correlation between prices and market specifications. *MLA site May 2015*

[17] Department of Agriculture website. http://micor.agriculture.gov.au/meat/Pages/default.aspx

[18] *NSW Agriculture AgFacts*, Comparing lamb marketing methods, 2003.

The MLA webpage *Understanding Market Specifications* states "producing livestock that meet market specifications is one of the most obvious methods of improving profitability" and MLA provides guidance for producers on each of the following steps.

> To meet market specifications, particular management knowledge and skills are required … :
>
> - Understanding the specifications and customer requirements of the target market.
> - Assessing and monitoring the progress of animals towards target markets.
> - Managing the grazing system or using high quality finishing systems to achieve growth targets and successful market outcomes.
> - Seeking feedback and implementing practices to improve management of the production system.
> - Evaluating marketing options regularly.

This example of such specifications is from the Nolan Meats Gympie plant website.

> Nolan Meats is constantly seeking high quality yearling store cattle for further finishing through our system. Limited opportunities are also available to producers wishing to supply prime grain-finished cattle for immediate processing. We are prepared to purchase any quantity from 1-5000 head, which means that we are willing to obtain cattle from the largest of specialist cattle producers to the smallest of local producers and hobby farmers who are able to meet our specifications and requirements which are outlined below.
>
> *All cattle*
> - Property must be Livestock Production Assurance (LPA) registered
>
> Store cattle
> - Heifers and steers of all recognised beef breeds and their crosses
> - Entry weight – minimum 350 kg live weight
> - Muscling – A, B and C muscle scores
> - Preference is given to cattle with European breed infusion (e.g. Blonde d'Aquitaine, Charolais, Limousin etc)
> - Maximum of 50% Bos Indicus infusion
>
> Prime cattle
> - Prime grain-finished cattle must come from a feedlot accredited under the National Feedlot Accreditation Scheme (NFAS)
> - MSA accreditation preferred (Premiums exist for MSA cattle)
> - All cattle are purchased on a price grid basis. * 0–2 teeth * 200–280kg dressed weight (HSCW) * 5–12 mm fat depth
> - Maximum 50% Bos Indicus infusion.

Most participants in the red meat supply chain recognise that trading livestock by auction in saleyards has advantages and disadvantages. Both producers selling and all types of buyers factor positives and negatives into their decision to use the sale-yard auction system, and for buyers these factors impact on the prices they can pay.

For processor buyers at a saleyard, factors influencing bid prices include, in summary:

- technical limits – plant and customer requirements, plant capacity, orders [3.1, 3.2]
- market limits on prices[19] – what customers will pay, exchange rate effects [Part 3]
- uncertainty of livestock supply in terms of quantity, quality match and variability
- caution against risks with estimating weight, condition and potential yield of meat and by-products from those animals

continued …

[19] After sharp increases in lamb prices from January, early May saw a flattening. An agent at the Cowra sale on 8 May 2015 commented: "It's good for the cocky and the agent when prices are high, but once the price hits the mid six dollars a kilogram level, it's not good for the processor or the consumer at a retail level … If the market can stay between $5 to $6 a kilo then everyone is making money." Farmweekly.com.au report 13 May 2015.

- saleyard systems or fees, transport costs, government charges, buyer travel, and
- risks of need for compliance with systems but not evident at the time of buying, such as costs arising from producer non-compliance with NVD requirements [5.1].

With higher certainty that livestock will meet their requirements, buyers can generally pay a better price at any level in a price cycle. The MLA/AWI *Making More from Sheep* site, for instance, warns producers that less data and higher variability affect prices.

> … regardless of the selling method, the buyer will either pay on an estimated or actual weight of carcase with a skin value added. As a general rule, the less information the buyer has available, and the more variable the livestock, the more conservative (and lower) the estimated value.

Saleyard costs. Particular locations, systems or fees, costs for livestock transport and buyer travel also influence commercial decisions to attend a saleyard auction.

Interpretation of regulations (such as animal handling and welfare rules including expectations on producers in sending animals to sale) into the practices of a particular saleyard and direct or indirect government charges are also cost factors.

From time to time, AMIC receives correspondence from saleyard operators about changing rules and levying a new charge on buyers including processors. AMIC sees different forms of charges as administratively inefficient and costly – and all costs end up being reflected in selling and buying decisions and in prices paid.

AMIC has replied to a number of entities with a set of saleyard charging principles:

- Costs of preparing livestock for sale, conduct of the sale, and moving purchased stock to the buyer's nominated transport should be with one party, the seller.

- Charges should be straightforward with no extra administrative fees to the buyer.

- Livestock agents, for the seller, are responsible for moving purchased stock to the buyer's transport. This is a generally understood condition when a buyer bids for an agent's lot. If an agent relies on a third party such as a local council operator for this, the agent should pay those charges.

Weighing livestock at saleyards. At saleyards, animal live weight is estimated by visual assessment before the auction. Some feel that pre-sale weighing of livestock on arrival might assist whilst others believe the risk to buyers is higher due to variability of factors such as time off feed/water before yarding – even with curfews.

AMIC members have indicated a preference for trades to be based on accurate post-sale weighing of lots won in saleyard bidding rather than pre-sale weighing. In 2008 AMIC wrote to the Victorian Department of Primary Industries requesting removal of pre-sale weighing from the Liveweight Selling Code of Practice for Cattle in Victoria then under revision. AMIC has had little or no engagement on this matter since then.

Pre-sale weighing is still recognised by the Australian Livestock and Property Agent Association in its Livestock Auction Terms and Conditions of Sale and occurs at some sales in Victoria as an operating decision by saleyard management. Ultimately, each buyer of livestock will make a commercial decision on whether weighing arrangements will influence their attendance at a particular auction and their pricing of bids.

4. Processing sector – increasing competitiveness and productivity

No industry in Australia can stay the same and expect to flourish in either domestic or global markets. Sustaining the current Australian beef cattle herd and meat-sheep numbers depends on us holding consumer markets across the world against sharp competition from other red meat suppliers and from other meats and foods.

Australia now exports to over 100 countries and efforts are continuing to expand markets [Part 2]. Supplier competition in all world marketplaces is dynamic and strong. For instance, in 2005, with BSE issues worldwide, Australia delivered 85% of Japan's beef and veal imports. Across 2013 to 2015, Australia provided a lower 55-60% of Japan's imports with USA supply fast regrowing.[20] Competition can be even stronger in newer markets such as the Middle East, China and Asia, and emerging/developing markets including India, South Africa, Myanmar and Eastern Europe.

While Australian consumers continue to be the single largest market for our red meat, domestic meat-eating has changed from consumption peaks of 40-50 years ago and this trend is expected to continue with taste, diet and demographic shifts including population ageing. Red meat prices in Australia compared to alternative meats and food is a constant factor. Overall, consumption per adult has fallen but domestic intake is growing moderately with population increase.[21] Exporting is an important balance to this, by widening market options and increasing potential for supply chain participants to achieve the best return for their range of products.

Australia's red meat industry must be analysed in this global context. While local consumption is an important base, expansion of exports will be the foundation for Australian herd rebuilding and for improving returns on livestock production.

4.1 Issues impacting on competiveness

"Maintaining industry competitiveness is a critical challenge" for global trade, as this Senate Committee has identified.[22] In 2014, AMIC advised the Committee of "growing internal and external challenges placing increased pressure on … long-term ability to compete in an uncertain global marketplace". These challenges include employment costs, regulatory inefficiencies and cost of compliance, uncertainty for investment, access to international markets, and protecting biosecurity status.[23]

> The Australian economy remains a high cost environment to operate labour intensive manufacturing facilities and the meat industry is not immune. Our processing costs are twice those of our competitors in South America and the US.
>
> Despite these disadvantages the Australian red meat industry remains globally competitive because of a comparative advantage in the production of red meat that draws heavily on our expansive pastoral lands, our premier health and hygiene status around the world and the whole of life

[20] ABARE/ABARES *Australian Commodities* 2011/ 2015. MLA, *Australian cattle industry projections 2015*.

[21] MLA, *Market Snapshot Australia,* May 2015

[22] The Senate, Rural and Regional Affairs and Transport References Committee, Report: *Industry structures and systems governing levies on grass-fed cattle*, 2014, p28, quoting Meat and Livestock Australia submission 154.

[23] Australian Meat Industry Council, *Submission on Industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector*, Nov 2014.

> traceability systems that exist in Australia that few global competitors can match. In addition the quality, variety and shelf-life of Australian product is the envy of many. … …
>
> The quest to lower costs has also encouraged the adoption of the latest technology in our processing facilities. Together with the entrepreneurial skills and professionalism of our export sector and their ability to provide a consistent customised product year round to over 100 countries, it still sees Australia as one of the world's market leaders in red meat exports, despite our high cost environment. This position has not been achieved without significant sacrifice, considerable cost and ongoing rationalisation of plant and equipment over the last 3 decades.
>
> As a high volume, low margin business however, driving down costs has always been essential to sustainability. A small difference in operating costs over a full year of high volume production can be crippling to the bottom line. The red meat processing sector continues to face significant pressure in maintaining its productive base in Australia. *AMIC submission 2014*

To assist this Committee in its 2015 review, Parts 4 and 5 of this submission include expansions on major issues facing the Australian red meat supply chain in competing in world marketplaces, including locally. Key issues, grouped as sets, include:[24]

- **Market access and investment to develop markets**. Market access and integrity issues have a major influence on the international competitiveness of Australian meat products even with Australia's rare position as a supplier-country free from major diseases particularly bovine spongiform encephalopathy (BSE) and foot and mouth disease.

