

# Chapter 3

## Saleyards and price discovery

3.1 One of the consequences of consolidation of the processor and retail sectors is the loss of operational transparency, as evidenced by the events at the Barnawartha saleyards.<sup>1</sup> This chapter explores those concerns and considers price transparency in relation to the selling systems available to producers. It focuses in particular on saleyards as the primary price discovery mechanism for livestock markets in Australia.

3.2 The extent to which producers can maximise the return on their livestock is influenced by the extent to which they can meet market specifications, as well as the method and process used. The various selling structures for cattle, sheep and lambs include:

- saleyard auctions;
- direct (paddock) sales;
- 'over the hook' sales;
- online sales such as AuctionsPlus; and
- forward price contracts.<sup>2</sup>

3.3 In the case of beef cattle, cattle are sold to other cattle farmers for fattening or backgrounding for entry into feedlots, to feedlots for grain finishing or to abattoirs for slaughter.<sup>3</sup> Producers can choose to use 'any or all formats depending on the individual circumstances including the farms geographical location, stock type and size'.<sup>4</sup>

3.4 To add to the complexity of the market, there are a number of systems available to sell livestock, with prices paid on the basis of carcass weight, live-weight or per head depending on the system used.<sup>5</sup> This chapter considers selling methods with particular focus on saleyards.

### Saleyard auctions

3.5 Traditionally, cattle were sold through auctions at saleyards. This process involves a producer transporting cattle to the saleyard and the buyer then transporting the cattle on for processing.<sup>6</sup>

---

1 Nanthes' Park British White Cattle Stud, *Submission 19*, p. [2].

2 Sheepmeat Council of Australia, *Submission 59*, p. 21; Department of Agriculture, *Submission 74*, p. 8 and Mr Rob Atkinson, *Submission 22*, p. [1].

3 Department of Agriculture, *Submission 74*, p. 8.

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

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

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

3.6 Saleyards remain the main method of sale representing 66 per cent of total beef sales in southern Australia in 2012–13. Saleyards are most commonly utilised by producers who have smaller herds and sell in small lot sizes.<sup>7</sup> In regions such as Victoria, where land holdings are smaller, farmers are not able to produce livestock in volumes that would provide bargaining power with meat buyers and are therefore often reliant on saleyards.<sup>8</sup> Australian Livestock and Property Agents Association (ALPAA), observed that the ability to handle small consignments at saleyards was particularly important, given that 50 per cent of vendors sell less than seventeen head per year.<sup>9</sup> Similarly, Mrs Jane Carney explained that while there is growing reluctance to sell at saleyards, many producers are too small for their cattle to be attractive to buyers as individual consignments.<sup>10</sup>

3.7 Sale by auction establishes the value of other forms of sale.<sup>11</sup> Therefore the saleyard provides the yardstick on prices that all vendors receive.<sup>12</sup> Evidence to the committee suggested that while producers sell direct to processors and other buyers at agreed farm gate prices, the agreed price is usually set against a benchmark of recent local auction prices.<sup>13</sup> Therefore, if anti-competitive behaviour takes place at saleyards and results in lower prices, such prices will impact the remaining 70 per cent of sales across the market.<sup>14</sup> Furthermore, the argument was put that the disparity between the prices achieved by producers compared to that taken by processors indicated that the 'current pricing mechanism is likely to be artificially repressed'.<sup>15</sup> Many producers argued, therefore, that it was fundamentally important to ensure that the process at auction is fair and legal, and operates in a manner which does not impede true competition.<sup>16</sup>

3.8 According to the Livestock Saleyards Association of Victoria (LSAV), the majority of producers in Victoria have a choice of local saleyards. It argued that most producers could choose between two or three saleyards depending on their location, as well as on-line selling and direct selling to processors. Many smaller producers also

---

7 Department of Agriculture, *Submission 74*, p. 11.

8 Victorian Livestock Exchange, *Submission 49*, p. 3. VLE made the point that in parts of northern Australia, farmers produce livestock in volumes that provide them with better bargaining power with meat buyers.

9 Australian Livestock and Property Agents Association, *Submission 79*, p. 7.

10 Mrs Jane Carney, *Submission 66*, p. [3].

11 Rockhampton Regional Council, *Submission 36*.

12 Mr Robert Reid and Mr Jason Reid, *Submission 38*.

13 Victorian Farmers Federation – Wangaratta Branch, *Submission 45*, p. 6.

14 Victorian Farmers Federation – Wangaratta Branch, *Submission 45*, pp 2–3.

15 Victorian Farmers Federation – Wangaratta Branch, *Submission 45*, p. 3.

16 Mr Robert Reid and Mr Jason Reid, *Submission 38*.

sell via social media and directly to other local producers.<sup>17</sup> In terms of price discovery, LSAV argued that:

These selling systems are well supported by a wide range of publicly available, cheap market information that allows them to price their livestock before sale and make an informed choice of selling system. The bulk of this public market information is derived from saleyard reports, both the official MLA service as well as locally produced market reports from many saleyards.<sup>18</sup>

