

# Chapter 1

## Introduction and background

1.1 On 18 March 2015, the following matters were referred to the Senate Rural and Regional Affairs and Transport References Committee for inquiry and report by 12 August 2015:

The effect of market consolidation on the red meat processing sector, and in undertaking the inquiry, the committee 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.

1.2 On 14 May 2015, the Senate granted the committee an extension of time to report. The committee was required to report by 17 March 2016. On 22 February 2016, the Senate granted the committee a further extension of time for reporting to 5 May 2016.

### Interim report

1.3 The committee agreed to table this interim report and seek a further extension on 3 May, owing to the likelihood of an imminent double dissolution of the Parliament, and the need to get some of its findings on the record while also advocating for an opportunity to resume its examination of further significant issues in the new Parliament. It is important to reiterate that the committee has more to say on a number of important matters, and intends to do so as soon as possible. These matters include:

- Price disclosure;
- Agents' conduct and collusion;
- Trimming;
- Variations in grid inspections;
- Standardisation of saleyard design and selling practices;
- Reverse consolidation markets;
- Agents' owning saleyards in which they operate;

- The adequacy of the Australian Competition and Consumer Commission's (ACCC's) powers to protect witnesses;
- Processor consolidation, including the loss of competition and creeping acquisition;
- Buying power;
- The late setting of prices for cattle booked for sale;
- Commission buyers;
- The ACCC market study; and
- The lack of a complaints mechanism for 'over the hook' grading.

1.4 The interim nature of this report's findings is reflected in the recommendations. It is the committee's intention to supplement this report's recommendations in light of further examination of the matters listed above, and in particular the findings of the ACCC's market study.

### **Conduct of the inquiry**

1.5 The inquiry was advertised in *The Australian* and on the committee's webpage. The committee also wrote to government departments, organisations and individuals to invite submissions. Details of the inquiry and associated documents are available on the committee's webpage.

1.6 The committee received 98 public submissions and 22 confidential submissions. The public submissions are listed at Appendix 1 and are published on the committee's webpage.

### **Acknowledgement**

1.7 The committee acknowledges the organisations and individuals that made contributions to the inquiry through submissions and appearances at the hearings.

### **Context of the inquiry**

1.8 On 17 February 2015, newspapers reported that nine processors had 'boycotted' the Northern Victoria Livestock Exchange's first prime sale at the Barnawartha saleyards. According to the reports, the processors wanted the cattle weighed after they were sold, rather than before sale, which had been standard practice at Wodonga.<sup>1</sup> The 'boycott' was blamed for a 30 cents per kilogram price plunge on that day.<sup>2</sup>

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1 Fiona Myers, 'New Wodonga saleyards boycotted by processors', *Weekly Times*, 17 February 2015, [www.weeklytimesnow.com.au/agribusiness/cattle/new-wodonga-saleyards-boycotted-by-processors/story-fnkeqfz1-1227222434455](http://www.weeklytimesnow.com.au/agribusiness/cattle/new-wodonga-saleyards-boycotted-by-processors/story-fnkeqfz1-1227222434455) (accessed 17 June 2015).

2 Fiona Myers, 2 March 2015, 'Barnawartha sellers call for senate inquiry into processor boycott', *Weekly Times*, [www.weeklytimesnow.com.au/agribusiness/cattle/barnawartha-sellers-call-for-senate-inquiry-into-processor-boycott/story-fnkeqfz1-1227245071396](http://www.weeklytimesnow.com.au/agribusiness/cattle/barnawartha-sellers-call-for-senate-inquiry-into-processor-boycott/story-fnkeqfz1-1227245071396) (accessed 17 June 2015).

1.9 Reports suggested that buyers later dropped their boycott when the saleyard operators agreed to weigh cattle after they were sold, instead of pre-sale.<sup>3</sup>

1.10 In response to the alleged boycott, the Victorian Farmers Federation and the NSW Farmers' Association called for the ACCC to investigate.<sup>4</sup> On 2 March 2015, approximately 250 Barnawartha sellers met to raise concerns about the actions of the processors. The farmers called for a Senate inquiry into consolidation in the red meat processing sector and called for the ACCC to investigate the meat processors.<sup>5</sup>

1.11 The Barnawartha matter followed a decision by the ACCC two weeks earlier to allow further concentration in the red meat processing sector; with the acquisition of Australian Consolidated Food Investments Pty Ltd (Primo) by JBS USA Holdings Inc (JBS).<sup>6</sup>

