

Chapter 3

Price Transparency (across the supply chain)

3.1 The committee has long advocated for increased price transparency and accountability mechanisms within Australia's red meat industry. The committee has argued consistently about the importance of price transparency as well as the need for information regarding profits and margins (along the supply chain) to be made available to producers.¹

3.2 Evidence gathered during this inquiry (and during previous red meat inquiries) has clearly pointed to the need for reform – particularly in relation to a mechanism of price discovery and the implementation of a price reporting system. In recent times, the industry has been trying to identify ways of increasing price transparency across the supply chain. It is noted, for example, that the grassfed cattle sector has been actively working to develop an Australian beef yield indicator and wholesale carcass 'cut-out' to provide more transparency and more price information back to producers.²

3.3 The committee's interim report again highlighted the need for price transparency throughout the supply chain. Submissions provided by various industry stakeholders argued that the pricing mechanism in Australia's cattle market currently lacks integrity – both at the saleyard and in over the hook (OTH) sales.³

Committee inquiry into industry structures and systems governing levies on grass-fed cattle

3.4 The committee's September 2014 report, *Industry structures and systems governing levies on grass-fed cattle*, noted evidence provided by a number of producers who pointed to the disproportionately small margin (of the end retail dollar) they receive for their cattle. There are a number of factors – including the diversity of product coming out of the farm gate, an increased focus on export markets, the consolidation of the processing sector and a perceived lack of genuine competition at stockyards – that make it difficult for producers to get clear information on the beef pricing system.⁴

1 Senate Rural and Regional Affairs and Transport References Committee, *Industry structures and systems governing levies on grass-fed cattle*, September 2014, p. 73.

2 Beef Central, *Beef yield indicator pursued amid price transparency debate*, 30 January 2017, [p. 1].

3 Cattle Council of Australia, *Submission 83* and Agforce Queensland, *Submission 85*, quoted in Senate Rural and Regional Affairs and Transport References Committee, *Effect of market consolidation on the red meat processing sector: Interim Report*, May 2016, p. 81.

4 Senate Rural and Regional Affairs and Transport References Committee, *Industry structures and systems governing levies on grass-fed cattle*, September 2014, p. 75.

3.5 Various methods for improving transparency were put to the committee – including same day payment to producers. It was suggested that a legislative mechanism which would require disclosure of the farm-to-wholesale as well as wholesale-to-retail prices could only bolster competitiveness in the livestock market. Supporters of price transparency also advocated for a system which establishes the true price of the cattle market, by requiring transparency in market reporting and which is underpinned by the prospect of investigation into anti-competitive behaviour. It is these types of changes to the system which, it was argued, have the potential to shift cattle producers from their current position as price-takers.⁵

3.6 The 2014 report highlighted both a lack of transparency in relation to cattle pricing and the need for a level market playing field. It also highlighted the lack of official data on the margins or differences between what a producer "receives for the sale of a beast to a processor, compared to sales at the processing and retail stages".⁶

3.7 A number of submitters to the grass-fed cattle inquiry argued that the development of a transparent pricing and trade practices system was one way to counter the industry's trend toward concentration and consolidation of the retail and processing sectors. It was also suggested that a close examination of legislation similar to the United States' Packers and Stockyard Act and the Livestock Mandatory Reporting Act was warranted.⁷

3.8 In tabling its 2014 report, the committee took into consideration the concerns raised by submitters and acknowledged the need to investigate mechanisms which could provide such transparency. The committee's report contained seven recommendations, including that: the Department of Agriculture, in consultation with the cattle industry, conduct an analysis of the pros, cons and costs of introducing legislation similar to that of the United States *Packers and Stockyard Act 1921* and *Livestock Mandatory Reporting Act 1999*.⁸

MLA's assessment of price transparency in the beef supply chain

3.9 Following the release of the committee's 2014 report (and its recommendations), the CCA requested that MLA undertake an in-depth study of supply chain price transparency. In addition to examining the issue of price transparency, MLA was also requested to identify possible options for increasing price transparency in the beef supply chain, "including the benefits and costs of introducing

5 Senate Rural and Regional Affairs and Transport References Committee, *Industry structures and systems governing levies on grass-fed cattle*, September 2014, p. 75.

6 Senate Rural and Regional Affairs and Transport References Committee, *Industry structures and systems governing levies on grass-fed cattle*, September 2014, p. 73.

7 Senate Rural and Regional Affairs and Transport References Committee, *Industry structures and systems governing levies on grass-fed cattle*, September 2014, pp 73-74.

8 Senate Rural and Regional Affairs and Transport References Committee, *Industry structures and systems governing levies on grass-fed cattle*, September 2014, p. 86.

mandatory price reporting arrangements in Australia, similar to those operating in the United States".⁹

3.10 MLA engaged consultancy firm AgInfo to undertake the study, which was allocated the Project Code G.POL.1503. The aim of the study was to assess whether there is a lack of price transparency in the beef supply chain and, if so, identify specific points in the supply chain where greater price transparency is needed. AgInfo was also requested to consider the costs and benefits of various options for improving price transparency, including mandatory price reporting.

3.11 The project was overseen by a steering committee which included representatives from the CCA, the Department of Agriculture and Water Resources, the Australian Bureau of Agricultural and Resource Economics (ABARES) and industry.¹⁰

3.12 AgInfo conducted the appropriate reviews, research, and analysis, provided feedback, and made a series of recommendations regarding the benefits and costs of introducing a mandatory price reporting framework in Australia. To date, AgInfo has provided a number of 'Milestone' reports in relation to Project G.POL.1503 which have been released in stages by MLA.

3.13 A joint report in relation to Milestone 2: *Price Reporting systems overseas* and Milestone 3: *Australian beef and cattle price transparency* was released on 2 March 2015. The report on Milestone 4: *The likely benefits of improved beef price transparency* was published on 13 April 2015. MLA released the Milestone 5 report: *Options to address cattle and beef price transparency*, in May 2016.