3.9 However, according to ALPAA, almost 70 per cent of southern livestock and 40 per cent of northern livestock are transacted through saleyards.<sup>19</sup> Yet, as a selling mechanism, saleyards are of diminishing value and use to modern beef industry value chains, especially for those producers geared to supplying premium quality beef to high value domestic and international markets.<sup>20</sup>

3.10 Evidence to the committee suggested that increasingly, cattle are sold directly to the processor with the producer paid on a carcass weight basis. As a case in point, the country's second largest beef processor – Teys – purchases up to 94 per cent of its cattle directly from producers, with the remainder purchased at saleyards.<sup>21</sup> According to Mr Bradley Teys, the company prefers to purchase cattle directly because there is 'less bruising and better meat quality'.<sup>22</sup>

#### ***Expenses at saleyards***

3.11 It was suggested that use of saleyards is becoming expensive for producers with an estimated total cost of up to 10 per cent incurred per head of cattle.<sup>23</sup> Such costs, which are borne by the producer, include commissions, yard fees, cattle levies and freight.<sup>24</sup> Mr Richard Wilson explained:

With 4% agents commission, \$14.50/head yard dues, extra stress and losses, unloading onto concrete, penning, selling, weighing, reloading in a strange environment, bruise and delayed kill losses and additional freight, the total costs or losses realistically are say 10% of gross value.<sup>25</sup>

---

17 Livestock Saleyards Association of Victoria, *Submission 30*.

18 Livestock Saleyards Association of Victoria, *Submission 30*.

19 Australian Livestock and Property Agents Association, *Submission 79*, p. 7.

20 Teys Australia, *Submission 55*, p. 2.

21 Mr Bradley Teys, Teys Australia, *Committee Hansard*, 27 August 2015, p. 9.

22 Mr Bradley Teys, Teys Australia, *Committee Hansard*, 27 August 2015, p. 9.

23 Mayor Bill Ludwig, Livingstone Shire Council, *Submission 58*, p. [2]; Mr Newman and Mrs Shirley Patmore, *Submission 64*, p. 2. Mrs Jane Carney stated that her selling costs amount to approximately 9.5 per cent of the sale price, after the cost of production, *Submission 66*, p. [3].

24 Capricorn Enterprise, *Submission 52*, p. 2.

25 Mr Richard Wilson, *Submission 56*, p. [2].

3.12 In terms of transportation costs alone, the Sheepmeat Council of Australia (SCA) noted that the cost of transporting sheep, based on industry estimates, is \$1.2 per head per 100 kilometres.<sup>26</sup> A number of other submitters highlighted that the considerable distances often required to reach saleyards placed a significant cost impost on producers. According to AgForce Queensland, in that state, livestock freight costs can represent up to 35 per cent of market value.<sup>27</sup>

3.13 Victorian Farmers Federation (VFF) – Wangaratta Branch raised concerns that, in their quest for efficiencies, large processors may shift other costs back to producers. It argued that such costs, including transportation and the imposition of post-sale weighing, are particularly onerous on producers where cattle have to be transported greater distances as a consequence of local plant closures. According to VFF–Wangaratta, these concerns were realised in 2012 when the abattoir on King Island was closed, thereby forcing producers to bear the costs of transporting live cattle to the mainland.<sup>28</sup>

### **Pre- and post-sale weighing at saleyards**

3.14 According to the department, in NSW, Queensland and South Australia, most saleyards use a post-sale weighing system. That is, cattle are weighed after being sold.

3.15 The committee was informed that while most of NSW now operates under a post-sale weighing system, 'a lot of that has been achieved by stealth of the processing industry' as Mr Derek Schoen, President of the NSW Farmers' Association explained:

As saleyards have been redeveloped, the processors have put the pressure on—just like what happened at Barnawartha—to get it changed over.<sup>29</sup>

3.16 Traditionally in Victoria, saleyard operators used the pre-sale weighing system. However, in 1999, when it opened its first facility in Pakenham, the Victorian Livestock Exchange (VLE) introduced post-sale weighing to Victoria.<sup>30</sup> In recent years, many other saleyards have moved to the post-sale weighing system.<sup>31</sup>

3.17 According to Mr John Buxton, while there was in the past a uniform Code of Practice for Live Weight Selling applied across Victoria, this is no longer the case as different systems operate in different selling centres across Victoria. He observed that export meat processors used their market power to break the code every time a new set of saleyards opens with the opening of the new Northern Victoria Livestock Exchange (NVLX) at Barnawartha the most recent example.<sup>32</sup>

---

26 Sheepmeat Council of Australia, *Submission 59*, p. 28.

27 AgForce Queensland, *Submission 85*, p. 2.

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

29 Mr Derek Schoen, NSW Farmers' Association, *Committee Hansard*, 2 September 2015, p. 3.

30 Victorian Livestock Exchange, *Submission 49*, p. 1.

31 Victorian Farmers Federation – Wangaratta Branch, *Submission 45*, p. 5.

32 Mr John Buxton, *Submission 5*, p. [2].

3.18 One of the many questions raised about the post-sale weighing system is that of why prime cattle sales are 'singled out' for post-sale weighing, given that store cattle sales, feature sales and weaner sales are still weighted pre-sale.<sup>33</sup>