1.12 These events, which triggered the Senate inquiry, raised both the spectre of collusion by buyers at saleyards and questions regarding competition in the face of growing consolidation in the market more broadly. These two themes, as indicative of underpinning inequalities in the red meat industry and a lack of transparency in relation to pricing, were central to the evidence gathered during the committee's inquiry.<sup>7</sup>

### **Australian livestock and red meat industry**

1.13 Australia is the world's seventh largest beef producer and the third largest exporter behind the United States (US) and Brazil.<sup>8</sup> According to the Department of

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3 Warwick Long, Nikolai Beilharz and Michael Condon, 'Farming groups want ACCC to investigate meat processors after Wodonga boycott', *ABC Rural*, 20 February 2015, [www.abc.net.au/news/2015-02-19/accc-meat-industry-investigation-push/6144616](http://www.abc.net.au/news/2015-02-19/accc-meat-industry-investigation-push/6144616) (accessed 20 February 2015).

4 Victorian Farmers Federation, Victorian and NSW farmers to gather on processor boycott, 23 February 2015, [www.vff.org.au/vff/Media\\_Centre/Latest\\_News/MEDIA\\_2015/Processor\\_Boycott.aspx](http://www.vff.org.au/vff/Media_Centre/Latest_News/MEDIA_2015/Processor_Boycott.aspx) (accessed 17 June 2015) and Warwick Long, Nikolai Beilharz and Michael Condon, 'Farming groups want ACCC to investigate meat processors after Wodonga boycott', *ABC Rural*, 20 February 2015.

5 Fiona Myers, 2 March 2015, 'Barnawartha sellers call for senate inquiry into processor boycott', *Weekly Times*, [www.weeklytimesnow.com.au/agribusiness/cattle/barnawartha-sellers-call-for-senate-inquiry-into-processor-boycott/story-fnkeqfz1-1227245071396](http://www.weeklytimesnow.com.au/agribusiness/cattle/barnawartha-sellers-call-for-senate-inquiry-into-processor-boycott/story-fnkeqfz1-1227245071396) (accessed 17 June 2015).

6 Warwick Long, Nikolai Beilharz and Michael Condon, 'Farming groups want ACCC to investigate meat processors after Wodonga boycott', *ABC Rural*, 20 February 2015.

7 Mr Graham Primmer, *Submission 2*; Mr John Buxton, *Submission 5*, p. [3]; Merebene Pastoral Co, *Submission 6*; Hermit Hill Pastoral Pty Ltd, *Submission 7*; Mr John Carpenter, *Submission 9*; Bindaree Beef Australia, *Submission 11*; Mr Mark Wortmann, *Submission 14*; Mr Murray and Mrs Debbie Jones, *Submission 17*; Nanthes' Park British White Cattle Stud, *Submission 19*; Mr Shane and Mrs Maree Kennedy, *Submission 20*; Mr Frank Griffiths, *Submission 21*; Mr Rob Atkinson, *Submission 22*; Australian Beef Association, *Submission 23*; Mrs Maureen Cottam, *Submission 25*; Mr David Blum, *Submission 26*; Mr Norman Sharp, *Submission 27*; Mr Rex and Mrs Trish Forrest, *Submission 44*; Ms Jan McGuinness, *Submission 54* and Mr Pat Larkin, *Submission 60*, p. 2.

8 Mr Ashley Sweeting, *Submission 1*, p. 1.

Agriculture (the department) more Australian farms are engaged in running beef cattle than are involved in other forms of agricultural activity, with around 55 per cent of all Australian farms carrying beef cattle.

1.14 In total, Australia has 25.7 million head of cattle managed by around 71 300 beef cattle producers.<sup>9</sup> An estimated 76 per cent of marketed cattle in Australia in 2013 were grass-fed cattle with the remainder grain-fed.<sup>10</sup>

1.15 As of 2011–12, the Australian Bureau of Statistics (ABS) revealed that there were:

- 38 752 beef cattle farming businesses, plus beef cattle feedlots;
- 11 994 sheep farming businesses;
- 11 552 grain-sheep or grain-beef cattle farming businesses; and
- 6 526 sheep-beef cattle farming businesses.<sup>11</sup>