3.14 All of the MLA reports have noted that a range of market information is provided to producers through MLA, ABARES and private service providers. The reports also noted that information currently available to producers includes saleyard prices and volumes, slaughter numbers, OTH and beef prices.¹¹

Milestone 2: Price reporting systems overseas¹²

3.15 In undertaking the first part of the project, the authors conducted a review of price reporting systems available in other comparable major beef producing and exporting countries. They also reviewed and assessed the United States Department of

9 Meat and Livestock Australia, Milestone Report [Milestones 2 and 3], *Assessment of price transparency in the beef supply chain*, 2 March 2015, p. 10.

10 Beef Central, *MLA responds to questions about delayed price transparency report*, 16 June 2016, [p. 2].

11 Meat and Livestock Australia, Milestone Report [Milestones 2 and 3], *Assessment of price transparency in the beef supply chain*, 2 March 2015, p. 10.

12 The following section is based on information contained in Meat and Livestock Australia, Milestone Report [Milestones 2 and 3], *Assessment of price transparency in the beef supply chain*, 2 March 2015. The Milestone 1 report comprises the Terms of Reference for the review.

Agriculture (USDA) Packers and Stockyards Administration and investigated whether:

...the US mandatory price and cut-out value information has improved producer decision making, marketing options, or prices through a review of any related studies and interviews with key buyers, sellers and their representatives and US livestock market intelligence providers.¹³

3.16 MLA's report indicated that as part of its Mandatory Pricing Reporting structure, the US has a good wholesale and retail price transparency system. It was also noted that the US system is well accepted by the full cross section of producers, including cattle producers and lot feeders. The report also noted that the attitude of the North American Meat Institute (NAMI) – which represents both large and small beef packers and processors – has started to change. Initially opposed to mandatory price reporting, NAMI has indicated that its members are currently more positive about the system and its role in the marketplace.

3.17 The review of the background and operation of the US Mandatory Price Reporting system found that industry and government stakeholders consider that the system has improved producer decision making and marketing options, however, any direct impact on price is harder to find. MLA's report also noted that the system is "used by the Chicago Mercantile Exchange as a basis for the live cattle futures contracts and by buyers and sellers in cattle sale basis contracts or formula pricing".¹⁴

3.18 It was reported that there is generally a high level of support for the US system. It was noted that there is also a medium to high level of satisfaction with the integrity of the data collected under the system: including its reliability, the detail and the presentation of results by the USDA (and others) and the USDA's administration of the system, including issues of confidentiality.

3.19 It was argued that the system's widespread use (by both producers and processors) suggests that its existence has improved the operation and stability of cattle and beef markets, probably to the benefit of all parties. The MLA review also suggested that the price reporting system had gone some way to demonstrate that packers are not cooperating with each other on prices (against producers); which has in turn reduced producer concerns about 'fair pricing'.

3.20 In addition to the US, the review also collected information on price transparency chains in Canada, Brazil, New Zealand, Great Britain and Ireland. It was noted that none of these countries have mandatory price reporting, however "producer

13 Meat and Livestock Australia, Milestone Report [Milestones 2 and 3], *Assessment of price transparency in the beef supply chain*, 2 March 2015, p. 10.

14 Meat and Livestock Australia, Milestone Report [Milestones 2 and 3], *Assessment of price transparency in the beef supply chain*, 2 March 2015, p. 3.

sensitivity to fair value for cattle" has been identified in Ireland, New Zealand and Great Britain in recent years.¹⁵

3.21 The report suggested that, overall, price transparency in cattle and beef appears to be better in Brazil and Canada than in Australia. It was argued that this is due to both the existence of reporting on direct-to-works cattle sale prices collected from producers, and some wholesale price reporting.

3.22 The report concluded, however, that based on the information available, there is no evidence to suggest that the cattle and beef value chain has a higher degree of transparency in New Zealand, Great Britain or Ireland compared to that which exists in Australia.

Milestone 3: Australian beef and cattle price transparency¹⁶

3.23 The project also investigated the extent of price transparency at every stage of typical cattle and beef supply chains in Australia. This second part of the MLA project involved a review of existing market information sources and existing information providers. The authors interviewed and surveyed cattle producers, agents and cattle buyers – including processors and live exporters – and undertook an analysis of both the current extent of transparency and the likely benefits of improved transparency.

3.24 The review found that although there is a reasonable degree of transparency in cattle prices and transactions in Australia, there is poor beef price transparency in wholesale markets and retail markets. Beef price transparency – as it applies to wholesale, retail and export markets – was assessed to be unacceptably low from a cattle producer's perspective.

3.25 It was reported that beef chain price transparency is poor for:

- medium to heavy grown steers and heifers for export markets;
- the domestic supermarket programs of the two main retail chains;
- cattle for the European Union and other specialised HQ (high quality) beef markets; and
- the live cattle trade.¹⁷

3.26 It was argued that these trades have limited transparency for cattle sales (as most are sold direct-to-works or to live cattle exporters) and at the consumer or end

15 Meat and Livestock Australia, Milestone Report [Milestones 2 and 3], *Assessment of price transparency in the beef supply chain*, 2 March 2015, p. 3.

16 The following section is based on information contained in Meat and Livestock Australia, Milestone Report [Milestones 2 and 3], *Assessment of price transparency in the beef supply chain*, 2 March 2015.

17 Meat and Livestock Australia, Milestone Report [Milestones 2 and 3], *Assessment of price transparency in the beef supply chain*, 2 March 2015, p. 4.

user level. This is in addition to non-existent transparency at the wholesale level, which, it was argued is a feature of all beef supply chains in Australia.

3.27 It was suggested that price transparency is marginally better for:

- cattle targeting domestic retail (other than the two main supermarkets);
- foodservice pathways for chilled beef (MSA and non-MSA); and
- cull cows and bulls primarily processed for manufacturing beef.