3.19 For many producers, the move from pre-sale weighing cattle to a post-sale weighing system demonstrated the power that processors command.<sup>34</sup> The VFF's Ovens Valley Branch noted that, despite industry-wide efforts over years to provide objective data to enable productivity gains across all areas of production, when it came to the sale of the product, 'we are suddenly told via an ultimatum we will no longer have access to the cattle weight'.<sup>35</sup>

3.20 Furthermore, the post-sale weighing system has made purchasing difficult for producers who want to buy feeder cattle, bought within a very tight weight range for a particular grid.<sup>36</sup> In addition, without pre-sale weighing data to support purchasing decisions, it was argued that agents cannot be expected to draft correctly.<sup>37</sup>

3.21 Access to information was the key concern in relation to the shift to post-sale weighing. The VFF's support for pre-sale weighing was explained by Mr Ian Feldtmann, President of the VFF Livestock Group:

The reasoning behind that is that it gives the maximum information to all buyers and it allows the restockers or private operators, who want to buy stock to finish for a market, to know what they are buying and they can make their calculations based on that before the animals are actually put up for sale. That is an important part to bring as many players into the system for competition. That is where producers are coming from.<sup>38</sup>

3.22 However, many processors voiced a preference for post-sale weighing because of a variable dressing percentage that occurs with pre-sale weighing.<sup>39</sup> The VLE argued that post-sale weighing provides the industry with a more transparent method of selling as buyers purchase what they desire which is meat and not gut fill.<sup>40</sup> It was observed by VLE's Mr Wayne Osborne that there were methods to make animals hold onto worthless gut-fill that the buyers ultimately pay for.<sup>41</sup>

---

33 Mr Norman Sharp, *Submission 27*.

34 Victorian Farmers Federation – Ovens Valley Branch, *Submission 62*, p. 3 and Mr Max and Ms Pamela McKimmie, *Submission 67*, p. 2.

35 Victorian Farmers Federation – Ovens Valley Branch, *Submission 62*, p. 3.

36 Victorian Farmers Federation – Ovens Valley Branch, *Submission 62*, p. 3.

37 Victorian Farmers Federation – Ovens Valley Branch, *Submission 62*, p. 3.

38 Mr Ian Feldtmann, Victorian Farmers Federation, *Committee Hansard*, 2 September 2015, p. 30.

39 Dressing percentage refers to the carcass weight after trimming of fat as a proportion of liveweight.

40 Victorian Livestock Exchange, *Submission 49*, p. 7.

41 Mr Wayne Osborne, Victorian Livestock Exchange, *Committee Hansard*, 2 September 2015, p. 16.

3.23 Mr Bradley Teys argued the point that post-sale weighing with a curfew gave all involved 'the best and most consistent results' when purchasing cattle. He continued:

Our belief is that post-sale weighing with a curfew gives everybody the best and most consistent results when it comes to buying cattle. At the end of the day we are buying yield of saleable meat. At the moment the industry buys a carcass. Depending on your carcass yield, if you have a pre-sale weigh you will get are a lot more variability in what that carcass yield will be as against post sale. That is our belief, and the evidence that we have been able to gather over the years has pointed to that.<sup>42</sup>

3.24 Mr Teys cited a scientific study conducted by Dr Jennifer Wise in the 1980s which he argued had indicated that scientifically, post-sale weighing enabled a more consistent result. He suggested that the paper's findings had been verified by anecdotal experience.<sup>43</sup>

#### ***Accurate price signals and market competition***

3.25 A number of producers argued against post-sale weighing and in favour of pre-sale weighing.<sup>44</sup> Mr Julian Carroll, for example, suggested that post-sale weighing was an unnecessary solution to the processors' concerns about variability in dressing percentages.<sup>45</sup>

3.26 Submitters drew on their own experiences to demonstrate their concerns with post-sale weighing. Mr David Blum noted that in his experience, having weighed his cattle some months prior to sale and fed then well, the sale note revealed that the weight of his cattle had dropped by approximately 40 kilograms per head, thereby reducing his return by nearly \$100 a head.<sup>46</sup>

3.27 Some producers made the point that unlike livestock, no other product is allowed to be sold without the weight or the volume of the product displayed at the point of sale. For this reason, many submitters voiced support for pre-sale weighing on the basis that it offered greater transparency as well as better animal welfare outcomes. Mr James Neary noted that pre-sale weighing gives a buyer measurable information to be able to buy an animal to fit a carcass weight that they may require.<sup>47</sup> Otherwise, vendors have no idea of the actual per head value but rather an estimation of the value of cattle sold.<sup>48</sup> Similarly, Mr Stuart Morant argued pre-sale weighing

---

42 Mr Bradley Teys, Teys Australia, *Committee Hansard*, 27 August 2015, p. 2.

43 Mr Bradley Teys, Teys Australia, *Committee Hansard*, 27 August 2015, p. 2.

44 Mr David Evans, *Submission 15*, p. [3]; Mr Eddie and Mrs Jan Hooper, *Submission 16*; Mr James Neary, *Submission 34* and Gulf Cattleman's Association, *Submission 41*, p. 4.