1.16 In terms of the processing sector, there are more than 150 processing facilities in Australia which kill and process a range of species including cattle, sheep, goats, pigs and game.<sup>12</sup> According to the Australian Meat Processor Corporation (AMPC), its 105 members operate 135 meat processing facilities which account for more than 97 per cent of Australia's meat processing capacity.<sup>13</sup>

1.17 In terms of the Australian economy, livestock production and red meat processing are significant contributors:

In 2013–14, the farm level gross value of red meat livestock production (beef cattle, sheep, lambs and goats) was \$11.4 billion, 49 per cent of the gross value of all livestock production and 22 per cent of all farm production in Australia (ABARES 2015). The red meat processing industry is highly export focused, with 70 per cent of beef, and 69 per cent of lamb and mutton produced in Australia in 2013–14 being exported (by volume). Over the same period, beef, lamb, mutton and goat meat exports together were valued at \$8.7 billion (ABARES 2015).<sup>14</sup>

1.18 In 2014, more than 8.9 million cattle together with over 29.3 million sheep and lambs were slaughtered at one of the 77 processing establishments registered to export.<sup>15</sup>

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9 Department of Agriculture, *Submission 74*, p. 4 and Mr Ashley Sweeting, *Submission 1*, p. 1.

10 Mr Ashley Sweeting, *Submission 1*, p. 2.

11 Australian Bureau of Statistics, *71060.0 – Australian Farming in Brief*, 2013, Number of Businesses with Agricultural Activity, by Industry 2011–12, [www.abs.gov.au/ausstats/abs@.nsf/Lookup/7106.0Main+Features22013](http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/7106.0Main+Features22013) (accessed 22 June 2015).

12 Department of Agriculture, *Submission 74*, p. 3.

13 Australian Meat Processor Corporation, About AMPC, [www.ampc.com.au/about-ampc](http://www.ampc.com.au/about-ampc) (accessed 21 March 2016).

14 Department of Agriculture, *Submission 74*, p. 3.

15 Department of Agriculture, *Submission 74*, p. 3.

1.19 According to evidence provide to the committee, in 2013, Australian meat processing comprised the following:

- 65.7 per cent – beef and veal;
- 23.4 per cent – lamb and mutton;
- 7.9 per cent – pig meat; and
- 2.9 per cent – goat and other animal meat.<sup>16</sup>

### ***Red meat processing sector***

1.20 In terms of processors, the top five cattle processors account for 57 per cent of throughput across processing facilities. The top five sheep and lamb processors accounted for 52 per cent of throughput in 2014, based on the number of sheep and lambs slaughtered. In addition, National Livestock Identification System (NLIS) data, (which include facilities that process for domestic and/or for export markets) revealed that the top five processing plants in Australia accounted for up to 30 per cent of cattle sent to abattoirs between 2008 and 2012, while the top 50 plants accounted for more than 90 per cent of such movements.<sup>17</sup>

1.21 Due to consolidation within the industry, the market has contracted significantly in recent years. In 2011, the top five processors accounted for over 50 per cent of the market, with the four largest processors either owned or in joint ventures with multi-national companies.<sup>18</sup> Australian Meat Industry Council (AMIC) suggested that the four largest processing companies account for up to 55 per cent of livestock throughput.<sup>19</sup> In contrast, evidence suggested that in 1988, the four largest processors controlled 24 per cent of the market.<sup>20</sup> However, following its acquisition of Primo in February 2015, JBS is believed to have lifted its market share to at least 28 per cent. At the same time, evidence suggested that Cargill-Teys has a 21 per cent share and Nippon Meat enjoys a 6 per cent share.<sup>21</sup>

1.22 Some submitters made the point that consolidation in the beef industry had resulted in an industry now effectively controlled by five corporations including Woolworths, Coles, JBS Australia, Teys/Cargill and Nippon Australia.<sup>22</sup> The domination of JBS and Teys/Cargill in the processing and domestic wholesaling sector was also raised as a concern by producers as well as their ability to enjoy a profit due to reduced competition.<sup>23</sup>

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16 Mrs Jo-Anne Bloomfield, *Submission 31*, p. 5.