3.28 It was argued that these supply chains have well-reported cattle auction trades in most states and regions (by the National Livestock Reporting Service), which provides good transparency at the cattle level and some price reporting at the exporter and butcher level.

3.29 The report suggested that while there is no price reporting for beef at wholesale, and little further down the chain, interested producers can obtain some idea of movement in export or domestic beef chain value by accessing market reports provided by MLA, ABARES, *Beef Central*, agents, rural radio and television programs, weekly rural newspapers and a few small commercial marketing service providers. It was also suggested however, that on the whole, producers "usually have networks that they use to accurately assess the veracity of this information".¹⁸

3.30 Further, MLA's report concluded that the market information that is provided in Australia is seen as inferior to that available to cattle producers in most competitor countries – particularly the US, Canada and Brazil. It was also argued that the market information available is generally not at a good enough level to assist in any useful way with on-farm investment decisions. It was suggested that, in part, this probably reflects "the lack of forward contract and derivative markets in this country: these hedge tools directly assist in investment and marketing decisions in the US and Brazil and give rise to vibrant commercial market intelligence communities in these countries".¹⁹

Milestone 4: The likely benefits of improved beef price transparency

3.31 The Milestone 4 report drew on information collected for both the Milestone 2 and the Milestone 3 reports. These reports were tasked with determining the likely benefits of improved price transparency at each point of typical cattle supply chains in Australia, including benefits from:

- improved marketing decision making on farm – using additional price information;

18 Meat and Livestock Australia, Milestone Report [Milestones 2 and 3], *Assessment of price transparency in the beef supply chain*, 2 March 2015, p. 4.

19 Meat and Livestock Australia, Milestone Report [Milestones 2 and 3], *Assessment of price transparency in the beef supply chain*, 2 March 2015, p. 4.

- attracting investment – the value of accurate price information to potential investors in beef cattle production;
- increased competition from new entrants – with accurate price information allowing new entrants to do due diligence; and
- any other identified benefits.²⁰

3.32 MLA's report indicated that the key benefit of full cattle and beef price transparency is "to assist Australian cattle and beef markets to work more efficiently in matching beef and co-product production to consumer or export customer requirements".²¹ It was also argued that price transparency has the potential to assist producers, processors, wholesalers, exporters, retailers and foodservice operators to "more quickly direct production or purchases towards areas of greatest demand, to better meet latest market specifications and to produce at times when demand is highest".²²

3.33 It was suggested that specific benefits for cattle producers include the ability to:

- easily decide who to sell to on any given day and at what price;
- better meet processor target specifications or grades;
- decide whether to target different cattle grades; and
- make other medium to long-term production, marketing and investment decisions.²³

3.34 It was argued that price transparency could also be helpful for potential investors (particularly those from outside the industry) and capital providers such as banks to assess the merits and risk of investments in Australian cattle farms. This in turn has the potential to raise the level of capital input and lower the cost of capital to the sector.

3.35 The report noted that the US experience suggests that beef and cattle price transparency – when combined with enforcement:

...could help to ensure the integrity of cattle sales and allay any fears of further meat processing sector concentration and consolidation – something that some Australian producers are currently most concerned about.

20 Meat and Livestock Australia, Milestone Report, Milestone 4: *The likely benefits of improved beef price transparency*, 13 April 2015, p. 5.

21 Meat and Livestock Australia, Milestone Report, Milestone 4: *The likely benefits of improved beef price transparency*, 13 April 2015, p. 31.

22 Meat and Livestock Australia, Milestone Report, Milestone 4: *The likely benefits of improved beef price transparency*, 13 April 2015, pp 32-32.

23 Meat and Livestock Australia, Milestone Report, Milestone 4: *The likely benefits of improved beef price transparency*, 13 April 2015, p. 32.

It could also underpin the provision and uptake of a broader range of cattle selling options, especially forward selling and direct sales to end-users.²⁴

Milestone 5: Options to address cattle and beef price transparency

3.36 The Milestone 5 report – released in 2016 – was provided in the form of an Executive Summary of findings (in relation to Project G.POL.1503). The authors noted that, in undertaking the project, the following matters were taken into consideration:

- previous findings from MLA Project G.POL.1503 and the Senate committee's Inquiry into grass-fed cattle levies (which it was noted revealed dissatisfaction with current levels of transparency);
- the US experience regarding mandatory price reporting (including studies which generally show small, but tangible, producer benefits from this legislation); and
- an examination of the differences between the US and Australian industries (which led the authors to conclude that any benefits from improved price transparency in Australia would likely be greater than in the US).²⁵

3.37 The report released by MLA:

- provided a number of options for the future direction of the Australian cattle and beef industry;
- provided a list of potential options for increasing cattle and beef price transparency; and
- identified a number of specific issues which require additional consideration.

3.38 The MLA report also suggested that, on the balance of evidence, producers would likely benefit from increased price transparency in Australian cattle and beef markets. It was also argued, however, that these benefits would be marginal unless specific initiatives in relation to transparency result in one of the following outcomes:

- Improved market information, and confidence in published price information results in support for a cattle futures market in Australia. (In this context it is noted that the source of 95 percent of cattle price discovery in the US is the Chicago cattle futures market).
- As a result of greater price transparency, including increased confidence in, and understanding of, assessment of cattle against grids, increased

24 Meat and Livestock Australia, Milestone Report, Milestone 4: *The likely benefits of improved beef price transparency*, 13 April 2015, p. 32.

25 Meat and Livestock Australia, Milestone Report, Milestone 5: *Options to address cattle and beef price transparency*, 2016, p. 2.

numbers of cattle are transacted on the basis of their true value (ie. value based marketing).²⁶

3.39 The report confirmed that Australia's beef production system is much more diverse than that of the US and that Australia's payment systems are much more complicated. For example, in the US, when cattle are sold on a grid basis, payment is generally based on three factors: the dressed weight of the animal, the USDA grade achieved and the yield grade achieved. In comparison, Australian grids can contain as many as "104 values for the Ox category alone".²⁷ It was also noted that in the US, the USDA grade and the yield grade is determined independently (by a USDA inspector) rather than by the processor (the buyer).