45 Mr Julian Carroll, *Submission 48*, p. 4.

46 Mr David Blum, *Submission 26*

47 Mr James Neary, *Submission 34*.

48 Mr David Evans, *Submission 15*, p. [3]

provided all parties with access to cattle weights prior to sale and thereby provided everyone with a clear picture of values.<sup>49</sup>

3.28 Cattle and sheep producer, Mr John Buxton, argued that post-sale weighing puts those with the least amount of market information at a disadvantage. He made the point that if a producer does not know the weight of cattle for sale, they will not be able to value it.<sup>50</sup> He argued that, for the purposes of a transparent and efficient marketplace, which can send reasonably accurate price signals and maximise competition, 'pre sale weighing is essential'.<sup>51</sup>

3.29 Similarly, Mr Eddie and Mrs Jan Hooper suggested that whereas with pre-sale weighing, everyone at the market has the information available to accurately determine whether or not to bid on a pen, with post-sale weighing, bidders remain in the dark.<sup>52</sup> They explained the consequences:

This effectively decreases competition, decreases information available to prospective buyers, decreases prices paid for cattle and finally ends with animals being left off food and water for longer when animal welfare should rightly come first. How can this be not just allowed, but actively promoted? How can agricultural producers be accountable for animal welfare standards, yet a selling system be exempt?<sup>53</sup>

3.30 Mr Eddie and Mrs Jan Hooper argued the point that:

Post weighing selling systems, whilst preferred by the processors, is regressive and more difficult for the farmer and impossible for the store cattle buyers, where margins are so fine these bidders are automatically precluded in any post weighing scales system. Thus the processor pressure has effectively reduced competition for themselves and likewise reduced returns to farmers.<sup>54</sup>

3.31 The VFF's Ovens Valley Branch recommended legislation to require all selling complexes to implement pre-sale weighing of cattle to provide objective data for all users and thereby establish a fair and reasonable system of transaction to assist all parties in their purchasing decision.<sup>55</sup>

3.32 Others raised concerns regarding the inconsistency in practices of buyers. Mr Rob Atkinson raised the question of why beef processors would purchase cattle at saleyards when they usually operate on a grid specification:

When processors purchase 'out of the yard', they do not know what dentition, fat depth or fat colour, weight, dressing percentage, butt shape,

---

49 Mr Stuart Morant, *Submission 28*.

50 Mr John Buxton, *Submission 5*, p. [1].

51 Mr John Buxton, *Submission 5*, p. [1].

52 Mr Eddie and Mrs Jan Hooper, *Submission 16*.

53 Mr Eddie and Mrs Jan Hooper, *Submission 16*.

54 Mr Eddie and Mrs Jan Hooper, *Submission 16*.

55 Victorian Farmers Federation – Ovens Valley Branch, *Submission 62*, p. 4.

bruising, dark cutters etc. the carcasses will exhibit. So the question has to be asked. When cattle are purchased at a sale yard, what happens to the cattle that do not meet the grid criteria? Are those carcasses downgraded as they would be in a direct works transaction? I would suggest that there are two sets of rules.<sup>56</sup>

3.33 Another concern raised by producers was that of ownership. It was not clear whether, under the post-sale weighing system, producers still own the cattle from the time that the hammer falls until after the cattle is weighed.<sup>57</sup> There remains a lack of clarity regarding ownership as Ms Loretta Carroll observed:

In Wodonga cattle are weighed sometimes several hours after the hammer has fallen. This question was asked at the Barnawartha meeting as well as the following two questions:

- 1) At what time can a farmer 'no sale' his cattle?
- 2) Can a producer place a reserve on his cattle?

No one was able to answer these questions at the meeting.<sup>58</sup>

3.34 This question raised the matter of whether a vendor can declare a 'no sale' if the post-sale weight disclosed is not sufficient.<sup>59</sup>

#### ***Animal health and welfare concerns***

3.35 A number of submitters also raised concerns regarding animal health and welfare in relation to post-sale weighing.<sup>60</sup> The point was made that cattle are off feed and water prior to transportation and during transportation to and from the saleyards. They are then yarded, and it can be up to 24 hours or even longer before they are weighed.<sup>61</sup> In fact, according to the Gulf Cattleman's Association, the average 400 kg beast will lose ten per cent of its body weight in the first 200 kilometres of travel.<sup>62</sup>

3.36 According to the Australian Standards and Guidelines for the Welfare of Animals, at the receipt of livestock, it should be determined how long the livestock have been off feed and water from the person delivering the livestock and/or consignment records and documentation. The guidelines specify that time off water is calculated by accumulating the time that livestock are not provided with water including assembly and when in holding facilities, loading and time on the vehicle, as

---

56 Mr Rob Atkinson, *Submission 22*, p. [3].

57 Mr Rod Mitchell, *Submission 57* and Mr Norman Sharp, *Submission 27*.

58 Ms Loretta Carroll, *Submission 63*, p. 2.

59 Mr Norman Sharp, *Submission 27*.

60 Mr James Neary, *Submission 34*; Mr Rex and Mrs Trish Forrest, *Submission 44*, p. 2; Ms Loretta Carroll, *Submission 63*, p. 3 and Mrs Jane Carney, *Submission 66*, p. [2].