  This helped lift Australian export trade, and the industry, to new highs in the mid-2000s, and is assisting with access to China and the Middle East. However, volume, quota and tariff barriers set by some nations hold back Australian red meat sales, as do technical barriers such as detailed export plant accreditation, product shelf-life restrictions and labelling issues. Aspects of this ongoing challenge are considered in Part 5.

- **Costs in Australia**. The Australian red meat industry has significantly higher on-farm and off-farm costs of production than its major competitors in North and South America as well as higher processing costs and costs of compliance than many countries (as for all industries in Australia reflecting mainly workforce payments in an advanced economy).

  The USA, notably, has a stratified worker economy and much lower costs for general and farm workforces. Recent MLA and AMIC estimates indicate that Australian industry has labour costs two times the average US wage, diesel costs 30-35% higher and shipping costs to Japan some 48% higher. Problems with regulatory compliance costs and charges and with infrastructure investment are explained in Part 5.

- **Rate of productivity gain at all stages along the chain**. Productivity is a measure of how well operators combine inputs (costs) to produce output. It is an indicator of efficiency of processes. Productivity growth is the rate of improvement on previous productivity and is influenced by factors such as changes in enterprise size, technological discovery and rate of uptake of new technologies including funding for this, resource constraints, policy and regulatory settings, and market forces including competition for inputs. Productivity growth challenges are outlined further in this section 4.1.

[24] References: Senate Committee Grass-fed Cattle Levy inquiry report and submissions – MLA no. 154, AMIC no. 134; ABARE 2004, *Australian lamb*. ABARE 2009, *Australian Beef*; ABARE and BRS 2009, *Promoting productivity in the agriculture and food sector value chain: issues for R&D investment*; ABARE 2010, *Productivity growth: Trends, drivers and opportunities for broadacre and dairy industries*; ABARES Jackson and Vale, *Profitability and productivity in Australia's beef industry* in Australian Commodities 2015; Global benchmarking report for MLA, Behrendt and Weeks, 2014, *How are global and Australian beef and sheepmeat producers performing*?

- **Commercial innovation, investment and infrastructure**. Longer term, productivity growth is achieved mainly through technological progress, developing and applying new systems, and by lower performing operators leaving an industry (under competitive pressure via closure, merger or acquisition for size economics, and at times via formal industry structural adjustment programs) [Parts 4.2 and 5].

- **Industry attitudes to change for efficiency**. The Australian red meat processing sector has seen cycles of development reaching back a century and the modern sector has evolved greatly since the 1980s. This change, including levels of consolidation as occurs in mature industries worldwide, has increased global competitiveness and enabled the expansion of export markets that now underpins the industry. However, some in the industry still look back to the era of numerous local government abattoirs or town-butcheries thinking they 'did better back then'.[25] The reverse is the case [Part 4.2].

AMIC members are at the frontline of a sector working hard to maintain the best red meat processing system in the world and to continually hone its competiveness in global markets. Global marketplaces – both buyers and competitor suppliers – do not stand still, so ongoing productivity growth at all stages of the Australian red meat supply chain is vital to hold our position against other suppliers and food products.[26] For example, the US cattle herd is rebuilding strongly after difficult years in response to global price signals from 2014. US beef supply will lift from 2016 and will compete directly with Australia in key markets such as Japan.

Factors influencing productivity growth include plant size and economies of scale, and inventing or acquiring new technologies and systems. In Australian agricultural industries, ABARES noted in 2010 that longer term productivity growth has been secured through technological progress, developing and applying new systems, and by lower performing operators leaving (so raising the industry's base productivity).

Marketplace led consolidation along industry supply chains through closures, mergers or acquisitions is a key productivity growth mechanism. Also, in Australian agricultural sectors, formal government-industry structural adjustment programs implemented at key times to assist marginal producers to exit.

Farm sector productivity. In 2010, ABARE also recorded that Australian on-farm productivity growth had declined, in part because drought and cost-price squeezes were inhibiting investment particularly on-farm and in infrastructure development. Farmer reluctance to change their practices to improve productivity is also an issue. For instance, not using feedback to prepare livestock to specifications [Part 3].

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[25] Many of those plants were marginal operations economically, industrially and quality-wise. By the mid 1990s, the red meat industry had recognised the need for strong, consistent hygiene systems, branded and backed by agencies on the world stage. Numbers these plants could not comply and were holding the industry back. Company and regulator implementation of HACCP-based quality assurance (QA) in response to local and overseas demands and to competitively position Australian product was a key driver of structural change in the sector. In January 1997, as one example, the NSW Meat Industry Authority suspended 73 licences as a HACCP manual had not been submitted or had failed a desk audit. 39 licensees then prepared satisfactory manuals; 34 licences were cancelled, including some operating premises and licences not in use. *MIA Annual Report* 1997.

[26] ABARE 2010, *Productivity growth: Trends, drivers and opportunities for broadacre and dairy industries*; ABARE 2010, *Productivity growth: Trends, drivers and opportunities for broadacre and dairy industries*; ABARES 2015, *Profitability and productivity in Australia's beef industry in Australian Commodities*; Behrendt, Weeks 2014, *How are global and Australian beef and sheepmeat producers performing?* ABARES Australian Commodities 2011-2015.

Producer management was particularly identified as a problem in a 2013 study of northern Australian beef cattle enterprises reported at Beef 2015 in May this year.[27] Long-experienced farm business consultant Dr Phil Holmes and colleagues looked for factors separating the top 25% of producers from the rest. They assessed that only 20% of beef producers in northern Australia are economically sustainable, with 80% having low skills in finance and debt management, limited understanding of key profit drivers for their herds, and a poor attitude to adopting new technologies to increase the efficiency of their businesses and manage climate risks.

They see increasing herd performance and productivity as the big drivers of producer profitability and that reducing business operating costs would also lift net returns. Holmes concluded his presentation by observing that:

> If ever there was an opportunity to enter or expand in an industry, this is it. Where else can you have at least 80% of your competitors with little idea of how to run a business?
>
> …..especially knowing that if you get a few simple things right, it can be very, very profitable.

Processing sector change and productivity. The post-farm sector has taken a market-driven lead in lifting productivity and efficiency, and so competitiveness of Australian red meat in world and local markets. For the industry to be at the level of exports it is today, the processing sector has had to evolve significantly over the 1990s to 2015, driven by cost, productivity and investment return imperatives.

> "Unlike other manufacturing sectors in Australia, the meat processing sector has undergone enormous rationalisation and reform to remain globally competitive in today's complex international marketplace". *AMIC submission to Senate Committee 2014*

Processing has restructured markedly since the 1980s era of inefficient state-run abattoirs and town slaughterhouses, costly industrial disputes, retail dominance by small-scale butchers, and occasional stark quality or export problems [Part 4.2]. The 1980s structure of many local abattoirs and saleyards is of the past and will not return – just as the multitude of local and inefficient suburban dairies are gone.

[27] McLean, Counsell and Bush, *The Northern beef report 2013 for MLA;* Holmes, Beef 2015 presentation slides on their Northern Beef situation analysis and insights.

Having advanced in large steps from the 1990s, the Australian red meat processing sector is quite different today. Key development directions and features include:

- **This sector is mature with established businesses, high throughput and low margins demanding tight management on all fronts and judicious investment** in capital, systems, technologies, skill development, products and markets. Operating margins have always been narrow, about 1-3% in most years varying among plants.

  As far back as 1900, William Angliss first went to America and visited [a] plant in Chicago. He wrote … that he was impressed by the efficient livestock handling and the production approach … [they were] content to make one per cent margin on their huge turnover. This crystalized in Angliss' mind the high volume, low margin philosophy that became such an important business model for his company in Australia. *Industry historian 2015 referring to Lady Angliss' biography of Sir William Angliss 1959.*

- Processors, like producers, experience income cycles and some boom or bust years. 2014 was an unusual year due to a confluence of factors. Some plant returns may have reached 7-8%. In such better times, firms increase plant investment and build reserves for tighter periods. The cyclical squeeze on processors is seen, for instance, in these three statements from 2007 to 2015.

  Australian beef exports in total are forecast to fall by almost 8 per cent in 2007-08 to around 900,000 tonnes (shipped weight), largely because of lower Australian beef production. However, the total value [to Australia] of beef exports is forecast to be maintained at around $4.6 billion because of the higher saleyard prices of cattle. *ABARE australian commodities 9.2007*

  A significant appreciation of the Australian dollar since mid-2009 has weakened the competitiveness of Australian beef in the US market. In the first [seven] months of 2009-10, Australian beef exports fell year on year by 24% …. For 2009-10 as a whole, Australian beef exports to the [US] are forecast to fall by around 15%. *ABARE 3.2010*

  Australian adult cattle slaughter during 2015 is expected to decline 15% year-on-year … Beef production is expected to decline in 2015, largely the result of a dramatic reduction in slaughter … After breaking the Australian beef export record for the third consecutive year in 2014 … a significant [export] decline is projected for 2015 – dropping 19%. *MLA website 3.2015*