3.40 The report acknowledged that Australian price grids are complex, and that simply collecting more data on cattle and beef prices will not, in isolation, solve the price transparency problem. Further, it was argued that there is no single solution and that, realistically, a range of solutions will be required to address the price transparency issue and increase confidence in pricing systems.²⁸

3.41 MLA's Milestone 5 report outlined a number of potential options for increasing cattle and beef price transparency, including:²⁹

- **Mandatory price reporting** of all cattle and beef data prices and volumes by contracting methods, with the data presented in a format that is easily understood and interpreted by producers.

The system would be modelled on the USDA Agricultural Marketing Service mandatory cattle and beef price reporting which was introduced in 1999 and has been reauthorised for an additional five years (2015-2020). The system would include all OTH transactions and direct consignment of cattle. It is intended to include the net price (including discounts in relation to weight and grade beef carcasses). It is also intended that all wholesale and export beef prices (by specification and export codes) be reported.

The costs associated with establishing this type of system would be substantial. Initial cost estimates suggest \$0.20 per head – which is the equivalent of approximately \$1.9 million annually. An ongoing system of auditing would also be required.

26 Meat and Livestock Australia, Milestone Report, Milestone 5: *Options to address cattle and beef price transparency*, 2016, p. 2.

27 This figure was quoted in Meat and Livestock Australia, Milestone Report [Milestones 2 and 3], *Assessment of price transparency in the beef supply chain*, 2 March 2015, p. 56.

28 Meat and Livestock Australia, Milestone Report, Milestone 5: *Options to address cattle and beef price transparency*, 2016, p. 4.

29 The following section is based on information contained in Meat and Livestock Australia, Milestone Report, Milestone 5: *Options to address cattle and beef price transparency*, 2016, pp 5-7.

It was noted that support for mandatory price reporting – from meat processors and supply chain participants (including supermarket chains) – is likely to be quite low.

The report made no comments regarding the level of producer support for a mandatory price reporting system.

- **Voluntary price reporting** would involve processors voluntarily disclosing prices (on an anonymous basis). This type of price disclosure would support the reporting of various OTH grid prices in weight ranges (steers, cows and yearlings) plus minimums and maximums and weight by weekly plant slaughter.

Under the proposal, processors and producers would provide 'actual' prices paid and 'actual' prices received across each category. It is intended that reports would then summarise and track discounts according to weight ranges.

Although the required data is available, the system would also need an adequate number of grids and the reporting of OTH grids by state and region. The costs associated with establishing voluntary price reporting would be similar to that of mandatory price reporting. This system would also require ongoing auditing and data reconciliation, comprehensive training, producer and processor communication and industry consultation.

- **Carcase cut-out reporting** would include export composite steer cut-out, export cow cut-out, supermarket steer and heifer domestic carcass cut-out reporting. The methodology is as follows:

Steer cut-out – use a typical yield for a steer and prices for either individual cuts or a composite of chilled and frozen beef cuts including loin cuts, butt cuts, forequarter cuts and manufacturing beef trimmings. (Use an indicator 300 kilograms hot standard carcass weight body).

Cow cut-out – a full carcass cow broken up for manufacturing purposes into fore and hind trimmings with indicator 90 percent chemical lean and frozen. Body weight estimates 240 kilograms hot standard carcass weight. Use retail cut-out of bone-in and boneless retail cuts as sold by Australian domestic supermarkets based on a typical 250 kilograms hot standard carcass weight beef body. (Using a 74 percent yield of bone-in and boneless cuts as advised by industry sources for the typical supply chain partner to supermarkets).

It was noted that the required data in relation to beef cuts and prices is currently available through the Australian Bureau of Statistics (ABS) subscription, the Nielsen Homescan and the butcher price survey. The preliminary estimated annual cost of this system is \$300,000; which includes \$255,000 for the ABS data subscription, and approximately \$42,000 for MLA staff time.

The advantages of this system were identified as the ease and speed of implementation and the relatively low costs (if ABS figures are used). It was also argued that this system would be less disruptive to market participants – including meat processors, exporters, supermarkets and butchers.

The report provided no comment on how this system would impact producers.

- An **on-line board including final OTH carcass selling price** system would provide an open source online facility for collecting and collating actual, real time OTH (which have been submitted by producers). It is proposed that producers would enter the data based on the regular OTH grids provided to them by processors. It was noted that this data is available and that producers require the OTH grid to be published weekly and distributed by processors to their producer suppliers.

The cost of this system is estimated at \$1.42 million. This estimate includes producer time of \$925,000 and agreement to complete the login to the online board and update the final price received (after their cattle are processed, weighed and graded). It was noted that there would be a delay of 2 to 3 days when MSA cattle are included, and the cost was estimated at between \$0.46 and \$0.93 per head.

It was proposed that the on-line board would aggregate the data, and display prices by weight ranges and grades of cattle – including steers, cows, bulls and heifers. The proposal is that only adult, slaughter cattle would be included and volumes would be incorporated to provide weighted average price groupings.

Costs associated with the system's introduction include the cost of developing the online board and any incentives that may be required to ensure producers provide a critical mass of useful data.

- **Enhanced MLA and commercial market reporting and intelligence services** – this would involve the regular generation of National Livestock Identification System (NLIS) data regarding direct consignment of cattle from property of origin Peak Industry Council (PIC) to meat processor PIC. This proposal would involve MLA being provided with detailed data (by region) on a weekly basis.

The NLIS data is, however, critical to this type of system and it is currently not available.

- **Other feasible, beneficial mechanisms to improve price transparency** suggested in the Milestone 5 report were:
 - mapping the beef supply and value chain in detail (with volumes of transactions and regional factors);
 - including live export;
 - the provision of volume data by selling method (locations for major volumes that drive prices); and
 - including unit price trends over time to value the segments in the supply chain.