61 Mr Eddie and Mrs Jan Hooper, *Submission 16*; Mr James Neary, *Submission 34*; Victorian Farmers Federation Wangaratta Branch, *Submission 45*, p. 5 and Victorian Farmers Federation – Ovens Valley Branch, *Submission 62*, p. 3.

62 Gulf Cattleman's Association, *Submission 41*, p. 3.

well as time during unloading into new holding areas until water is provided.<sup>63</sup> The guidelines further note that watering facilities should be provided to all animals that have been traveling for more than 12 hours or deprived of water for a total period of more than 12 hours.<sup>64</sup> It further specifies that, ideally, animals should not be without food for more than 24 hours.<sup>65</sup> However, these are maximum limits and certain classes of animals, such as pregnant or young animals, as well as cattle transported under difficult conditions, such as dry hot weather, will need regular access to water.

3.37 One of the concerns raised in relation to the Barnawartha saleyard was the curfew. Originally, the curfew was six hours prior to weighing. However with the change to post-sale weighing, a 9.00 pm mandatory cut-off was introduced which effectively increased the curfew twofold.<sup>66</sup> The logic of a 9.00 pm curfew was questioned given that at least 12 hours would expire by the time the sale opens at 9.00 am the following day and livestock are not weighed until after sale.<sup>67</sup> Many producers voiced their preference for the past practice whereby the last load could arrive by midnight.<sup>68</sup> Furthermore, the point was made that animal welfare and practical difficulties arise when unweighed cattle can remain in sale pens for some time after sale.<sup>69</sup>

3.38 VFF's Ovens Valley Branch noted that MSA accreditation requires that cattle be killed within 36 hours of despatch from the farm which suggests that it would be difficult for post-sale weighing saleyards to gain MSA accreditation.<sup>70</sup> Furthermore, concerns were raised in relation the stress levels of stock and the overall impact on the grading of the carcass. MSA documents highlight the importance of livestock handling and the effects that detaining animals for extended periods can have on carcass quality:

*"The long period of care in producing an animal with high eating quality potential is most at risk in the two weeks pre-slaughter and first few hours*

---

63 Animal Health Australia, *Australian Animal Welfare Standards and Guidelines - Livestock at Saleyards and Depots*, Saleyard Welfare Standards, Edition One, Version One, 21 December 2015, p. 48.

64 Animal Health Australia, *Australian Animal Welfare Standards and Guidelines - Livestock at Saleyards and Depots*, Saleyard Welfare Standards, Edition One, Version One, 21 December 2015, p. 30.

65 Animal Health Australia, *Australian Animal Welfare Standards and Guidelines - Livestock at Saleyards and Depots*, Saleyard Welfare Standards, Edition One, Version One, 21 December 2015, p. 31.

66 Mr Derek Schoen NSW Farmers' Association, *Committee Hansard*, 2 September 2015, p. 3.

67 Mr Norman Sharp, *Submission 27* and Mr Stuart Morant, *Submission 28*.

68 Mr Don Nevin, *Submission 47*.

69 Mr David Evans, *Submission 15*, p. [3]

70 Victorian Farmers Federation – Ovens Valley Branch, *Submission 62*, p. 3.

*post slaughter*” (MSA03). The longer curfew reduces glycogen levels in the muscle affecting eating quality and causing dark cutters.<sup>71</sup>

3.39 Mr Pat Larkin suggested that if post-sale weighing is to continue, producers should be afforded a reduced curfew period so that livestock are not 'off feed' for extended periods prior to being weighed, a situation that does not occur in relation to on farm paddock purchasing. Further, he argued that if livestock are not weighed until mid to late afternoon, they should not be required at the saleyards any longer than six hours prior to that weighing.<sup>72</sup> Mr Julian Carroll suggested the establishment of a national protocol based on pre-sale weighing and National Vendor Declaration (NVD) trucking times.<sup>73</sup> NVD serves as the movement documentation required when cattle are being moved.