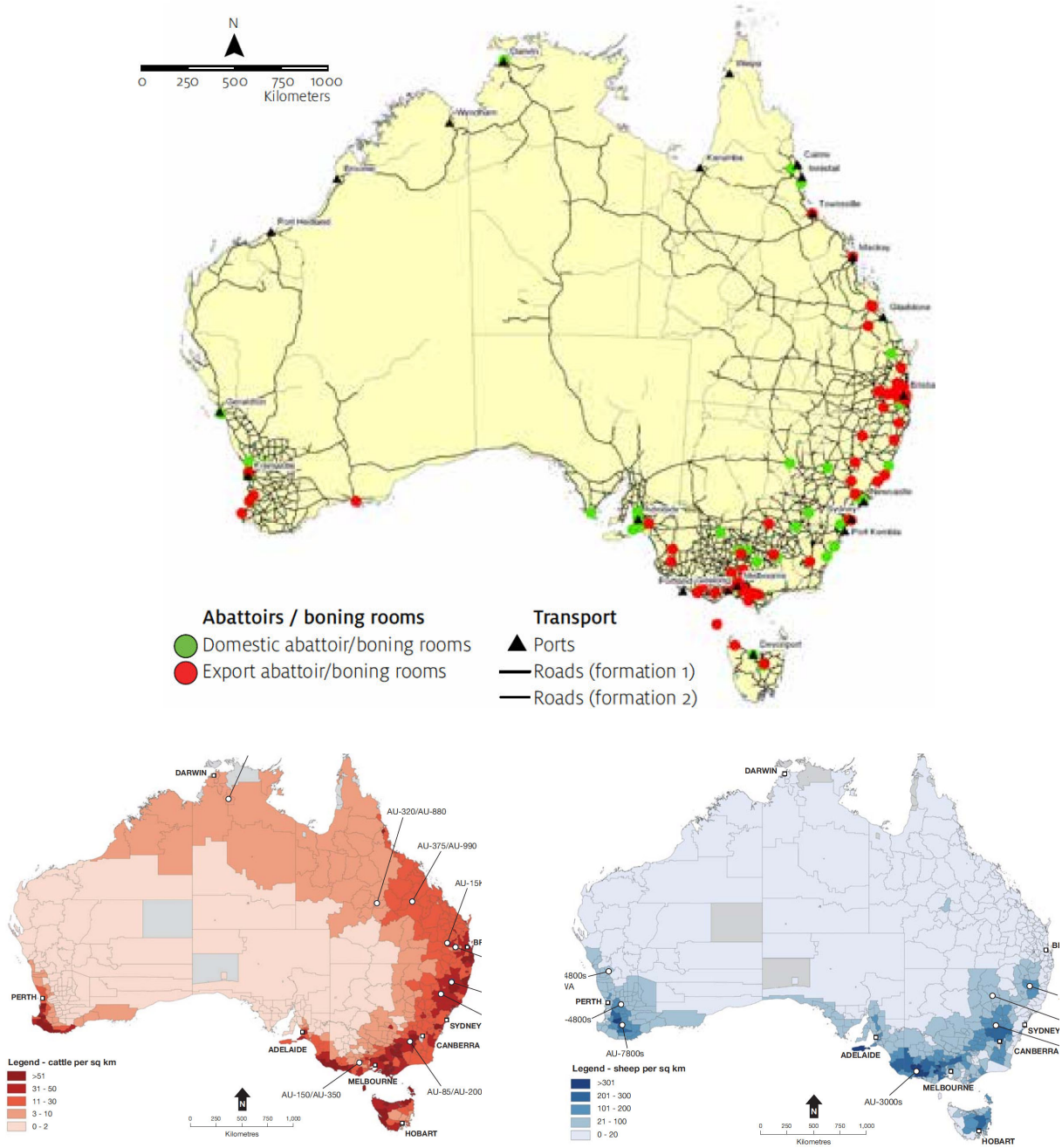
- **As in many mature agricultural, manufacturing and service industries around the world, there is a trend of processing firm aggregation as well as changes such as multiple shifts to lift economies of scale over fixed costs**. Larger, modern plants also assist to attract and keep a skilled workforce. In a recent overview of the Australian red meat processing sector, IbisWorld noted upgrades underway and saw further stages of consolidation and vertical integration among livestock producers, meat processors, wholesalers and retailers to build greater economies of scale in production and distribution and to lift competitiveness with the USA and Brazil.

- **Red meat processing establishments are located strategically across Australia** taking into account factors including workforce availability, water, environmental rules, distribution for export and domestic trade, and where livestock are grazing.

- Advances in livestock transportation enabling animals to be trucked up to say, 500km, have facilitated investment in economic-scale plants in more central locations, and the opening of selling and buying options. On-line auctions now provide opportunity to sell and buy for plants across the nation. The new AACo plant near Darwin, for instance, will source cattle from the NT, Queensland, WA and SA.

- Abattoirs, boning rooms, ports and major roads across Australia are shown in the 2012 ABARES map in Figure 12. The smaller maps illustrate the spread of cattle (orange) and sheep (blue) grazing properties.[28]

Figure 12. Distribution maps



[28] ABARES Gleeson, Martin, Mifsud 2012, *Northern Australian beef industry: Assessment of risks and Opportunities* (processing plant map). Behrendt & Weeks, 2014, *How are global and Australian beef and sheepmeat producers performing?* (cattle and sheep grazing maps, please disregard the pointer lines).

4.2. Sector consolidation, competitors and competition

The 25 years of rationalisation of red meat processing plants in Australia has had clear and positive effects on livestock prices due to economies of scale and higher operational productivity of plants, as well as improved carcase usage,[29] ongoing capital investment and widening of access to key international markets.

Over 90 lower-performing export abattoirs and many local abattoirs have closed since the 1980s as outlined below, with jumps in processing sector efficiency, productivity and economies-of-scale. Just some of these have been purchased by new owners who use their skills and investment to greatly reduce costs. [30]

- The 1990s saw major rationalisation, with closure of many local council plants in face of upgrade needs especially for meat hygiene systems but also for environmental issues. Plant numbers dropped across Australia. With the tight economics of meat processing, each year some plants, larger or small, failed. In 1999, the top 25 firms processed around 75% of beef product and 35% of sheepmeat output.
- By 2006, the top 25 firms with 49 plants processed 81% of beef and 55% of sheep-meat. The top five firms processed about 55% of total beef, up from 49% in 2004.
- In 2007-08, the top 25 processors operated plants at 51 locations. The five largest firms processed 45% of beef and sheepmeat, and the top 25 accounted for 79%. The largest ran four sites including Dinmore (7 days, 11 shifts), Beef City (5 days, single shift kill, double shift bone), Rockhampton (6 days, 1 shift), Townsville (7 days, 1 shift).
- Larger processing firms have acquired plants at various times since 2008 with key acquisitions reviewed by the ACCC as outlined below. Notably, 15 greenfield plants have been built since the 1980s. Even in the mature Australian red meat processing sector there are some new (or returning) operators entering through acquisition and plant upgrades as well as investments by companies seeking vertical integration.

In recent years, with competitive instincts raised by a year or so of more solid returns due to higher destocking throughput and stable world prices, a number of plans have been floated for building or expanding at particular locations. The Darwin AACo plant is open but experienced challenges along the way, and plant upgrades in NSW are operating. How well projects in planning stages do will be intriguing noting projections for a much harsher marketplace from 2015 and tighter processing margins.

> There was an announcement last week that FK Gardner & Sons had filed plans with the Toowoomba Regional Council for an $80 million beef and milk processing facility on the Eastern Darling Downs with operations planning to commence in 2017 processing up to 2,000 head per day in two shifts. Over the last six months there had been a number of media reports on plans for new processing facilities including at Emerald and Gladstone in Queensland; Bairnsdale in the Gippsland, Mildura in Victoria and Derby in WA. The new [AACo] facility at Darwin has opened as has the revamped processing facilities at Young in NSW (Hilltop Meats) along with the two AMG revamped facilities at Deniliquin in NSW and soon to be Dandenong in Victoria. *Industry newsletter summary April 2015*

[29] For each firm and facility, processing managers and their livestock buyers work and compete to ensure a stream of stock to maximise income. Parts of a single carcase including co-products (hides, offal, blood, pharmaceutical raw material, pet food and meat meal) go to a number of different markets, 10 to 15 is not unusual, each mix is specific to the plant and its capacities and its markets. These skilled efforts also increase returns along the chain.

[30] Data from: S. Martyn, *World on a Plate – A History of Meat Processing in Australia*, 2014; MLA *Top 25 Red Meat Processors*; *Top 25 Red Meat Value Adding Companies* survey reports 2006, 2007, 2008; Industry Annual Reports.

Irrespective of the ownership of particular facilities, advances to reduce processing costs and increase export demand have worked to hold livestock prices at higher levels than decades past and to reduce price volatility through drought times [Part 2].[31]

Certainly there is intense competition among red meat processing firms of all sizes and among plants across the country, as seen even in lists of different accreditations on the AUS-MEAT website for plants owned by one company. This competition is witnessed daily in active buying activity across all methods and locations.

The Senate Committee should also take account of red meat processing productivity and efficiency achievements that enabled plants to keep operating through difficult periods and to increase Australian red meat competitiveness. By lifting competitiveness, major markets have been held or expanded and new markets opened.

Ongoing productivity advance along the red meat supply chain is vital. Investment to lift productivity and secure economies of scale to better utilise money, workforces, technologies is occurring across manufacturing and service industries worldwide. As well as increasing competitiveness and capacity to serve customers, and employing many in cities and regions, productivity growth contributes generally to economies and communities by raising living standards and enabling action on disadvantage.[32]

With slow on-farm production productivity growth [5.1], for the processing sector and the industry, the challenge is to keep improving productivity and competitiveness.

Aggregation of firms is central to this, as in many business sectors.