3.42 During the committee's November 2015 hearing, MLA's Managing Director, Mr Richard Norton, was asked to provide an update of MLA's position on price

transparency in the beef supply chain. Mr Norton updated the committee on the MLA-commissioned review of price transparency across all areas of the beef supply chain. In addition providing an overview of the review project, Mr Norton told the committee that the true definition of price transparency is "to know all of the points of the value chain from cost of production overlaid with the sale price and knowing what the margin is in between". Further, Mr Norton suggested that:

We are never going to get price transparency. We can work on it to get to a point where, in the domestic market, we will try and do something like an EYCI. The EYCI is a live weight indicator. It is just a market indicator. But if it is used over the period of time we have been collecting it, people can see the movements in the market.³⁰

3.43 By June 2016, however, Mr Norton indicated that a decision in relation to price transparency and price reporting, was not one MLA could make. Therefore, the final Milestone Report – Milestone 5 – did not make any recommendations to the industry on a preferred system or a way forward.

3.44 Further, Mr Norton was reported as stating that:

As for the big question of any change from a voluntary price reporting system to a mandatory system, this is one that industry must itself resolve, not MLA which is the industry's service provider.³¹

ACCC findings on price transparency

3.45 In October 2016, the ACCC reported its findings in relation to price transparency, and concluded that cattle prices were not "usefully transparent, particularly prices for prime cattle".³² The ACCC noted that there are significant gaps in reporting and that the prices for paddock sales and over the hook OTH and saleyard transactions are "inconsistently reported and in some cases incomplete in terms of the cattle types and geographic locations". It was argued that, as a consequence, it is difficult for producers to compare historical prices between sales channels on a like-for-like basis. It was also argued that this lack of transparency has the capacity to distort pricing signals (used to guide production decisions) and create information asymmetries between industry participants.

3.46 The ACCC also found that:

30 Mr Richard Norton, Meat and Livestock Australia, *Committee Hansard*, 17 November 2015, p. 30.

31 Beef Central, *MLA responds to questions about delayed price transparency report*, 16 June 2016, [p. 1].

32 Australian Competition and Consumer Commission, *Cattle and beef market study – Interim Report*, October 2016, p. 4.

- direct sale prices are frequently not reported, and the prices reported for OTH transactions actually reflect the prices offered to producers, rather than the prices subsequently paid; and
- pricing grids are difficult to interpret and sometimes difficult to access.³³

3.47 The ACCC noted that some data does exist in relation to cattle prices, OTH sales, saleyard purchasing and online auctions and this data is published on a regular basis by MLA (and other sources). It was also noted, however, that some gaps and inconsistencies still remain in relation to this information and that not all of the data that is available and published is easy to interpret or use comparatively. This reduces its usefulness to the industry.³⁴

3.48 The ACCC's final report – released in March 2017 – did acknowledge, however, that while there are still some gaps in useful price data, the industry has started to take steps to address this situation. It was noted, for example, that the MLA had launched an update of the market reports section of its website, "which allows producers to access and interrogate historical data more easily".³⁵

3.49 The ACCC's final report also acknowledged the complexity of price grids, and indicated that:

An important test of the usefulness of pricing grids is whether a seller of prime cattle can easily compare the price the stock would realise if sold to any one of a number of competing processors. Some producers experience difficulties in doing this.³⁶

3.50 As noted in the previous chapter, the ACCC concluded that the debate regarding mandatory reporting (of all non-saleyard cattle sales) is finely balanced. It was argued that Australian beef and cattle markets are currently so complex it could make mandatory price reporting difficult to implement, and perhaps reduce its potential benefits. Significantly, the ACCC indicated that while it does not recommend the introduction of mandatory reporting at this time:

...if market participants do not take steps to improve the market reporting in line with recommendations on price reporting ... the arguments in favour of mandatory reporting will become more compelling over time.³⁷

33 Australian Competition and Consumer Commission, *Cattle and beef market study – Interim Report*, October 2016, p. 4.

34 Australian Competition and Consumer Commission, *Cattle and beef market study – Interim Report*, October 2016, p. 9.

35 Australian Competition and Consumer Commission, *Cattle and beef market study – Final Report*, 7 March 2017, p. 8.

36 Australian Competition and Consumer Commission, *Cattle and beef market study – Final Report*, 7 March 2017, p. 9.

37 Australian Competition and Consumer Commission, *Cattle and beef market study – Final Report*, 7 March 2017, p. 9.

Stakeholder views on price transparency

3.51 Calls for increased price transparency have continued throughout the committee's current inquiry. Mr Rob Atkinson, a representative of NorthBeef (a producer group with plans to develop a new processing facility near Hughenden in Queensland) argued that processors should release more pricing information, and was quoted as saying that:

The processors might say they are losing money, but there is no transparency there. We don't know what they are losing. We can't look inside their business. That is one of the things I think producers deserve to be able to do, to see some sort of reporting on their profitability at least.³⁸

3.52 Mr Atkinson also stated that:

...after years of huge fluctuations in cattle prices, he would like to see the price stabilise so that everyone in the supply chain is making reasonable profit, even if that meant a floor price was introduced.³⁹

3.53 In responding to recommendations regarding price transparency (made by the committee in its 2016 interim report) the CCA cited the importance of having an approved beef language. Further, it was argued that while the committee's recommendations "provided a sound starting point" there was also room for some fine tuning.⁴⁰

3.54 While the CCA acknowledged that greater transparency is something producers continue to call for, it was argued that the specific mechanism – which would achieve the transparency required – has yet to be determined.⁴¹ The peak body also suggested that what the committee's recommendations had failed to recognise was that improving the beef language is a vital part of achieving transparency:

That's the language we use to describe the cattle and describe the beef that we're selling and trading. If we can have improved language then we can have improved information flow.⁴²

38 ABC Rural, *Price transparency remains a key issue for beef producers despite inquiries*, 5 October 2016, p. 1.

39 ABC Rural, *Price transparency remains a key issue for beef producers despite inquiries*, 5 October 2016, p. 1.

40 ABC Rural, *Senate inquiry into red meat processing calls for changes to address culture of fear in the industry*, 5 May 2016, p. 2.