### **Saleyards and price discovery**

3.40 The Australian Meat Industry Council (AMIC) suggested that the range of supply arrangements in place throughout the supply chain reduced the relevance of saleyard indicator prices, including direct purchasing by various export and other processors and by major retailers.<sup>74</sup>

3.41 However, a substantial number of other submitters made the point that the saleyard system serves as the prime market indicator or reference point with the auction system providing a critical price discovery mechanism for livestock marketing throughout the country.<sup>75</sup> As the ACCC put it, the saleyard is the 'most transparent means of price discovery for buyers and sellers'.<sup>76</sup> The VLE explained:

Just as with live auctions of real estate, saleyards are the primary means of determining the monetary value of livestock. This in turn provides the value that under pins transactions of private/direct sales of livestock. Without saleyards it is difficult for farmers to assess which product (class of animal) and marketing channel (buyer) is providing the better return, as the details of direct sales remain private.<sup>77</sup>

3.42 Therefore, the saleyard price for fat cattle sets the price for the entire cattle production chain, impacting stock breeders, cow and calf producers, backgrounders, feedlots and stockers.<sup>78</sup> As the VFF noted, the present value of unfinished cattle is based, therefore, on the expected future value of fat cattle. Thus, the estimated eight

---

71 Victorian Farmers Federation – Ovens Valley Branch, *Submission 62*, p. 3.

72 Mr Pat Larkin, *Submission 60*, p. 2.

73 Mr Julian Carroll, *Submission 48*, p. 7.

74 Australian Meat Industry Council, *Submission 93*, p. 30.

75 Mr Derek Schoen, NSW Farmers' Association, *Committee Hansard*, 2 September 2015, p. 3; Victorian Livestock Exchange, *Submission 49*, p. 3 and Australian Livestock and Property Agents Association, *Submission 79*, p. 7.

76 Ms Ford, ACCC, *Committee Hansard*, 5 April 2016, p. 12.

77 Victorian Livestock Exchange, *Submission 49*, p. 3.

78 Victorian Farmers Federation, *Submission 87*, p. 12.

per cent of the finished/fat cattle sales that large processors compete for at the saleyards is the means by which price is determined, not only for all fat cattle sales but also all the way up and down the cattle production chain, 'affecting every transaction from breeder to stocker to backgrounder to lot feeder'.<sup>79</sup>

3.43 Evidence to the committee suggested that, with some variation, only 30 per cent of all cattle sold domestically are sold through the saleyard auction system with the remainder sold over the hooks and by way of direct (paddock) sales.<sup>80</sup> Two of the largest processors, Teys Australia and JBS Swifts purchase only 8 per cent and 5 per cent respectively of their livestock from the saleyards.<sup>81</sup> However, saleyards remain particularly important for small-scale producers. This is particularly the case in Victoria, where up to 60 per cent of cattle are sold through the saleyards.<sup>82</sup>

3.44 Mr Eastwood from JBS Australia recognised that there was a price relationship between the saleyard price and the grid price.<sup>83</sup> ALPAA also accepted that the saleyard price sets over the hook pricing and argued that this benefited the producer:

In January this year, after rain in a lot of areas, processors were constantly changing their prices upwards for over the hooks livestock due to the increase in saleyard prices that were set by the auction system. This fact proves that the auction system is one of the most important methods of setting prices. Processors were forced to pay more over the hooks to producers due to the competition at auction. This was widely reported and commented on by all rural newspapers. The EYCI hit a record high of 530.25c kg/LW in June 2015.<sup>84</sup>

3.45 Drawing on the events at Barnawartha, Ms Loretta Carroll noted that in circumstances where Teys-Cargill doesn't attend a market, it can impact the market price. However, if Teys, as well as JBS and Nippon (who between them hold a 55 per cent share of the processing sector) don't attend a market, it can significantly affect the average price. Producers described selling livestock at saleyards for these reasons as a 'lottery',<sup>85</sup> whereby sales are unsatisfactory due to 'unreliable and erratic prices'.<sup>86</sup> In terms of control over the market, Mrs Loretta Carroll made the following observations:

---

79 Victorian Farmers Federation, *Submission 87*, p. 12.

80 Gulf Cattleman's Association, *Submission 41*, p. 2; Victorian Farmers Federation – Wangaratta Branch, *Submission 45*, p. 6 and Mr Julian Carroll, *Submission 48*, p. 3.

81 Mr Bradley Teys, Teys Australia, *Committee Hansard*, 27 August 2015, p. 9 and Mr Brent Eastwood, JBS Australia, *Committee Hansard*, 27 August 2015, p. 16.

82 Mr Wayne Osborne, Victorian Livestock Exchange, *Committee Hansard*, 2 September 2015, p. 18.

83 Mr Brent Eastwood, JBS Australia, *Committee Hansard*, 27 August 2015, p. 21.

84 Australian Livestock and Property Agents Association, *Submission 79*, p. 8.

85 Mr Newman and Mrs Shirley Patmore, *Submission 64*, p. 1.

86 Mr Max and Ms Pamela McKimmie, *Submission 67*, p. 1.

When you consider the national benchmark pricing system, being the Eastern Young Cattle Indicator only collects its data from public selling centres, you can understand how easy it could be for processors to influence the market price.<sup>87</sup>

3.46 At best, market reports and benchmarking indicators including the Eastern Young Cattle Indicator (EYCI) are based on a smaller and cheaper sample of the market as these serve as the only reference point for prices.<sup>88</sup> Notwithstanding some fluctuations, the argument was put that lower prices at saleyards, resulting from lack of tension in the market, serve as a benchmark to lower over the hook prices.<sup>89</sup> This dynamic is made particularly problematic when over the hooks bookings are made as far as four months ahead.<sup>90</sup>