> **Industry Commission 2004**. The major threats facing the [red meat] industry relate to competition from other meat producing countries. Some of our competitors, such as New Zealand, are lifting their productivity at a rapid rate. Others, such as a number of South American countries, will pose an even bigger competitive threat when they are granted foot and mouth disease free status.
>
> *Towards a new productive culture*: Like many other industries, the meat processing industry has been undergoing a transformation from an older 'production driven' system to a more contemporary 'customer driven' one. Instead of being a commodity producer, all levels in the industry are becoming more customer driven with a range of products and services tailored to specific markets. … But change has been painfully slow. To seize the opportunities now being presented, the industry must significantly accelerate the changes taking place.[33]
>
> **Productivity Commission Chairman 2012.** Not all firms in an industry [at a given time] are equally productive. Productivity can be raised in aggregate simply by better performers displacing poorer performers. The decline and exit of the weakest performers is thus an important mechanism for delivering aggregate productivity growth. Indeed, international studies attribute between one-fifth and one-half of (labour) productivity growth to such changes in industry composition… [enabling] more 'creative' (innovative and productive) use of the released labour and capital in other firms or industries.[34]

[31] "Volatility in cattle prices has decreased markedly in recent years, greatly reducing the price risk of being a participant in the industry." MLA, Matthews and Ryan, *The History of Cattle Prices since 1970*, March 2015.

[32] Productivity Commission Chair, Gary Banks, 2012, *Productivity policies: the 'to do' list*.

[33] Industry Commission, *Meat Processing Report* No. 38, April 1994. Noting numbers still of local public facilities, the Commission observed: "… because public ownership relieves firms of many of the disciplines of the private capital market, it may prevent the closure of uneconomic facilities and the rationalisation of others. While the problem appears to be diminishing with closure of public abattoirs, studies of the saleyard sector suggest the need for rationalisation, productivity improvement and innovation in livestock purchasing".

[34] Productivity Commission Chair, Gary Banks, 2012, *Productivity policies: the 'to do' list*. Referring to: Dolman and Gruen, 2012, *Productivity and Structural Change*, 41st Australian Conference of Economists.

Encouraging and facilitating open marketplace conduct, including levels of market-driven consolidation, is a key arm of competition policy and law in Australia and internationally. The Productivity Commission, for example, emphasises that industry structures to benefit industry participants and the economy are best determined by the marketplace. Recently, in relation to the dairy industry, the Commission warned:[35]

> [A]ttempts by governments to 'second guess' market outcomes to achieve a particular industry structure are fraught with difficulty and likely to impose net costs on the industry and the community more generally.

As a limit to marketplace extremes, and if needed, Australia has an established and tested set of policies, laws, regulations, regulators and courts that provide a framework of criteria for monitoring and test for taking action on potential anti-competitive conduct that may impact on the economy.

The Australian Competition and Consumer Commission applied such competition tests in 2007 when responding to the Minister for Agriculture's request for review of livestock prices and retail meat prices during 2006-2007.

The ACCC looked for any indicators of unusual changes in the relationship of saleyard and retail meat prices, and investigated "whether any particular seller, or groups of sellers, [was] able to unduly suppress the price of livestock and/or set domestic retail red meat prices without regard to competitors".[36] A number of extracts from this report are included here to assist the Committee in considering review approaches.

> ***From the ACCC overview.*** The ACCC urges caution when interpreting movements in the margin between saleyard and retail meat prices, particularly over short periods of time. This is primarily because short-term movements in margins do not necessarily mean that market conditions are moving in ways that are 'out of the ordinary' or caused by weaknesses in competition.

The ACCC also highlighted the effect of consumer trends over a period of time. On the evidence available that year, the ACCC saw three factors that worked against the view that large buyers or sellers were potentially exerting market power:

- Supply of red meat to consumers involves a long and complex supply chain so there is not necessarily a direct and immediate relationship between the price of the raw product (livestock) and the final good (packaged meat).

  > The cost of livestock is only one component of the total [of] providing fresh meat to consumers … it represents a relatively small proportion of the final price of packaged meat. … Movements in the margin between saleyard prices and retail prices for red meat may be caused by…changing costs [along the] chain ('finishing' on grain to meet quality specifications [to] slaughtering, processing, transporting, butchering and packaging) and increased value added at the retail end.

- The range of supply arrangements in place throughout the supply chain reduced the relevance of saleyard indicator prices, including direct purchasing by various export and other processors and by major retailers. The ACCC noted competition among livestock buyers for domestic and export supply. Large local retailers were only a moderate part of the market mix. Exports have since increased.

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[35] Chair Productivity Commission, Rod Simms, 2014, *The future of competition policy and its implications for Australian agriculture,* Australian Farm Institute Conference, November. Referring to: Productivity Commission, 2014, *Relative Costs of Doing Business In Australia: Dairy Product Manufacturing*, Research Report, pp2,8.

[36] ACCC, 2007, *Examination of the prices paid to farmers for livestock and the prices paid by Australian consumers for red meat*, A report to the Minister for Agriculture, Fisheries and Forestry, February.

> The ACCC estimates that in 2005–06, Woolworths and Coles bought 6.4 per cent and 5.6 per cent respectively of total beef production and 13.2 per cent and 11.5 per cent respectively of total lamb production. Together, Woolworths and Coles purchased only 12 per cent of total beef production and 24.7 per cent of total lamb production.

- And a reasonable degree of competition existed at both ends of the supply chain.

> The ACCC considers that saleyard prices for cattle and sheep are determined by a number of supply and demand factors. In both sectors international demand is a key influence on saleyard prices and may place a constraint on domestic stock, particularly high-quality stock. The quality of livestock sold through saleyards is also a key determinant of saleyard prices: the higher the quality of stock, the higher the price it can command in both export and domestic markets.
>
> In both the lamb and beef sectors, sales to international markets account for a large share of total meat production and even the largest retailers buy only a small proportion of total production. Under these conditions it seems unlikely that any one party would be able to suppress prices and/or impose onerous terms and conditions without producers altering their specifications to target alternative markets.[37]

Overall, on competition policy legal and economic tests, aggregation of firms in the red meat processing sector over past decades has not constricted competition.

Although some individuals or businesses involved buying or selling of livestock might feel there is less competition, or that some changes or types of behaviour seem anti-competitive, as the Committee would understand, proper and balanced analysis of a wide range of factors is needed, and this can be complex.

Under our competition law system, the Australian Competition and Consumer Commission (ACCC) is charged with reviewing mergers and acquisitions that look like they could substantially lessen competition, either on request of parties or by direct ACCC action. Since 2002, the ACCC has closely investigated and approved eight red meat processing sector changes as listed below with criteria considered and reasons as summarised in Appendix B.

The ACCC has posted informative assessment reports on its website for:

2002. Merger between Consolidated Meat Group and Teys Bros.

2005. Elders Ltd acquisition of EG Green & Sons Pty Ltd

2008. JBS Southern Australia Pty Ltd acquisition of Tasman Group Services Pty Ltd

2009. Metcash Trading Limited acquisition of Fresh Market Meats.

2010. ZM Australia Pty Ltd acquisition of Tatiara Meat Company Pty Ltd

2010. Swift Australia Pty Ltd acquisition of Rockdale Beef Pty Ltd

2011. Merger of Teys Bros (Holdings) Pty Limited and Cargill Beef Australia

2015. JBS USA Holdings Inc acquisition of Australian Consolidated Food Investments Pty Ltd (Primo Smallgoods)

These online reports explain and demonstrate the robust ACCC review process and how the ACCC determines whether competition is likely to be substantially lessened, or not. As anticipated by the ACCC, the plants involved in these acquisitions generally continue to operate at their locations, specialised and competing in their own ways, and buying livestock to suit their plant configurations and product markets.

[37] Extracts: ACCC, 2007, *Examination of the prices paid to farmers for livestock and the prices paid by Australian consumers for red meat*, A report to the Minister for Agriculture, Fisheries and Forestry.

On the question of consolidation or concentration effects, a look at industry or sector structures in competitor economies such as the USA can be useful, even while recognising that operational environments differ from country to country.

On the context of long-established and strong competition (anti-trust) policies and laws in the USA, the US meat packing industry offers indicators on workable levels of sector concentration and competition.

Of interest is data from the US *Cattle Buyers Weekly* on capacity and throughput of the largest processing firms, summarised in the table below. After the first four large companies, capacity drops quickly to medium entities. The table also shows capacity shifts within and among large firms due to acquisition (or sale) of whole facilities.

Since the 1990s, the four largest US meat groups have processed over 60% of sheep and lambs since the 1990s and around 80% of steers and heifers.

USA company and capacity rank in 2014	US processing capacity, head of cattle per day			
	2013	2012	2009	2006
1. Tyson Foods, Springdale, Ark	28,950	28,950	28,700	32,600
2. JBS USA, Greeley, Colo	27,125	28,850	28,600	15,850
3. Cargill Beef, Wichita, Kan	23,000	30,350	29,000	29,000
4. National Beef, Kansas City, Mo	12,000	14,000	14,000	14,800
5. American Foods Group, Alexandria, Minn	6,500	7,200	7,000	6,500
6. Greater Omaha Packing Co, Omaha, Neb	2,900	2,900	2,900	2,700
7. Nebraska Beef, Omaha, Neb	2,400	2,400	2,600	2,600
12. Creekstone Farms, Arkansas, Kan	1,350	1,300	1,200	1,200

In Australia, AMIC estimates that in recent years the four largest red meat processing companies have accounted for some 45-55% of livestock throughput (cattle and/or sheep) with variations year on year.

5. Addressing cost issues to lift returns along the supply chain

To hold, and ideally, raise returns at each stage of the red meat supply chain, Australia must keep and expand exports against international competition [Parts 2, 4].