41 ABC Rural, *Senate inquiry into red meat processing calls for changes to address culture of fear in the industry*, 5 May 2016, p. 2.

42 ABC Rural, *Senate inquiry into red meat processing calls for changes to address culture of fear in the industry*, 5 May 2016, p. 2.

Stakeholder views on MLA's findings

3.55 Following the release of MLA's Milestone 5 report, feedback provided by industry stakeholders – particularly producers – was the subject of a number of media reports. Cattle producers in particular raised a number of concerns about MLA's findings, and questioned both the content of the reports and the timing of their release.

3.56 In June 2016 for example, *Beef Central* reported that the Milestone 4 report – which was completed in April 2015 – was "clearly positive about the potential benefits of mandatory price reporting in Australia".⁴³ Specifically, it was noted that the report had stated that:

... any increase in price disclosure would assist Australian cattle markets to work more efficiently in matching beef and co-product production to customer requirements.⁴⁴

3.57 Further, the *Beef Central* article also noted that MLA's Milestone 5 report – which was completed in May 2016 – was "less positive in its assessment of the value of mandatory price reporting in Australia",⁴⁵ and had concluded that:

...while the benefits of introducing mandatory price reporting would exceed the cost, the benefits were likely to be small.⁴⁶

3.58 On 25 May 2016, MLA announced the completion, and publication of its Milestone 5 report. At the same time, the MLA's Milestone 4 report – which had been completed over a year earlier – was also published on the MLA website.⁴⁷ Producer groups – including the ABA – drew attention to the delayed release of the Milestone 4 report, and suggested that it was an example of "opponents of mandatory price reporting successfully working to suppress findings that support its introduction" in Australia.⁴⁸

3.59 In January 2017, the Ovens Valley branch of the Victorian Farmers' Federation (VFF) were reported to be calling for the Government to legislate a

43 Beef Central, *MLA responds to questions about delayed price transparency report*, 16 June 2016, [p. 1].

44 Beef Central, *MLA responds to questions about delayed price transparency report*, 16 June 2016, [p. 1].

45 Beef Central, *MLA responds to questions about delayed price transparency report*, 16 June 2016, [p. 1].

46 Beef Central, *MLA responds to questions about delayed price transparency report*, 16 June 2016, [p. 1].

47 Beef Central, *MLA responds to questions about delayed price transparency report*, 16 June 2016, [p. 1].

48 Beef Central, *MLA responds to questions about delayed price transparency report*, 16 June 2016, [p. 1].

mandatory price reporting system "to provide clear and relevant information for beef farmers and the industry".⁴⁹

3.60 The Ovens Valley branch set out its views in an open letter to the Minister for Agriculture and Water Resources, which was later published by several media outlets, including the *Border Mail*. The Ovens Valley branch stated that there was overwhelming support for mandatory price reporting among beef producers in their branch and argued that the process of developing a transparent price reporting system was something that "could not be left in the hands of industry".⁵⁰

3.61 The Ovens Valley branch also pointed to the compelling case that had been made for price transparency reform in Milestone reports 2, 3 and 4 and argued that the Milestone 5 report "backed away from the wide-ranging benefits clearly stated in earlier reports" and "had a definite tone of reluctance about the introduction of price transparency that is not found in earlier reports". In its letter, the group called for the Minister's support to "investigate why *Milestone 5, Beef Price Transparency Options to address cattle and beef price transparency* is so different to the reports from Milestone 2, 3 and 4".⁵¹

3.62 In response to questions about why the 'more favourable' report was not released when it was completed and why its release was "seemingly hidden behind the second, less favourable report",⁵² MLA's Managing Director, Mr Richard Norton, argued that the reports focused on different aspects of mandatory price reporting:

Price transparency is a complex matter and, implemented to its full extent, has many implications for the beef industry. Given this, the price transparency project was designed to be considered in its entirety, rather than viewed as individual progress sections. For this reason both milestones four and five need to be considered together and were released in close succession.⁵³

49 The Border Mail, *Ovens Valley VFF urges government to make Mandatory Price Reporting just that in open letter to Barnaby Joyce*, 20 January 2017, [p. 1].

50 The Border Mail, *Ovens Valley VFF urges government to make Mandatory Price Reporting just that in open letter to Barnaby Joyce*, 20 January 2017, [p. 1].

51 The Border Mail, *Ovens Valley VFF urges government to make Mandatory Price Reporting just that in open letter to Barnaby Joyce*, 20 January 2017, [pp 2 and 3].

52 Beef Central, *MLA responds to questions about delayed price transparency report*, 16 June 2016, [p. 1].

53 Beef Central, *MLA responds to questions about delayed price transparency report*, 16 June 2016, [p. 1].

The way forward

3.63 One of the primary objectives of the MLA project – G.POL.1503 – was to examine the US system of price reporting and determine whether it had applications for the Australian industry.⁵⁴

3.64 MLA's report pointed to key differences between both industries and their systems, suggesting that while the US industry is largely feedlot based (with approximately 80 percent of product sold on the US domestic market), the Australian beef industry is primarily export focused.

3.65 As previously noted, MLA's Milestone 5 report also identified a number of potential options for increasing cattle and beef price transparency. The shortlist of possible options fit into three broad categories: a mandatory price reporting system, voluntary price reporting, or improving the existing market information services.⁵⁵

3.66 Prior to the public release of the Milestone 4 and Milestone 5 reports, MLA's Managing Director, Mr Richard Norton, told the committee that the Milestone 5 report had identified "a number of options to deliver greater price transparency at identified points along the supply chain".⁵⁶ At a public hearing held on 17 November 2015, Mr Norton flagged MLA's intention to ask industry to decide what the next steps for this project would be and to determine the cost implications for industry.