17 Department of Agriculture, *Submission 74*, p. 3.

18 Mr Ashley Sweeting, *Submission 1*, p. 4.

19 Australian Meat Industry Council, *Submission 93*, p. 32.

20 Victorian Farmers Federation – Wangaratta Branch, *Submission 45*, p. 7.

21 Mr John Buxton, *Submission 5*, Attachment 1, p. 2.

22 Mr John Carpenter, *Submission 9*, p. 2.

23 Mr Rob Atkinson, *Submission 22*, p. [2].

1.23 Table 1 further demonstrates the extent of this issue. The major corporations – JBS Australia, Teys/Cargill and Nippon Australia – own multiple abattoirs and feedlots around the country. The numbers of facilities owned by the corporations demonstrate their share in the market. This enables them to set industry practices by enforcing specific policies across the plants. It also provides them with power when negotiating sales with producers.

*Table 1: Ownership of abattoirs in Australia*<sup>24</sup>

<b>Company</b>	<b>Number of abattoirs</b>	<b>Number of feedlots</b>
JBS Australia <sup>25</sup>	12	5
Tey/Cargill <sup>26</sup>	6	3
Nippon Australia <sup>27</sup>	3	1

1.24 The concentration of market power varies between different regions. Depending on where a producer is situated, and the number of regional processing plants, the extent of market share in an area can vary greatly. Mr David Farley argued that the red meat processing sector was best described as an oligopoly nationally, duopoly regionally and in certain areas, a monopoly.<sup>28</sup> For producers in areas with a small number of processors, there is limited choice as to where they can send their cattle for processing and who buys them.

1.25 One of the primary characteristics of the cattle industry is that cattle production is highly diverse and fragmented, comprising thousands of family farms across the country. In direct contrast, the red meat processing sector is highly consolidated and corporatised.<sup>29</sup>

1.26 In addition, processors have increasingly focused on vertical integration. The Australian Lot Feeders' Association informed the committee that processors now own 22 per cent of the overall feedlot industry capacity.<sup>30</sup> The argument was put, therefore,

24 Mrs Jo-Anne Bloomfield, *Submission 31*, p. 5.

25 JBS Australia, *Submission 50*, p. 2.

26 Teys Australia operates six beef processing facilities along the eastern seaboard and three feedlots in Jindalee (NSW), Condamine (QLD), and Charlton (VIC). Teys Australia, Facilities, [www.teysaust.com.au/facilities/](http://www.teysaust.com.au/facilities/) (accessed 22 September 2015).

27 Sue Neales, 'Locals lose the prime cuts', *The Australian*, 12 March 2015, [www.theaustralian.com.au/news/inquirer/locals-lose-the-prime-cuts/story-e6frg6z6-1227259061022](http://www.theaustralian.com.au/news/inquirer/locals-lose-the-prime-cuts/story-e6frg6z6-1227259061022) (accessed 22 September 2015).

28 Mr David Farley, *Submission 35*.

29 Mr John Carpenter, *Submission 9*, p. 2 and World Animal Protection, *Submission 18*, p. 1.

30 Australian Lot Feeders' Association, *Submission 46*, p. 2.

that competition is highly asymmetrical in favour of the large processing and retail corporations.<sup>31</sup>

1.27 Competitors for livestock in Australia include meat processors, live exporters, livestock producers (re-stockers, feed-lotters and backgrounders), brand owners and livestock agents and supermarkets.<sup>32</sup> There are approximately 400 accredited feedlots in Australia which are located within close proximity to cattle, grain, water and beef processing facilities. Most of these feedlots are located in Queensland, followed by NSW, WA, Victoria and then South Australia.<sup>33</sup>

1.28 According to evidence, consolidation has occurred vertically through the chain. The percentage of beef exports by non-packer exporters has declined significantly while the domestic wholesale business has seen both horizontal and vertical integration, and the retail sector has consolidated toward the major supermarkets.<sup>34</sup>

1.29 The dominance of the supermarkets, the demise of butchers who used to provide more competition in the saleyards, and the consolidation in the domestic processing sector (coupled with consolidation of international beef processors) has led to a 'reduction in competition for stock' which has impacted price.<sup>35</sup>

### ***The live export market***

1.30 Processors purchase for the domestic and export market. The export market accounts for 67 per cent of Australian beef production and consists of over 150 Australian beef exporters, 'all with their own brands and competing against each other as well as other international suppliers according to MLA'.<sup>36</sup>

1.31 According to Fletcher International Exports Pty Ltd, competition is strong in the lamb and sheep meat sector with up to eight meat export companies competing for livestock in most regional markets on any given day.<sup>37</sup>

1.32 The Gulf Cattleman's Association made the point that live export provides the only independent market competition for grazing enterprises in north and north-west Queensland.<sup>38</sup>

### ***Wholesaling and retailing***

1.33 In terms of the domestic market, the two major supermarkets, Coles and Woolworths dominate the retail trade in Australia. They manage their own supply

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31 Mr John Carpenter, *Submission 9*, p. 2.