> High operating costs and labour shortages are the biggest challenges facing Australian agriculture, industry leaders warned at the recent Australian's 'Global Food Forum'. Brent Eastwood, the Chief Executive of JBS Australia, suggested "processing costs (in Australia) for boxed beef were between 1½ to three times higher than in competing nations such as New Zealand, the US and Brazil.
>
> Labour costs remain massive. Utility costs and infrastructure costs along with red tape all added to cost and unfortunately in this sector the farmer ultimately takes the hit. The Australian industry needed to focus on higher productivity to overcome cost hurdles and 'clean green' branding for which consumers will pay higher prices. Processors were turning to imported labour to counter labour shortages with local people unwilling to pursue jobs in the meat processing industry despite the high wages. *Industry newsletter April 2015*

Although exporting nations compete on the quality and price of their meat outputs, competitor countries have different advantages and costs. In Australia, while larger processing plants tend to have the lowest average costs, even with some aggregation, Australia does not have plants of the economies of scale, levels of integration and of concentration as in major competitor nations, the USA and Brazil.

In a submission to this Committee's Grass-fed Cattle Levies review in 2014, one producer estimated that Australian producers received 26.5% of the domestic retail price for a kilo of MSA steer beef in December 2013 (a drought period). He referred to a report suggesting US producers received 49.4% of beef meat prices over 2010-2012.[38]

AMIC considers there is no sound basis for this comparison for multiple reasons and is concerned that the Senate Committee seemed to rely on these numbers, rather than, say, the ACCC's detailed examination of factors behind domestic meat prices in 2007.

AMIC stresses that Australian and US meat processing operations are not the same. Perhaps similar in culture, Australia and the USA have different workplace and social economics. For instance, there is a large, lower paid workforce in the USA (and other competing countries) as highlighted in an OECD report just released.[39]

Processors are also aware of US processing and distribution costs being about half those in Australia although US animal production costs with grain feed are higher. Shipping to Asia costs less from Australia, but transport in Australia is a high cost.

With Australia's higher workforce and transport costs offset in part by its lower-cost pastoral production system, Australian red meat can be sold at prices that compete overseas. Without extensive grass grazing as a natural competitive advantage, the viable Australian red meat livestock sector would be much smaller. However, with different cost structures, it follows that producers in Australia will generally receive lower proportions of the 'steak dollar' than livestock sellers in the USA.

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[38] Senate Committee, *Inquiry into Industry Structures and Systems Governing Levies on Grass-fed Cattle*, report Sept 2014; JB Carpenter submission no.5 referring to a paper by Schnef, 2013, USA Farm-to-Food Price Dynamics.

[39] Australian has the highest minimum wage after tax of 26 OECD countries. This flows to skilled wages. New Zealand is 7th and USA is 11th at about 65% of Australia. OECD Report, *Minimum wages after the crisis*, May 2015.

Australian red meat industry consolidation is expected to continue as larger operators acquire smaller operations in processing, in production enterprises and all between. Greater integration of meat production, processing and retailing is also expected as consumers increasingly demand tracking of their food from paddock to plate [Part 4].

However, even with such productivity trends, there is an ongoing need to address inefficient procedures, regulations and other costs along the supply chain so our red meat industry keeps up with competitor streamlining and innovation.

> Australia's farm sector must respond to new market pressures including supply chain inefficiencies and investment needs at home. 71% of the world's 75% rise in food demand by 2050 will come from Asia and almost half from China. At the same time new generation meat exporters such as India and Brazil will provide serious global competition to the opportunity being offered to Australia. Access is not a foregone conclusion.
>
> Realising the potential will require significant capital investment to lift productivity to remain competitive in growing markets and to overcome the limitation from aging public infrastructure, capacity constraints and the fact that the sector is still subject to major weather-driven fluctuations making it a difficult investment environment. ABARE predicts that productivity will define the future success of the Australian red meat sector. *AMIC input to the Agricultural Competitiveness White Paper, 2014.*

In short, our industry needs to be at the forefront of using new technologies including adopting tests and data for quality control, and similarly in workforce efficiencies.

Any type of sustained cost-reducing change should increase returns to livestock producers. With open livestock and meat product marketplaces, the benefits from advances (or equally costs from inefficiencies) flow to businesses up and down the supply chain via transaction prices at each stage.

Conversely, raising processor costs (such as by more regulation of selling systems) will, over time, reduce prices received by producers for their livestock as processor buyers working to customer limits will have less funds to pay for livestock purchase.

AMIC has made many submissions to governments on costs on the industry and has been actively involved in working groups but cost reduction is far less than needed.

For this Senate Committee inquiry, AMIC puts forward two key issue areas for cost-reducing advances.

i. Government policies, regulations and charges add costs to red meat processing in Australia. Although there have been attempts at review and reform in some areas, new and concerted action to address costs is crucial.

ii. Successive governments have not invested in productive infrastructure. This impacts on the ability of both processors and producers working to reduce unit costs of production, processing, and distribution.

The AMIC asks the Committee to consider these matters under the Terms of Reference as directly relating to prices being received by livestock producers.

5.1. Government regulations and charges affect livestock prices

Red meat supply chain enterprise in the processing sector, and livestock producers, are subject to a wide range of costs and charges arising from Government regulation. Employment rules and meat inspection regulation are at the fore.

The AMIC cautions governments on the burden of these costs. They impact on competitiveness in local and global markets and on returns essential to the viability of enterprises along the supply chain. Many of these businesses are in regional areas.

Governments must avoid, as a priority, contributing to cost increases, and should genuinely question the cost of any regulation. Politicians, committees and agencies should be conscious of flow-on effects of over-regulating successful export industries.

5.1.1. Employment and imported worker reforms. Multiple overhead costs make Australia's employment system expensive. Problematic overheads include payroll tax, worker compensation insurance levels across the sector, and different types of leave workers can take on full or part pay. Industrial facilities are trying to operate with many on their workforce absent for 6-8 weeks a year (holiday, sick, personal leave).

AMIC recognises these are elements of the expected Australian employment package but calls again for close review of these conditions and how they can be negotiated to increase efficiency, productivity and plant viability, site-by-site. Rising employment costs without productivity offsets decreases the viability of running a low margin meat processing business in regional Australia. Further issues include:

- **Flexible working and multi-skilling**. Flexibility is important in all types of manufacturing plants. After decades of attempted reform, Australian industries trying to succeed under global competitive pressures are still burdened by Australia's outdated industrial rules and demarcations on types of work.
- **Training rules**. The processing sector has developed employment and operational practices based on developing the capacities of 'unskilled' workforce entrants ie. useful up-skilling through paid work. Meat plants generally provide on the job training but the costs associated with doing so are increasing under regulation.
- **Workforce capacity and skilled migrants**. Even with comparatively generous employment conditions, recruiting suitable workers is a major challenge, including in regions of high unemployment where locals do not seem prepared to enter into industrial work. The Meat Industry Labour Agreement (MILA) finalised in 2012 includes a number of provisions relating to temporary skilled migration workers (including English proficiency requirements, skills to be a 'skilled meat worker', and conversion to permanent residency). These continue to limit the use of the imported workers on which many red meat processing facilities now depend for operation and efficiency.

  If access to these workers is curtailed or made cost prohibitive, closure of some plants could be expected with job losses for Australian workers as well. In other facilities, costs would increase and this would flow back to prices that can be paid for livestock.

5.1.2. Implementing compliance systems – NVD, NLIS. Processors are incurring costs associated with ensuring compliance with industry-agreed systems that should be the responsibility of all along the supply chain. These costs affect prices paid for livestock.

In the experience of many processors, producer compliance and accuracy in filling in National Vendor Declaration (NVDs) is still low long since the system commenced.[40] Processors cannot slaughter livestock or obtain a health certificate unless the producer NVD is accurate. Agents and processors spend resources ensuring NVDs are correct via verification, audits and contacting producers to obtain documents. Non-completion risk is higher through saleyards and such uncertainty affects saleyard pricing. There are also errors in transcribing NVDs into saleyard software for catalogues. Industry studies into an electronic NVD system have identified potential savings of some $5.8m p.a by removing costs associated with reprocessing of NVDs at saleyards, feedlots and abattoirs.[41]

Producer non-compliance with National Livestock Identification System (NLIS) tagging or transfer requirements for the database also causes delays and requires more resources to correct than if the producer had followed the regulated requirements. After initial efforts to implement and educate on NLIS, State governments appear to not have effective systems to enforce correct completion of NVDs and NLIS tagging. It is too often left to processors to carry correction costs and to push compliance.

5.1.3. New regulatory costs, such as price reporting. Legislation and regulations that affect marketplace operations and commercial decisions add to costs. Federal and State governments have committed to reducing regulation and to ensuring envisaged benefits of rules clearly outweigh costs and impacts on businesses. Recommendation 7 of this Senate Committee's report in 2014 raises the proposition of, after review, "introducing legislation similar to that of the [USA] Packers and Stockyards Act 1921 and Livestock Mandatory Price Reporting Act 1999".[42]

AMIC is opposed to new regulated reporting but will participate in any studies on making better use of existing information. AMIC's major concerns in outline, are:

- Australian livestock producers have internet and media access to many market and price tools. MLA and agents provide multiple reports online. These could need to be made more accessible. Additional mandatory reporting will add costs to buying for meat processing. These costs will flow back to reduce livestock prices.
- The USA supply chain operates differently to Australia's but a clear effect of legislated price reporting has been to take trading to a lower common level and to remove potential higher producer returns for premium livestock delivered to specifications. Producers are discouraged from striving for higher performance.
- Processors are also discouraged from product development to serve customers.