3.67 Mr Norton also told the committee that the industry's directive would need to consider:

...whether significant evidence is now available to conclude that Australian cattle producers would benefit on net from an increase in price transparency along the cattle supply chain or whether further research is required; whether government intervention is required to secure increased price transparency or whether, at least in the first instance, industry should itself implement measures to secure this outcome; and whether new or additional services in education to facilitate greater opportunities for comparison of grids and to give greater confidence in the assessment of cattle against the grids could be implemented.⁵⁷

3.68 The CCA responded to MLA's final project report (Milestone 5) – and its vision for the future – following a meeting of its board in May 2016. An

54 Meat and Livestock Australia, Milestone Report, Milestone 5: *Options to address cattle and beef price transparency*, 2016.

55 The following section is based on information contained in Meat and Livestock Australia, Milestone Report, Milestone 5: *Options to address cattle and beef price transparency*, 2016, pp 5-12.

56 Mr Richard Norton, Meat and Livestock Australia, *Committee Hansard*, 17 November 2015, p. 29.

57 Mr Richard Norton, Meat and Livestock Australia, *Committee Hansard*, 17 November 2015, p. 29.

announcement was made that the CCA board had resolved "to request MLA to investigate the development of a system to capture information, including the cut-out value of domestic and export boxed beef".⁵⁸ Further, it was noted that a resolution had been put forward:

...in response to MLA's report into price transparency in the beef supply chain released today, with the project review committee agreeing voluntary price transparency was the preferred option.⁵⁹

3.69 In requesting this investigation, a spokesperson for the CCA acknowledged that while the project undertaken by MLA had highlighted the complexity of the issues, it had also narrowed down the options available in relation to price transparency in the beef industry. Further, the CCA Chairman, Mr Peter Hall, argued that:

...on the balance of evidence, it is a conclusion of this paper that producers are likely to benefit from increased price transparency in Australian cattle and beef markets. The primary price transparency gap along the beef supply chain is at the wholesale/export stage, with no data currently available. This is also the beef price stage closest to, and of most relevance to, the value of cattle sold by producers.⁶⁰

3.70 Shortly after the public release of the Milestone 4 and 5 reports, an MLA spokesperson described the Milestone 4 report as having outlined 'in theory' the benefits that full price transparency could provide. It was noted that the Milestone 5 report had provided additional context, outlined critical factors like cost, and identified some of the practicalities that would need to be taken into consideration prior to the implementation (of a price transparency system). The spokesperson also acknowledged that while the Milestone 5 report concluded that a "reasonable amount" of cattle and beef market information already exists in Australia, it did not, however, suggest a range of further initiatives.⁶¹

3.71 The MLA's Project Review Committee met in December 2015 to review the G.POL.1503 project. The review committee considered a number of issues – including the findings of the Milestone reports – and made a series of recommendations; one which suggested that more work needed to be done in relation to price transparency.⁶²

58 Cattle Council of Australia, Media Release, *Cattle Council calls for more information on boxed and wholesale beef prices*, 24 May 2016, p. 1.

59 Cattle Council of Australia, Media Release, *Cattle Council calls for more information on boxed and wholesale beef prices*, 24 May 2016, p. 1.

60 Cattle Council of Australia, Media Release, *Cattle Council calls for more information on boxed and wholesale beef prices*, 24 May 2016, p. 2.

61 Beef Central, *MLA responds to questions about delayed price transparency report*, 16 June 2016, [p. 2].

62 Beef Central, *MLA responds to questions about delayed price transparency report*, 16 June 2016, [p. 2].

3.72 In March 2016, following its consideration of the project report and the Project Review Committee's recommendations, the CCA requested that MLA undertake a further examination of:

- the 'carcase cut out option' to encompass determining values for export markets, domestic markets and whole animal products;
- the development of a reporting system to enable up-to-date data on wholesale beef prices, offal and co-products; and
- the need for greater education to enable producers to effectively market their cattle.⁶³

3.73 In June 2016, MLA Managing Director, Mr Richard Norton, told *Beef Central* that work had commenced on the CCA's request, and that MLA would continue to report on its progress. Mr Norton indicated that MLA would also be involved in developing an online platform to facilitate easy data sharing for processors and producers, and providing education to assist producers to best use the information available.⁶⁴

3.74 It was also noted that MLA was working on enhancements to its market information reporting, including the weekly OTH cattle indicator reports, which had been revamped to assist producers and industry to better analyse key market trends. Mr Norton also pointed to a number of other changes which MLA had been involved in, including:

- changes in the Queensland, NSW and Victorian reports – which now include charts to make the interpretation of price differences between weights and livestock categories much easier;
- the inclusion of heaviest weights, fat depths and muscle scores of the cattle categories in the graphic representations – which is aimed at best reflecting those most sought after by processors;
- MLA's OTH cattle reports now include an explanation of how best to use and apply the indicators for business needs, how they are generated and what percentage of the state's processing capacity contributes to the calculations; and
- the number of indicators in each state depends on the number of contributing processors, but in Queensland alone, more than 98 indicators are generated each week.