32 JBS Australia, *Submission 50*, p. 5.

33 Australian Lot Feeders' Association, *Submission 46*, p. 2.

34 Mr Blair and Mrs Josie Angus, *Submission 80*, p. [3].

35 Mrs Linda Hewitt, Australian Beef Association, *Committee Hansard*, 27 August 2015, p. 64.

36 Mr Ashley Sweeting, *Submission 1*, p. 7.

37 Fletcher International Exports Pty Ltd, *Submission 4*, p. [4].

38 Gulf Cattleman's Association, *Submission 41*, p. 2.

chains from forward contracted farm gate supply to retail shelf via contracted independent processing.<sup>39</sup> They have vertically integrated supply and service agreements throughout the supply chain with farmers, feedlots and processors.

1.34 The ACCC estimated 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 lamb production. Together, Woolworths and Coles purchased 12 per cent of total beef production and 24.7 per cent of total lamb production.<sup>40</sup>

1.35 Beef is also sold through butchers, other supermarkets, grocery stores and wholesalers as well as restaurants and cafes.<sup>41</sup>

1.36 A number of submitters made the point that the dominance of the two supermarkets in the rural sector generally, and the beef industry more specifically, has been 'ruthless' with producers 'cut to the bone'.<sup>42</sup> The views of Merebene Pastoral Co. Pty. Ltd were typical in this regard:

Coles and Woolworths (etc) have been untouchable and unrestrainable for too many years and the rural community needs to see the Government repair some of the inequities and imbalances in relation to production cost versus retail profit before we lose more farms and farmers.<sup>43</sup>

### **Impact of processor consolidation on producers**

1.37 The Shire of Campaspe noted in its submission that the industry had been adversely impacted by:

- decreased competition due to less processors, resulting in higher risk of collusion and misuse of market power;
- potential of misidentifying or distorting the value of a product during various stages of the supply chain;
- less industry accountability for consumers; and
- resulting changes in consumer behaviour and confidence in the industry.<sup>44</sup>

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39 Mr David Farley, *Submission 35*, p. 2.

40 Competition and Consumer Commission, *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 2007, p. 6, <https://www.accc.gov.au/system/files/Examination%20of%20livestock.pdf> (accessed 24 November 2015).

41 Mr Ashley Sweeting, *Submission 1*, p. 7.

42 Merebene Pastoral Co. Pty. Ltd, *Submission 6*.

43 Merebene Pastoral Co. Pty. Ltd, *Submission 6*.

44 Shire of Campaspe, *Submission 53*, p. 2.

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**Travel burden and associated costs**

1.38 Producers raised concerns about the practical difficulties, and the costs associated with transporting stock to processing locations and sales. For livestock producers in Western Australia, the Northern Territory and Far North Queensland, long distance travel of their stock for slaughter is a central component of their farming operations.<sup>45</sup> As a consequence of processor consolidation, producers have to transport their cattle increasingly long distances. These distances continue to grow as plants are decommissioned and the industry is rationalised.

1.39 In most cases, beef producers pay the freight costs for 'direct to works' consignments. Mr Rob Atkinson summarised the impact:

Freight costs have a major effect on profitability, and long distance transport has an effect on beef quality, animal welfare, carcass shrink and eligibility for some premium markets. This has all come at a cost to producers.<sup>46</sup>

1.40 Producers argued that the lack of competition in remote or heavily dominated regions has negatively affected producers, leaving them with limited options in relation to how they sell and process their animals. Older processors and retailers are closed or have merged into a larger corporation, and many regions are now serviced by large-scale processing plants owned by the major processing companies. Submitters suggested that methods of sale and processing by these plants have had a negative impact on their income and their stock. This is particularly prevalent in regional areas where the market is significantly more contracted than in densely populated areas.

1.41 Mr Rob Atkinson provided an example of the impact consolidation of the market or 'regional monopolies' is having – specifically to JBS in Townsville. Mr Atkinson indicated that:

Every year, since Teys closed their plant in Innisfail (2006), the queue for booking a kill date in Townsville has been ridiculously long. Right now, that plant is booked out for 4 months. This has been the case for the last 3 years. It is part of the reason many producers have been unable to destock as quickly as they would like during this drought.