[40] After a period of agency implementation, processors had to act on missing paperwork. For instance, in August 2001, Fletcher International WA announced they would no longer buy sheep without NVDs [FarmWeekly website]. Over the years, AMIC has written a number of times to agencies on NVD non-compliance. In 2014, processors such as Thomas Foods and JBS again needed to contact producer suppliers stating that livestock "must be accompanied by an accurate and fully completed 2013 Edition National Vendor Declaration (NVD)".

[41] MLA Research Reports 2012- 2014. Development of a fully integrated electronic national vendor declaration (eNVD).

[42] The Senate, Rural and Regional Affairs and Transport References Committee, *Report: Industry structures and systems governing levies on grass-fed cattle*, September 2014, page 86, also pp73-76.

5.1.4. Costs of compliance with inspection regulation and government charges. The red meat processing sector has been in debate with the Commonwealth and State governments on plant registration and meat inspection costs for many decades.

Australia's strong meat hygiene system is pivotal to meat marketing and sales particularly in overseas markets less familiar with our high local standards, but this does not make the hygiene and inspection systems immune from scrutiny.

At the Federal level, Department of Agriculture (AQIS) charges to red meat processors for export meat inspection and certification now exceed $80-$85 million a year. In addition, some inspection functions have been transferred slowly back to processor management and these cost processors another $35-$40m a year to run. Further procedural changes to make savings and reduce government charges will free up money that can be used plant investments through to livestock purchasing.

AMIC, on behalf of processor members, has raised these issues with the Federal government through direct meetings and many reviews. The latest was the AMIC submission to the Agricultural Competiveness White Paper process in April 2014. AMIC provided a comprehensive position statement on meat inspection costs.

For the information of this Senate Committee concerned about costs in processing and prices paid to producers, key points from that submission include, in summary:

- In 2011, AMIC for processors, entered into an agreement with the Federal Government for the delivery of the new Australian Export Meat Inspection Service (AEMIS). However, implementation of AEMIS is not meeting expectations – and it was always intended as just the start of a drive for new efficiencies.
- In 2013, the Federal Department of Agriculture (DA) enacted 100% cost recovery for AQIS export certification charges (from 60%). This has impacted significantly on the sector and is affecting viability of export processing in some meat plants.
- The need now is to continue the reform process with the goal of removing cost while heightening inspection standards, to the benefit of the full red meat supply chain. Every processor in Australia is paying more than ever before for DA Export Certification while trying to compete in world marketplaces against countries such as the US and Brazil where exporters are not charged for government certification.
- AMIC has economic and legal studies to support the AMIC position that the export certification steps carried out by the Federal government, including on-plant inspection, is a 'legitimate cost of government' founded on its wider benefit to the Australian economy and community (as in countries such as the US and Brazil).
- That there is a public benefit behind Australia's export control and certification laws and monopoly government inspection was made clear by the Productivity Commission in its 2001 inquiry report on *Cost Recovery by Government Agencies*.[43]

[43] The Red Meat Advisory Committee (RMAC) provided a full submission that with principles for review of charging practise and pointed out that the National Competition Policy review process in 2000 had retained the Federal export control legislation and regulations only because a public benefit in government action had been shown.

- The Commission's 2001 recommendations plus industry interactions led to the Minister providing for a public benefit allowance in AQIS charges, reducing industry payment to 60% of AQIS costs (40% paid by government for the community).[44] [45]
- *A new single certification system*. Australian governments should be working to provide market access at the lowest possible cost. The AQIS/DA partial-change approach through the Australian Export Meat Inspection System (AEMIS) has not delivered even the savings and efficiencies forecast. The current $80-$85m annual charge to processors will continue to rise, impacting on the whole supply chain.
- AMIC is asking for genuine political and agency commitment to a new single Australian Certification System with a greater role for processors who are always responsible for all aspects of the operation and output of their plants. The new system needs to be structured to encourage new efficiencies and strong food safety outcomes, and to reduce costs with savings flowing into the chain.
- A single national certification system has been a theoretical objective since the government response to recommendations of report of the National Competition Policy review on export control legislation about 15 years ago. There have been some attempts to achieve a single system including AEMIS. These comments from industry papers and participants are included to assist Committee understanding of the challenge of change and issues in achieving real cost reductions:

  • The promised savings from the Department of Agriculture's AEMIS reform program have not eventuated and charges for the Commonwealth Department of Agriculture functions have increased. Departmental budget papers indicate overheads for the inspection and certification program have risen disproportionally even though the number of Department field staff in the meat program has reduced significantly.

  • The nationally agreed Australian Standard (AS) is the formal technical and regulatory platform for the safety of meat eaten by Australians and sold to the world. However, there are indications the Department sees its Export Control (Meat and Meat Product) Orders regime as the premier regulatory system. Whole blocks of rules need to be critically questioned and removed, even those as long-standing as the Export Meat Orders. Lateral thinking and big steps are often needed to unhook entrenched issues.

  • Direct government costs include registration fees, through-put fees, costs of vets and inspectors and audits and certification fees. Inspection and verification procedures are very slow to change and at times are used to promote demarcation disputes between systems from the Department and from state regulators. There is also much duplication between regulator and commercial audits and between commercial audits which add to the costs. For example some states don't accept Department of Agriculture audits and Coles don't accept Woolworths food safety audits and vice versa.

  • Opportunities are lost. … government inspectors have refused to co-operate with sampling of pathology it seems for fear of having meat inspection procedures changed. They have also traditionally refused to get involved in animal health … a Sheep Health Monitoring program is being run using external inspectors to inspect the same offal and carcases as has already done by government inspectors.

[44] The Commission found deficiencies with cost recovery arrangements across many Federal agencies, including that they 'generally lack the attributes of good policy', most were 'ad hoc, lack transparency and have poor accountability and review mechanisms', many aspects were 'inconsistent with sound economic principles', and there was potential to reduce competition and innovation. *Cost Recovery by Government Agencies*, Report 2001.

[45] Minister for Agriculture, Fisheries and Forestry, *Coalition Slashes Export Charges* 2 Nov 2001. AQIS cost recovery was introduced in 1979 at 50%, 60% from 1988, 100% from 1991 returning to 60% in August 2001.

5.2. Investment in infrastructure to reduce costs and lift returns

> The red meat processing sector is facing unparalleled pressure in maintaining its productive base in Australia. We are seeing wage increases without productivity offsets, processing costs that are now twice that of our major competitors in South America and the United States, increasing government charges, increased energy costs, a carbon tax that continues to act as a tax on economies of scale, poor trade and market access outcomes and inadequate transport infrastructure to meet the future efficiency needs of this global competitor. *AMIC submission for the Agricultural Competitiveness White Paper 2014*

Australia's transport infrastructure directly limits the productivity of both livestock enterprise and red meat processors. Election of a new Federal Government in 2013 raised expectations for effective reform in critical areas of infrastructure investment and in regulation red-tape and cost reduction.

AMIC and processors and producers across Australia were heartened by the Prime Minister's announcement on 8 May 2015 of a budgeted $100 million Northern Australia Beef Roads Fund. This would be a start to addressing issues identified in infrastructure audits. The Prime Minister noted that "land transport costs in the northern beef industry comprise up to 35% of the market price for livestock".

AMIC also welcomes the Government's release of formal Infrastructure Audit reports and plans to systematically improve infrastructure in cities and regions based on technical analysis of current facilities and bottlenecks and investment in key areas to optimise returns to communities and the economy.[46]

> The [Northern Roads] Fund will rely on the CSIRO's state-of-the-art logistics modelling, which for the first time looks at the whole of the cattle supply chain – every farm, road, stopover, port and processing facility in the country. … targeted upgrades that improve one road 'link' can strengthen the entire supply chain.

AMIC reiterates its inputs to reviews in 2014, that Australia must re-engage in the reform task if we are to meet our rising national freight challenge. Freight movements are expected is set to double by 2030 and nearly triple by 2050. As a trade-exposed industry, it is essential that freight is moved as efficiently as possible.

The major transport constraints and costs can only be addressed by such capital investment by State and Federal governments, on roads, rail, container terminals and intermodal facilities. Government policies such as the maximum road weight limits in New South Wales also need constructive and practical review.

Road weight limits significantly impact a high mass density product like red meat. Forty foot refrigerated containers are now the mainstream of the international container transport system but loading a 40 foot container fully with frozen meat for export exceeds most road weight limits. Compliance means inefficient truck and container utilisation and added costs. New heavy weight corridors are needed from all export plants for fully laden 40 foot containers for all export plants.

[46] Prime Minister media statements: 8 May 2015 *New $100 million Northern Australia Beef Roads Fund*; 8 May 2015 *Audit assesses Northern Australia's infrastructure*; 22 May 2015 *First National Infrastructure Audit released*.