63 Beef Central, *MLA responds to questions about delayed price transparency report*, 16 June 2016, [p. 3].

64 Beef Central, *MLA responds to questions about delayed price transparency report*, 16 June 2016, [p. 3].

3.75 At its 10 August 2017 hearing, the committee questioned Mr Norton about MLA's response to Recommendation 4 of the ACCC report; which goes to MLA's role in improving the collection and public reporting of cattle sale prices. Mr Norton told the committee that various improvements had been made to the MLA's data collection:

What we have done is enhance that website so that, if you had a category, like an 18-to-20-kilo lamb, you could put that that's what you are planning to sell and, through that category, benchmark saleyards within your region for just that price point. Previously you'd be looking through paper based models and trying to understand. You'd have to collect that data from each saleyard, put it together and do that yourself. That's now readily available.⁶⁵

3.76 While MLA reported that it is starting to deliver more information back to the processing sector around export values and export volumes, it was acknowledged that the reporting of prices throughout the supply chain – including wholesale, retail and export beef prices – is not part of the information provided on the website. MLA has been able to obtain approximately 70 percent of the required data freely, but has experience difficulty obtaining price data from processors.⁶⁶

3.77 Mr Norton was also asked to outline the steps MLA had taken to act on the ACCC's Recommendation 12, which called for saleyards, commission buyers, auctioneers and agents to provide MLA with information "that enables regular standardised market reports for each reported saleyard".⁶⁷ Mr Norton told the committee that:

The only thing MLA can do in that is deploy reporters to each market. At this point in time we cover the top 25 per cent of the market. We do not – and the industry has not asked us to – report every single saleyard. So, at this point in time, we are covering the top 25 per cent.

It costs us \$4 million per annum to do that now, and then it would be cost-benefit analysis of reporting every single market. By covering the top 25 per cent – and this is an estimate and not an actual number that I have researched, but I've probably been told it in the past – we'd be covering probably 60 per cent by volume through covering those top 25 per cent of saleyards.

...

In terms of reporting every single market, the question would be – and we've had these discussions with the ACCC – whether or not the cost-benefit analysis of doing that would change anything in the industry whatsoever. And the answer to that is that the cost of covering every single

65 Mr Richard Norton, Meat and Livestock Australia, *Committee Hansard*, 10 August 2017, p. 3.

66 Mr Richard Norton, Meat and Livestock Australia, *Committee Hansard*, 10 August 2017, p. 3.

67 Australian Competition and Consumer Commission, *Cattle and beef market study – Final Report*, March 2017, p. 13.

market would outweigh the benefit of covering the top 25 per cent that we do now.⁶⁸

Committee comment

3.78 Throughout the inquiry, a number of industry stakeholders raised concerns about the culture of collusion that exists in saleyards. The committee shares stakeholders' concerns and agrees that this is an issue that needs to be addressed, as a matter of priority. As indicated in its interim report, the committee suggests that what is required to resolve the problem is a system of price disclosure at saleyards. At a minimum, there is a need for a freely available, transparent, pricing mechanism at saleyards; and prices need to be displayed publicly. Various options have been suggested – including the use of a Dutch auction system – however, ultimately, this is a decision that needs to be made by industry.

3.79 The committee has long argued for increased price transparency and accountability mechanisms across the cattle and beef market supply chain. The committee has been consistent in its calls for information regarding profits and margins across the supply chain to be made available to producers. Evidence provided to the inquiry supports the committee's view that there is a need for reform in this area.

3.80 Stakeholders told the committee that for there to be increased efficiency and competitiveness across the red meat supply chain, it is vital that producers receive maximum returns at the farm gate. Unfortunately, under the current system, it is not possible for producers to determine, with any accuracy, the asset value of their stock.

3.81 The reporting of livestock sales (made both within and outside saleyards) is also a matter of some concern to producers. Stakeholders argued that market reports and benchmark indicators do not accurately reflect the state of the market, given that they are often based on a small, unrepresentative sample.

3.82 The committee is well aware that it is the saleyard price that tends to set, drive and influence the marketplace as a whole. However, the committee is also aware of the downward trend in saleyard purchases over recent years, which suggests that there is a growing need for a comprehensive market indicator.

3.83 The committee notes that price transparency was one of the key issues considered by the ACCC in its Cattle and beef market study. The ACCC's report acknowledged the complexity of Australia's beef and cattle markets and argued this could make mandatory price reporting difficult to implement – or reduce its potential benefits. The ACCC stopped short of recommending the introduction of mandatory reporting at this time. However, it is worth repeating that the ACCC also indicated

68 Mr Richard Norton, Meat and Livestock Australia, *Committee Hansard*, 10 August 2017, pp 4 - 5.

that, unless the industry takes steps to improve market reporting (in line with its recommendations on price reporting), the "arguments in favour of mandatory reporting will become more compelling over time".⁶⁹

3.84 The committee has also had the opportunity to review the Milestone 4 and 5 reports commissioned by MLA, which examined both the pros and cons of introducing a mandatory beef reporting system to the Australian beef industry. As previously indicated, the first report – Milestone 4 – was completed in April 2015 and was clearly positive about the potential benefits of mandatory price reporting in Australia. The committee notes, however, that it has heard no adequate explanation about why the second report – Milestone 5 – which was released in May 2016, was somewhat less positive in its assessment of the value of mandatory price reporting in Australia.

3.85 The committee recognises that the MLA-commissioned reports identified a number of potential options for increasing cattle and beef price transparency – which include both voluntary and mandatory price reporting. The committee also notes that MLA has recently indicated that it is up to the industry to determine which option to adopt. The committee does, however, question whether MLA, having concluded that the complexity of the supply chain would make mandatory price reporting too difficult to implement, has been attempting to influence the industry's decision.

3.86 Having had the opportunity to review both the ACCC and MLA reports, and take further evidence from the ACCC and MLA in August 2017, the committee in no way underestimates the complexities of the supply chain. However, it also recognises the need for transparency and consistency in selling structures and practices – particularly as there is a strong desire amongst producers for price transparency (and some form of pricing mechanism) to be implemented. As recommended in the interim report, the committee is of the view that it is time for the industry to move towards establishing a national price disclosure and reporting system, which takes into account all methods of sale.

3.87 The committee will watch with great interest to see whether the CCA's recommended mechanisms meet the needs of the industry, whether they are efficient, and whether they are compatible with the views put forward by beef producers.

69 Australian Competition and Consumer Commission, *Cattle and beef market study – Final Report*, 7 March 2017, p. 9.