3.47 The VFF Wangaratta Branch described the two distinct channels for cattle sales – direct (70 per cent), and saleyard auction (30 per cent) – both of which rely on a pricing mechanism which is a closed, self-reinforcing loop, controlled by the same buyers operating in both channels. It continued:

A feature of the two-channel system however, is that the buyers in both channels are the same, and the prices being offered in the Direct channel are set at auction by the same buyers in Saleyard channel, in what is essentially a closed and self-reinforcing pricing mechanism. It therefore follows that should prices in saleyards auctions be repressed by buyer collusion, the effect is carried through to the other Direct channel.<sup>91</sup>

3.48 The Gulf Cattleman's Association explained the consequences for northern producers:

In support of this potential of uncompetitive behaviour in north Queensland there are grazing enterprises sending stock as far south as northern Victorian processors (2,500 km freight) and getting better net returns. Regardless, net returns to beef producers for commercial based herds (not MSA) has been negative to marginal since the Live Export ban in 2011, followed by drought sales.<sup>92</sup>

3.49 In Victoria, the VFF Wangaratta noted that from 2000–2013, the average per kilogram price achieved by producers at saleyard auctions grew by 20 per cent, compared to a retail price increase of 45 per cent and CPI increase of 49 per cent. Over that four year period, the margins for processors grew by 400 per cent. The VFF

---

87 Ms Loretta Carroll, *Submission 63*, p. 2.

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

89 Gulf Cattleman's Association, *Submission 41*, p. 2 and Mr David and Ms Anne Wortmann, *Submission 76*.

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

91 Victorian Farmers Federation – Wangaratta Branch, *Submission 45*, p. 6.

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

Wangaratta suggested that such disparity was seen by producers as a symptom of buyer collusion.<sup>93</sup>

### ***Eastern Young Cattle Indicator***

3.50 The VFF Ovens Valley Branch argued that a fundamental problem with the current selling system is that of the reporting of livestock sales. The EYCI is the general benchmark of Australian cattle prices. It is a seven-day rolling average produced daily by Meat and Livestock Australia's (MLA) National Livestock Reporting Service (NLRs). The results include cattle purchased for slaughter, restocking or lot feeding and are expressed in cents per kilogram carcass (dressed) weight (c/kg cwt). The VFF Ovens Valley Branch raised the following concerns with the EYCI:

A serious concern with the EYCI is that store cattle and poorer quality cattle are included in the calculation for the average price reducing the real value of the quality cattle especially when the EYCI does not report on the C4 cattle (being the higher quality). The fundamental problem, however with the reporting system is that only approximately 30% of livestock are sold through the sale yards leaving a staggering 70% of livestock sales unreported.<sup>94</sup>

3.51 Furthermore, processors use the EYCI as their benchmark pricing gauge. At the same time, they generally utilise cattle markets as a last resort to top up their kill. The VFF Ovens Valley Branch put the argument that using the EYCI as a benchmark is 'detrimental to producers' as the EYCI is used by processors to set their price when purchasing cattle directly from producers. Moreover, it noted that with consolidation of the processing sector, it is far easier to control the saleyard price. In this regard, JBS and Teys-Cargill have a 49 per cent share of the red meat processing sector, while Coles and Woolworths have a combined market share of the domestic retail beef market of 57 per cent.<sup>95</sup>

### **Price discovery mechanism**

3.52 CCA recommended a voluntary prescribed industry code to establish an industry standard practice for demonstrating price transparency through the supply chain.<sup>96</sup> Nanthes' Park British White Cattle Stud agreed but argued that the code should be enforceable for all participants at saleyards to ensure that the rights of the vendor are protected. It made the point that saleyard operations need to be structured in a way to ensure that the vendor has every opportunity to best present their stock for sale.<sup>97</sup>

---

93 Victorian Farmers Federation – Wangaratta Branch, *Submission 45*, p. 2.

94 Victorian Farmers Federation – Ovens Valley Branch, *Submission 62*, p. 3.

95 Victorian Farmers Federation – Ovens Valley Branch, *Submission 62*, p. 3 and Department of Agriculture, *Submission 74*, p. 17.

96 Cattle Council of Australia, *Submission 83*, p. 9.

97 Nanthes' Park British White Cattle Stud, *Submission 19*, p. [2].

3.53 The point was also made that there needs to be a base price which is determined from the totality of the market.<sup>98</sup> The VFF argued that:

Price transparency and reporting that will allow for a true market rate of the beast will allow people to operate in a certain sector in a true market. In a market where collusion occurs, if you are not getting the true market value for that beast, then you know you should not be operating in that market as a producer or a buyer.<sup>99</sup>

3.54 The VFF Ovens Valley Branch made the following two recommendations to address this situation:

Recommendation: Establish a mandatory reporting system for all cattle sold through the various selling channels and to establish a transparent reporting system all along the retail chain.