...

Most northern producers wait for months for a kill date, but they only know the grid price days before the point of sale. If we don't like the price, we lose the booking. If you don't like it, too bad. The joys of being a price taker.<sup>47</sup>

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45 World Animal Protection, *Submission 18*, p. 2.

46 Mr Rob Atkinson, *Submission 22*, p. [2].

47 Mr Rob Atkinson, *Submission 22*, p. [2].

1.42 Notwithstanding this evidence, other submitters made the point that single plant processors such as Bindaree at Inverell and the Northern Co-operative at Casino face an uncertain future with the resultant effect explained by Mr John Carpenter:

Every time a processor or retailer is amalgamated, it knocks out yet another bidder from the market for cattle. For cattle producers this process is lethal.<sup>48</sup>

***Limitations on where to sell livestock***

1.43 Markets with limited competition restrict producers' choices in how they sell their livestock. Submissions to the committee highlighted that this problem was a significant issue for producers.<sup>49</sup> As Mr Julian Carroll noted, while it would appear that there are a healthy number of processors nationwide:

...the geographical distribution of the processors mean that in reality, many beef producers have only one option before the cost of freight makes it uneconomical to look further afield.<sup>50</sup>

1.44 The Gulf Cattleman's Association suggested that the northern beef cattle market lacked fair competition, fair practice and transparency. It further argued that the consolidation of large processing facilities, reduction in service kill facilities (butchers), monopolisation of markets and changed market practices did not provide for a fair trade environment.<sup>51</sup> Some submitters suggested that where bigger processors were vertically integrated with feedlot business, they are able to regulate supply and therefore price.<sup>52</sup>

1.45 The Gulf Cattleman's Association described the consequences for enterprises in north west Queensland as follows:

The overall result is that as of the beginning of 2015 that the only processing facility in north Queensland available for the majority of the grass-fed herd is in Townsville or a further 7–800km to Rockhampton. Brazilian processing giant JBS and the joint venture between US agri-giant Cargill & Teys have control of 49% of the market and practically 100% of the processing control of the large commercial herds of north Queensland.<sup>53</sup>

1.46 However, some submissions argued that there were still multiple avenues for producers wanting to sell their stock. According to Mayor Pisasale from the City of Ipswich, as there are at least 40 'well-resourced' buyers on the east coast, producers and suppliers still have an opportunity to continue with traditional sales methods and

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48 Mr John Carpenter, *Submission 9*, p. 3.

49 World Animal Protection, *Submission 18*, p. 2.

50 Mr Julian Carroll, *Submission 48*, p. 3.

51 Gulf Cattleman's Association, *Submission 41*, p. 1.

52 Mr Neil Paulet, *Submission 42*.

53 Gulf Cattleman's Association, *Submission 41*, p. 1.

compete for livestock.<sup>54</sup> Processing, however, remains challenging for producers with limited abilities to move their stock elsewhere.

### Supply chain and price

1.47 The supply of red meat to consumers involves a long and complex supply chain. In its 2007 report on the relationship between livestock and retail prices, the ACCC noted that, in light of this reality, it should not be assumed that there will 'necessarily be a direct and immediate relationship between the price of the raw product (livestock) and the final good (packaged meat)'.<sup>55</sup>

1.48 The point was made that price discovery is becoming increasingly more difficult, while producers enjoy only marginal increases in terms of farm gate prices despite an increase in input costs by over 48 per cent since 1997–1998.<sup>56</sup>

1.49 Evidence to the committee highlighted this factor with some submitters arguing that there needed to be some relativity between production and retail prices; today beef is about \$2.40 per kilogram (lwt) and consumers are paying \$20 plus for a similar amount.<sup>57</sup> For producers, the real rate of return has steadily declined over the past 30 years<sup>58</sup> while the price of beef has risen, particularly over the last few years, from \$10 a kilogram to \$16 a kilogram.<sup>59</sup> Further the point was made that Australian beef producers receive only 26.5 to 32.8 per cent on average retail price of beef. In comparison, US cattle producers receive 48.9 to 55 per cent of the retail price.<sup>60</sup>

1.50 The Managing Director of Meat and Livestock Australia (MLA), Mr Richard Norton made it very clear how complex price discovery had become:

...industry's associations with price transparency are complex. They not only involve horizontal line of sight, knowledge of the actual prices at which cattle are being transacted, but also vertical lines of sight – beef prices, margins at each stage along the value chain and confidence in payment systems. These suggest that potentially a range of solutions are needed to address the issue rather than relying on a single solution.<sup>61</sup>

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54 Mayor Paul Pisasale, *Submission 29*, p. 2.