Appendix A. Guidance on cattle selling pathways

Part 3.1 discusses the wider range of selling pathways now available to livestock producers across Australia and summarises advice on options developed for sheep producers. For cattle sellers, the MLA website and the FutureBeef website for northern producers provide useful summaries seeling options for producers also taking into account buyer needs and that costs for buyers will be reflected in prices.[47]

Extracts from MLA and FutureBeef websites May 2015	**Advantages**	**Disadvantages**
Paddock sales. Stock are inspected on the vendor's property by the buyer and are sold straight out of the paddock. Price is generally negotiated on a dollars per head ($/hd) or cents per kg liveweight (c/kg) basis.	• Minimal selling costs. • Minimal transport & handling • Buyers know in advance the number and type of stock to be delivered.	• Limited competition and carcase feedback. • Inefficient for buyers if small numbers are to be sold. • Potential difficulties in agreeing on weights (eg. unregistered scales, non-defined curfews).
Saleyard Auction. Livestock are transported to central yards and sold to the highest bidder. Prices reflect supply and demand in the market on the day. Larger saleyards have scales and sell on liveweight with a curfew. Cattle have to be there by a set time before the sale or are sold on $/head. **Meat Standards Australia MSA eligible sales.** Cattle can only be sold through MSA licensed saleyards or livestock exchanges. Producers and agents must be registered.	• Wide competition, open accessibility • All stock types and lots of any size can be sold • Vendors can set a reserve price and can compare quality and price • Payment is guaranteed by the agents.	• Transport costs, saleyard dues, weighing fees and commission must be paid. • No negotiation between buyers and vendors. • Limited feedback, no carcase feedback. • Vendor generally accepts the price on the day because of costs incurred whether or not the cattle are sold. • Animal performance or meat quality can be reduced by stress due to transport, handling and time off feed.
'Over the hook' direct sales. Livestock are delivered straight to the abattoir. Stock may be sold with or without an agent. Change of ownership takes place at the abattoir scales. The terms of sale will vary between different abattoirs. Generally transport to the abattoir and the transaction levy are paid by the vendor.[48]	• Subjective appearance values do not affect price received • Price grids available from multiple processors and prices can be negotiated. • Producers get clear market and price signals relating to carcase quality and feedback. • Minimal transport and handling costs and possibly no commission costs.	• Less competition unless selling using AuctionsPlus. • Abattoirs will set differing conditions regarding carcase trim, hot or cold weight and feedback (although if AUS-MEAT-accredited they use set criteria). *… continued*

[47] MLA website 'Selling Options'; FutureBeef website (a collaboration of Departments of Agriculture and MLA).

[48] From Future Beef. Sellers are not paid for condemned carcases or bruise trim. The actual carcase weight measured at the abattoir can vary depending on the carcase trim used, and whether it is a hot or cold weight. Initially, the carcase is weighed at the end of the chain while it is still 'hot'. If the abattoir trades on cold weight, around 3% is deducted from the hot carcase weight to provide the cold weight. The actual deduction for the shrinkage varies from 2-4% to account for the water weight loss during cooling in the abattoir. A list of AUS-MEAT accredited abattoirs is available from AUS-MEAT.

Extracts from MLA and FutureBeef websites May 2015	**Advantages**	**Disadvantages**
AuctionsPlus (formerly CALM) Cattle sales are held weekly and bids can be taken through a preferred agent or home computer nationally. The sale is on farm. Stock are assessed prior to sale by an accredited AuctionsPlus assessor (paid by the seller). Buyers can be located anywhere, purchases are delivered from the farm to buyer plant, feedlot or farm.[49]	• Competition and exposure is nationwide • Vendor can set a reserve price • Payment is guaranteed • Suits geographically isolated producers, can be used anywhere, for any numbers • Buyer pays for transport • Feedback to producers for c/kg and grid sales • Minimal cattle transport and handling damage.	• Buyers have to adjust to using a computer and to not viewing live animals. • Vendors and buyers need to have confidence in the AuctionsPlus assessors for accurate stock description.
Forward contracts. Agreement between a producer and a processor for the producer to supply a given product at a given time for a given price. The contract includes details of: number, age, sex, breed type, weight range and fat range of the contract cattle; the fortnight to be delivered; and pricing arrangements.	• Guaranteed price eliminates the risk of price fluctuations • Producer can plan purchase of store cattle and feed. • Producer can implement feeding and grazing management strategies. • Guaranteed return can assist in negotiating loans and managing finances. • Processors can communicate their precise requirements to producers and agents. • Processors can guarantee continuity of supply and maintain the reputation and integrity of product brands.	• Producer needs to have a high degree of control over the production system, supplying the specified product at the specified time (unforeseen circumstances may make this difficult). • If the cattle cannot be supplied as specified in the contract, the producer is required to supply the shortfall with an equal number of animals from an alternative source within seven days of notification.
Alliances. An alliance brings together individuals involved in the beef supply chain from breeder to customer. Aim is to improve returns to all parties usually by supplying a high quality, consistent, product to consumer. For this to occur: product quality needs to be accurately assessed (chiller assessment/ yield); price paid needs to be directly related to quality (value-based marketing); feedback on price and quality must be communicated from consumer to producer.	• Price fluctuations are reduced • A consistent premium price can be achieved for a consistent premium product • Price reflects the retail value of the carcase. • Objective feedback from the consumer to the producer benefits breeding/selection decisions • Having a known outlet and likely returns provides security for the producer.	• Producer needs to have a high degree of control over the production system, supplying the specified product at the specified time (unforeseen circumstances may make this difficult). • Higher or lower prices elsewhere test loyalties.

[49] From FutureBeef. The Assessor enters a description of the cattle including photos into a computer-based catalogue. Potential buyers must register to view the catalogue. AuctionsPlus combines access to a wide range of buyers – while allowing direct consignment to the buyer. Livestock can be sold and bought on AuctionsPlus through a Livestock Agent. Cattle can be sold on the basis of $/hd, c/kg liveweight or c/kg carcase weight or on a grid. Transport costs are paid by the buyer and transit insurance is offered by AuctionsPlus.

Appendix B. ACCC reviews of mergers and acquisitions

Australian competition policy and law recognises mergers and acquisitions within a framework as important for the efficient functioning of the economy.[50] In its Merger Guidelines the ACCC explains:

> Mergers and acquisitions "allow firms to achieve efficiencies, such as economies of scale or scope, and diversify risk across a range of activities. They also provide a mechanism to replace the managers of underperforming firms.[51]

If a merger or acquisition could or looks like it could substantially lessen competition in a market, the parties are encouraged to seek an assessment from the ACCC.

If they proceed without review, the ACCC can later decide to investigate whether the merger contravenes the 'substantially lessen competition' test and if so is prohibited under the s50 of the *Competition and Consumer Act*. The factors the ACCC needs to consider [Act s50(3)], are based on a deal of knowledge developed in Australia and overseas on competition and competitive conduct. Factors to assess include the:

> (a) actual and potential level of import competition in the market
>
> (b) height of barriers to entry to the market
>
> (c) level of concentration in the market
>
> (d) degree of countervailing power in the market
>
> (e) likelihood that the acquisition would result in the acquirer being able to significantly and sustainably increase prices or profit margins … …
>
> (f) extent to which substitutes are available in the market or are likely to be available in the market
>
> (g) dynamic characteristics of the market, including growth, innovation and product differentiation
>
> (h) the likelihood that the acquisition would result in the removal from the market of a vigorous and effective competitor
>
> (i) the nature and extent of vertical integration in the market.

The ACCC publishes outlines of its assessments on its website, a number over the years have involved red meat processing.

AMIC considers the ACCC is taking a serious and robust approach to assessing questions of potential lessening of competition.

If the Senate Committee is looking to gauge lessening of competition, it should apply these established competitive effect tests.

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[50] This section includes substantial extracts from Australian Competition and Consumer Commission statements posted in the ACCC website Mergers register. registers.accc.gov.au/content/index.phtml/itemId/750991

[51] ACCC, 2008 and current, Merger Guidelines. "These revised guidelines outline the general principles underpinning the ACCC's merger analysis under s. 50 of the *Competition and Consumer Act* 2010 (the Act) formerly the *Trade Practices Act* 1974. Importantly, the approach taken in the revised ACCC guidelines is not radically different from the approach contained in the 1999 guidelines – the competition test is the same and analysis of the market and merger factors remains a vital element in merger assessment."

Summaries from the ACCC website register (quotes marked " … ")

August 2002. Merger between Consolidated Meat Group and Teys Bros.

"The Australian Competition and Consumer Commission has decided not to oppose a merger between Consolidated Meat Group and Teys Bros … [they] are both large meat processors. Between them they operate abattoirs for the slaughter of cattle and own related assets in Queensland and South Australia, with an emphasis on the processing of export beef.

"The ACCC consulted competing abattoirs and meat processors, and domestic buyers … Market participants indicated that the merger of CMG and Teys Bros was unlikely to lead to a reduction in competition in terms of the prices that producers were likely to receive for their cattle, or in terms of the processing and supply of processed meat for domestic consumption.

"The ACCC notes … closure of CMG's Lakes Creek plant at Rockhampton, reportedly due to unprofitable operations. Some market participants have expressed the view that the merger between CMG and Teys Bros may ensure the continued competitiveness of these companies in the Australian meat processing sector."

December 2005. Elders Ltd acquisition of EG Green & Sons Pty Ltd

Elders as a livestock agent was acquiring the EG Green company including the largest abattoir in Western Australia. The ACCC identified that this raised questions of vertical integration and competition. Both the agency and red meat processing markets were considered.

The ACCC decided not to oppose the proposed acquisition. On the "vertical nature of the proposed acquisition", the ACCC saw the threshold issue as whether EG Green "possessed market power in any cattle acquisition market, which could be used post-acquisition to require cattle farmers to use Elders as an agent if they wished to have their cattle processed at EG Green". The ACCC assessed that "in practice, this was potentially likely to occur during Spring and into Summer".

However, the ACCC was satisfied that EG Green was constrained from imposing such a requirement by the potential for farmers to respond by switching to other purchasers. In particular, EG Green faced competition from other abattoirs in the 'high, medium and low' and 'high' quality cattle acquisition markets. EG Green faced competition from live exporters in the 'low' quality cattle acquisition market'.

April 2008. JBS Southern Australia Pty Ltd acquisition of Tasman Group Services Pty Ltd

In a 27 day review, the ACCC considered relevant markets for the acquisition of fat cattle in Victoria, South Australia and New South Wales (south of Dubbo), possibly including Tasmania (the Fat Cattle Market) and the sale of processed beef in Australia (the Processed Beef Market).