Recommendation: Investigate the selling mechanisms and structures between the farm gate and the processor to better manage the negative effects of processor consolidation.<sup>100</sup>

3.55 Mr David Hill of DL & EM Hill also argued in favour of a clear value based price signal that would allow producers to achieve a price return based on the value of livestock to the supply chain.<sup>101</sup> He further argued that there is a need to focus on value-based returns.

3.56 Mr Roger McDowell advocated for a system whereby cattle are weighed before sale with the average weight per pen announced or displayed on the pen prior to bidding.<sup>102</sup> Similarly, Nanthes' Park British White Cattle Stud recommended the introduction of the Dutch auction system which, it argued, would benefit vendors, improve competition, and is used in locations such as the Sydney Fish Market where the same commodity is being sold.<sup>103</sup> Mr Craig Cross explained the process and its benefits:

The start-off price would be set at, say, \$5 a kilo, which is well and truly above what people would be expected to pay. It would then drop down and the first person to place a bid would win the lot. That way, because it would be all electronic, bidders would know it is transparent because the buyers are recorded. Currently when I sell cattle through the saleyard I do not know where the cattle were sold to. The agent gives you a list of what they

---

98 Mr Shahriar Mofakhami, Victorian Farmers Federation, *Committee Hansard*, 2 September 2015, p. 30.

99 Mr David Picker, Victorian Farmers Federation, *Committee Hansard*, 2 September 2015, p. 25.

100 Victorian Farmers Federation – Ovens Valley Branch, *Submission 62*, p. 3.

101 Mr David Hill, DL & EM Hill, *Committee Hansard*, 4 August 2015, p. 18.

102 Mr Roger McDowell, *Submission 61*, p. 2.

103 Nanthes' Park British White Cattle Stud, *Submission 19*, p. [3].

---

were sold for but not to whom they were sold. That information is not readily available.<sup>104</sup>

3.57 AuctionsPlus suggested that the establishment of a national price disclosure mechanism in the form of data provided by AuctionsPlus and MLA/NLRS would also allow producers to make informed decisions to determine the best marketing channels for their livestock.<sup>105</sup>

3.58 During the committee's grass-fed cattle levies inquiry, the committee received considerable evidence regarding the lack of information that producers can access regarding prices, profits and margins along the beef supply chain. In this regard, the development of a transparent pricing and trade practices system was viewed as one possible method to counter industry trends towards concentration and consolidation of the retail and processing sectors.<sup>106</sup>

3.59 The committee recommended that the Department of Agriculture, in consultation with the cattle industry, conduct an analysis of the benefits, costs and consequences of introducing legislation akin to the *Packers and Stockyard Act 1921* and *Livestock Mandatory Price Reporting Act 1999*.<sup>107</sup>

3.60 In response to this recommendation, MLA was commissioned in December 2014 to conduct an analysis of United States (US) legislation along with agribusiness consultants, agInfo. As part of the analysis, MLA distinguished price transparency as a complete horizontal and vertical understanding of every point in the supply chain from price reporting or information on data at specific points along the chain. In regard to the latter, Mr Norton informed the committee that MLA's market reporting service had 'identified specific areas along the chain where reporting is of value to producers'.<sup>108</sup>

3.61 At a committee hearing on 17 November 2015, when providing an update on its analysis, Mr Andrew Norton, Managing Director of MLA, made the following observations:

The crux of the issue that must be confronted therefore is: will providing more information lead to better decision making or other discernible benefits? If it does not, there will be little point in investing in collecting such information. Fundamental characteristics of cattle markets that may

---

104 Mr Craig Cross, private capacity, *Committee Hansard*, 2 September 2015, p. 10.

105 AuctionsPlus, *Submission 65*, p. [3].

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

107 Rural and Regional Affairs and Transport References Committee, *Industry structures and systems governing levies on grass-fed cattle*, September 2014, Recommendation 7, p. 86.

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

act to the disadvantage of producers will remain unaltered post the introduction of any price transparency improvements.<sup>109</sup>

3.62 Evidence to the committee, gathered over years of inquiry into the livestock and red meat industry, has strongly indicated that a mechanism of price discovery is one of many reforms required. Again, a mandatory price reporting system by means of the introduction of legislation akin to the US *Packers and Stockyards Act, 1921* was supported in evidence to this inquiry.<sup>110</sup>

3.63 Moreover, it was clear to those who gave evidence to the committee during this and other inquiries that price transparency alone can't fix what amounts to a largely dysfunctional system which is no longer fit for purpose.

3.64 Whether it be some form of price discovery, market reporting or full price transparency, is a matter for industry. However, it is abundantly clear from the evidence of producers and producer-groups that such a mechanism should be introduced as part of a suite of reforms which strengthens representation of, and service to producers, while also addressing anti-competitive behaviour, including concerted practices and the culture of collusion that permeates many of the country's saleyards today. Ultimately, it is market competition which gives producers the most direct farm-gate price.

---

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

110 Mr Rob Atkinson, *Submission 22*, Attachment 1; Mr David Hill, *Submission 86*, p. [5] and Mudgegonga and District Landcare Group Inc, *Submission 88*, p. 3.