55 Australian Competition and Consumer Commission, *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 2007, p. 18, [www.accc.gov.au/system/files/Examination%20of%20livestock.pdf](http://www.accc.gov.au/system/files/Examination%20of%20livestock.pdf) (accessed 21 January 2016).

56 National Farmers' Federation cited in Victorian Farmers Federation, *Submission 87*, p. 5.

57 Merebene Pastoral Co. Pty. Ltd, *Submission 6*,

58 Nanthes' Park British White Cattle Stud, *Submission 19*, p. [1].

59 Mr Shane and Mrs Maree Kennedy, *Submission 20*.

60 Mr John Carpenter, *Submission 9*, pp 5–6 and Australian Beef Association, *Submission 23*, p. 18.

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

1.51 One of the issues raised in relation to red meat processing in Australia, which is central to the inquiry, is that retail prices have risen while livestock prices have not.<sup>62</sup> Yet the red meat supply chain is said to be one of supply and demand, further influenced by seasonal conditions and the dollar. According to AMIC, the main factors influencing livestock prices include the effects of drought, domestic market shifts, overseas meat demand, and exchange rate fluctuations. In relation to the latter, AMIC suggested that with up to 70 per cent of red meat exported, a stronger Australian dollar makes its exports more expensive overseas and reduces the quality of Australian meat demanded and purchased by those markets.<sup>63</sup> It argued that:

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.<sup>64</sup>

1.52 While a number of submitters argued the point that there is a correlation between global price, domestic slaughter levels and domestic pricing, a number of producers challenged this argument. Mr Blair and Josie Angus suggested that:

Cattle slaughter rates have shown consistent steady increase, global prices have accelerated and cattle prices have not followed. The only consistent...is the widening gap between cattle prices and beef prices or increasing processor margin.

The rapid price increases seen in 2015 have occurred without a significant lessening of cattle slaughter or a significant change in slaughter capacity and in fact against a background of a reduction in global beef prices.<sup>65</sup>

1.53 These views were also echoed in other submissions to the inquiry.

### **Committee's previous seven recommendations**

1.54 On 9 September 2014, this committee tabled its inquiry report into *Industry Structures and systems governing levies on grass-fed cattle*. The committee produced seven recommendations directed at providing for greater producer representation, transparency and accountability within the grass-fed cattle levy system.

1.55 Many submitters to the current inquiry voiced their support for the implementation of all seven of the committee's 2014 recommendations.<sup>66</sup> It was suggested that implementation of the recommendations would provide greater

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62 Mr Bradley Teys, Teys Australia, *Committee Hansard*, 27 August 2015, p. 8.

63 Australian Meat Industry Council, *Submission 93*, p. 13.

64 Australian Meat Industry Council, *Submission 93*, p. 13.

65 Mr Blair and Mrs Josie Angus, *Submission 80*, p. [2].

66 Mr Julian Carroll, *Submission 48*, p. 2; Victorian Farmers Federation – Ovens Valley Branch, *Submission 62*, p. 3; Ms Loretta Carroll, *Submission 63*, p. 3 and Mr Peter McHugh, private capacity, *Committee Hansard*, 4 August 2015, p. 44.

producer representation as well as address the 'unchecked power the processing sector has amassed'.<sup>67</sup>

### **Structure of the report**

1.56 Chapter 2 of this report considers selling practices at saleyards. It considers the events at Barnawartha and focuses on the potential for misuse of market power through buyer collusion and concerted practices.

1.57 Chapter 3 considers the saleyards as a selling system including pre- and post-weighing at saleyards. It also examines the evidence in relation saleyards and price discovery.

1.58 Chapter 4 focuses on other selling structures including 'over the hook', direct sales and online sales.

1.59 Chapter 5 considers the regulatory environment and the grading system.

1.60 In the final chapter, the committee outlines its view and recommendations which aim to create a fair market with focus on concerted practices, commission buyers, price transparency, accountability and saleyard design.

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67 Mr Julian Carroll, *Submission 48*, p. 2.