The ACCC did not oppose the acquisition. "The ACCC considered that the proposed acquisition was unlikely to substantially lessen competition in the relevant markets. Factors informing this conclusion included:

- the geographical overlap between the merger parties was such that the number of fat cattle acquired by the merged entity in the relevant markets would likely increase by only a marginal amount;

- the availability of substitutes from other similar sized meat processors; and

- the ability for the major grocery chains to exercise countervailing power by way of their service kill arrangements."

July 2009. Metcash Trading Limited acquisition of Fresh Market Meats.

Metcash acquired Fresh Market Meats, a packaged meat supply business, which supplies meat products to independent grocery retailers in Western Australia. The ACCC investigated and took submissions. The review took 37 days and the acquisition was not opposed.

"The ACCC formed the view that the completed acquisition was unlikely to substantially lessen competition in the relevant markets. Factors informing this conclusion included:

- that there was no horizontal overlap between the merger parties;

- that there was limited vertical overlap between the merger parties; and

- barriers to entry and expansion appeared to be low."

February 2010. ZM Australia Pty Ltd acquisition of Tatiara Meat Company Pty Ltd

In this 40 day evaluation, the ACCC considered markets for both lamb and sheep and markets for lamb only in the acquisition market area of South Australia, New South Wales and Victoria and regarding the national market for the sale of processed meat. Not opposed.

The ACCC considered that the proposed acquisition was unlikely to result in a substantial lessening of competition irrespective of the market definition adopted. Factors informing this decision included:

- the presence of a number of competing businesses in the relevant markets; and

- that the proposed acquisition would result in a small aggregation of market share in each of the relevant markets.

September 2010. Swift Australia Pty Ltd acquisition of Rockdale Beef Pty Ltd

For this assessment, the ACCC posted a statement of issues in June 2010, took submissions and extended its inquiry. The ACCC released a 17 page Public Competition Assessment on 19 October 2010 because it considered the proposed acquisition raised "raises issues of interest for participants in the Australian beef industry and the public". This illustrated the ACCC process.

The ACCC decided that it would not intervene in Swift Australia Pty Ltd's proposed acquisition of Rockdale Beef Pty Ltd.

"After an extensive investigation and rigorous consultation with interested parties, the ACCC formed the view that the proposed acquisition would not result in a substantial lessening of competition in any market. A large number of parties were consulted in the ACCC's review, including cattle producers, feedlot operators, abattoir operators, supermarkets and other suppliers and buyers of meat products. … The ACCC carefully considered the competition effects of the proposed acquisition in a number of markets. … In making its decision, the ACCC considered that there will continue to be a number of competitors to Swift Australia Pty Ltd in both feedlots and abattoirs [and] that if the merged entity attempted to depress cattle prices to below competitive levels and/or impose onerous service terms and conditions, existing competitors would be able to attract business and win market share away from the merged entity."

July 2011. Merger of Teys Bros (Holdings) Pty Limited and Cargill Beef Australia

This review, involving 39 ACCC days, included a 14 page Public Competition Assessment in which the ACCC set out its reasons for not opposing the merger after which Teys would operate the current Teys and Cargill meat processing and feedlot businesses as a joint venture. The joint venture would be 50 per cent owned by Cargill and 50 per cent owned by Teys Investments PL.

The ACCC conducted extensive market inquiries interacting with a large number of industry participants at all levels of the beef supply chain including grass-fed cattle producers, competing feedlots and abattoirs, customers for processed beef products, saleyards and selling agents, industry associations and other representative bodies and grain market participants.

"The ACCC considered the proposed merger in the context of the following relevant markets:

a. markets for the acquisition of fat cattle in the northern NSW/southern Queensland region and the eastern South Australia, Victoria and southern/central NSW region;

b. the market for the supply of processed beef on Australia's eastern seaboard; and

c. markets for the acquisition of feeder cattle. For the purposes of the competition analysis, the ACCC did not consider it necessary to define the precise geographic scope of the markets for the acquisition of feeder cattle."

Identifying large numbers of competitive abattoirs and buyers in northern and southern regions, the ACCC "considered that the merged entity is unlikely to be able to depress prices for fat cattle in either the northern or southern markets post-merger for the following reasons:

a. there is limited geographic overlap between the merger parties and competition between them primarily occurs on a seasonal basis;

b. several competing abattoirs are likely to continue to constrain the merged entity;

c. existing capacity of abattoirs is largely under-utilised such that competing abattoirs would have the capacity to increase their production in response to an exercise of market power by the merged entity; and

d. cattle producers may bypass the merged entity by selling cattle at different locations or by switching production to other goods."

The ACCC found similarly in relation to Market for the supply of processed beef and Market(s) for the acquisition of feeder cattle, and that, overall, merger of the beef processing operations of Teys and Cargill would not be likely to result in a substantial lessening of competition in any relevant market in contravention of section 50 of the Act.

February 2015. JBS USA Holdings Inc acquisition of Australian Consolidated Food Investments Pty Ltd (Primo Smallgoods)

As the ACCC summarised, JBS USA Holdings Inc proposed to acquire Australian Consolidated Food Investments Pty Ltd, which trades as Primo Smallgoods. JBS is primarily a cattle and beef processor. Primo produces smallgoods under brand names including Primo and Hans and was the largest producer of ham, bacon and smallgoods in Australia and New Zealand. Primo operated an abattoir at Scone in NSW and Port Wakefield in SA. Primo has been has been majority owned by Singaporean-based equity fund manager Affinity Equity Partners since 2011 and was in difficulty.

The acquisition was not opposed. In 34 review days, the ACCC considered effects of the proposed acquisition in a regional market for buying fat cattle in northern NSW and southern Queensland. Although the merger parties were active in many other markets, in this market their activities overlapped enough to raise potential competition concerns for the ACCC.

"In considering the geographic dimension of the relevant market, the ACCC took account of market feedback suggesting cattle normally travel distances of up to around 600 kilometres from farm to abattoir. The ACCC also noted information that fat cattle buyers in the relevant market would sometimes acquire cattle from other geographic areas (such as northern or central Queensland). However, these purchases were a small proportion of their total purchases". Other products (such as feeder cattle, or other beasts) were not sufficiently substitutable to be part of the same market, either for suppliers or purchasers.

ACCC Competition analysis. 'Acquirers of fat cattle in the relevant market include abattoirs and acquirers of 'service kill' services. The latter businesses acquire cattle and engage abattoirs to kill and process those cattle for a fee (a service kill). Service kill customers include supermarket chains and other businesses selling a variety of processed beef products.

Within this regional market, JBS has an abattoir at Dinmore and Primo has an abattoir at Scone. Both of these abattoirs process fat cattle. JBS's Dinmore abattoir is over 500km from Scone, and there are seven abattoirs acquiring fat cattle located between the two. Five acquirers of fat cattle in the regional market (excluding JBS) have a larger capacity than Primo. Therefore the proposed acquisition did not appear likely to lead to a substantial increase in market concentration.

Sellers of fat cattle would continue to have several potential buyers available. The ACCC also noted there are other abattoirs in the market including JBS's Toowoomba abattoir, which are not significant acquirers of fat cattle.

The ACCC took account of market feedback that Primo had a price and non-price offer that was particularly attractive to some buyers. Concerns were raised that Primo's offer would no longer be available after the proposed acquisition. However, the ACCC did not find evidence that Primo systematically constrained the price or non-price offer of JBS. The ACCC considered that, if there were a market need for the offers Primo made (such as payment based on live cattle weight), there were sufficient competitors available to meet that need.

Concerns had also been raised that the proposed acquisition would remove an important provider of service kills. However, the ACCC considered that other abattoirs would be available to meet the market need if JBS reduced the amount of service kills conducted at Scone."

FIRB conditional approval. The proposed acquisition then progressed to the Foreign Investment Review Board. In March 2015, the Treasurer announced approval of the acquisition with agreed conditions including continuing the custom service killings provided by Primo at its processing plant in Scone and making reports to the Foreign Investment Review Board on its compliance every six months until otherwise advised by the FIRB.

The ACCC does actively oppose mergers and acquisitions outside the framework. Of contrasting interest is the matter of Baiada Poultry Pty Ltd acquisition of Bartter

Enterprises Pty Ltd. The companies requested an informal ACCC review and on 11 February 2009, the ACCC announced it would oppose the merger.

> "The ACCC conducted extensive inquiries, including with customers, competitors, and chicken growers. From this investigation, the information provided to the ACCC indicated that the three national chicken processors – Baiada, Bartter and Ingham – currently supply the vast majority of processed chicken to large volume buyers and are the closest competitors of each other.
>
> Fast food restaurants comprise a large group of customers that are heavily reliant upon the three national processors for the supply of high volumes of processed chicken meat. The ACCC concluded that the smaller processors face high barriers to expansion, and as such are unlikely to be capable of imposing an effective competitive constraint upon the merged entity.
>
> The merger would be likely to result in a substantial lessening of competition, with effects on prices for the fast food restaurants and their consumers."

In June 2009, after 154 days of review, the ACCC advised with detailed reasons that it would not further oppose the acquisition, after assurances from Baiada.

> "On 11 February 2009, the ACCC announced its decision to oppose the proposed acquisition. Baiada proffered an undertaking to address the ACCC's concerns about the impact that the proposed acquisition may have on the market for the wholesale supply of processed chicken meat.
>
> The undertaking aims to maintain competition through the creation or strengthening of an additional viable, stand alone, independent and long term competitor for the wholesale supply of processed chicken meat products to Quick Service Restaurants, particularly to customers with requirements for large volume purchases across multiple states of Australia."

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