



Australian
Competition &
Consumer
Commission

Cattle and beef market study —Final report

March 2017

Australian Competition and Consumer Commission
23 Marcus Clarke Street, Canberra, Australian Capital Territory, 2601

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ACCC 03/17_1170

www.accc.gov.au

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Glossary

Agent (livestock agent): Acts for the producer/vendor to secure a sale and earn commissions. Agents are active in a variety of sales channels including saleyard auctions, direct sales and over the hooks transactions.

AUS-MEAT: Industry organisation which manages a number of meat industry product standards and also accredits and audits meat processing plants.

Carcase weight: Weight of the carcase after slaughter, with **standard trim** and offal removed. Used to determine payment based on **price grids** for **over the hooks** sales.

Co-products (also known as by-products): Products other than meat sourced from a carcase, including hide, offal, foetal blood products (used in medical research and pharmaceutical industries), gall stones and fat.

Cold boning (quality cuts): A form of beef processing which involves chilling a carcase after slaughter, allowing the meat to 'set' before the carcase is processed into certain cuts. This process allows for the production of high quality cuts of beef, in contrast to **hot boning**.

Commission buyer: Acts on behalf of a third party to purchase cattle. Major acquirers of cattle generally employ their own 'corporate' salaried buyers and rarely use commission buyers.

Dollars per head (\$/hd): A pricing method. Cattle ready for slaughter are generally priced according to weight, and not dollars per head.

Eastern Young Cattle Indicator: A seven-day rolling weighted average of the prices paid for 24 types of young cattle from 26 prime saleyards in NSW, QLD and VIC. It includes vealer and yearling heifers and steers, and 200 kg+ liveweight cattle. The results cover cattle purchased for slaughter, restocking or lotfeeding and are expressed in cents per kilogram. The EYCI is produced daily by MLA's National Livestock Reporting Service.

Feeder cattle: Cattle which are suitable to be placed into a feedlot to be fattened on a high protein grain-based diet to reach market weight.

Feedlot: Farms where cattle are fed a high protein grain-based diet to reach market weight.

Finished: Cattle that have reached market specifications and are ready for slaughter/processing.

Hot boning (low quality meat): A form of beef processing which involves removing the bones from the beef carcase shortly after slaughter without refrigeration. The beef is then used to produce mincemeat or in the manufacture of processed food.

Grading: Process by which processors assess quality aspects of cattle carcasses. Involves a general assessment of the carcase, by a trained assessor, who classifies the carcase based on qualities such as fat depth and colour, muscle shape and size, and any detrimental characteristics such as injury or bruising.

Grassfed: Cattle which have been fed exclusively on pasture to reach market weight.

Grainfed: Cattle which have been fed a high protein grain-based diet on a **feedlot** to reach market weight.

Over the hooks (OTH): Where cattle are sold direct to the processing plant and the producer is paid based on a **price grid**. The weight of the processed carcase along with the carcase grade is used to determine price.

Liveweight ('over the scales') (pre and post-sale weighing): Where cattle are sold based on their live weight, usually in cents per kilogram. Also referred to as 'over the scales'.

Meat & Livestock Australia (MLA) delivers research, development and marketing services to Australia's cattle, sheep and goat producers. MLA is funded by industry levies.

Paddock sales: Cattle are inspected on the vendor's property by the buyer and are sold straight out of the paddock. Price is generally negotiated on a dollars per head (\$/hd) or cents per kilogram liveweight (c/kg) basis. The sale may be negotiated by an agent on behalf of the vendor.

Price Grid: A schedule of price and carcass attribute data used to determine the price paid per kilogram to a producer for their cattle. Prices are arranged on the grid based on the final weight of the carcass, along with its graded attributes. The grid may also include premiums and discounts that will apply for carcass attributes.

Prime cattle (fat or slaughter cattle): Cattle which are at a size (weight) that is suitable for slaughter. Saleyards tend to have a 'prime' cattle sale and a 'store' cattle sale. Store cattle are not ready for slaughter.

Saleyard: A physical auction market where buyers and sellers trade livestock. There may be separate sales for store and prime cattle.

Standard carcass trim ('trim'): Trimming refers to the removal of certain fat and other layers from a carcass, prior to it being weighed and graded. AUS-MEAT specifies standard requirements for trim.

Store cattle: Cattle suitable for breeding or finishing, but not for slaughtering.

Transport: For saleyard sales, the producer pays the cost of transport to the saleyard and the buyer bears the cost from the saleyard. For OTH or direct sales, the producer pays the cost of transport to the processing plant.

Turn-off rate: The rate at which cattle are finished on a property and sold for processing or export. Usually expressed as the percentage of cattle sold out of a herd during each year.

Summary

Context

It is important that Australia's cattle and beef sector is competitive and efficient. The industry is the single largest contributor to the annual value of Australian agricultural production: more than half of Australian farms produce beef cattle, representing \$11 billion (or approximately 21 per cent) of agricultural production value in 2014–15. The profitability of cattle farms varies greatly, with independent research showing that the size and productivity of cattle farms are important factors that determine profitability.

In recent years, cattle and beef industry participants have voiced concerns about anti-competitive conduct and market structures. These include complaints and allegations about anti-competitive behaviour at saleyards, misuse of buyer power, and an unfair distribution of profits in the supply chain. Concerns about consolidation in the processing sector were also raised with the Australian Competition and Consumer Commission (ACCC) during its review of JBS Australia's acquisition of Primo Foods, which began in November 2014 and concluded in February 2015.

Following a detailed review, involving consultation with cattle producers and other interested parties, the ACCC concluded that the JBS-Primo transaction would be unlikely to substantially lessen competition. This review took into account the limited degree of competition between Primo's Scone processing facilities and JBS's nearest abattoirs in Queensland, and the presence of other competitors.

Separately, the ACCC conducted a detailed investigation into an alleged collective boycott by cattle buyers at the Barnawartha saleyard on a day in February 2015. The evidence obtained from the investigation did not demonstrate that any of the processors entered an arrangement or reached an understanding not to attend the sale, which is required to establish that the behaviour of buyers amounted to anti-competitive agreements under the *Competition and Consumer Act 2010* (the **CCA**).

However, these matters prompted the ACCC to examine the dynamics of the industry in greater depth and in a context broader than the specific provisions of the CCA.

Analysis for this market study has revealed a number of issues which risk damaging transparency, competition and efficiency in the cattle and beef industry. Specifically, there are shortcomings in the transparency of price reporting and carcass grading, and concerns about conduct affecting the competitiveness of saleyard auctions.

The ACCC consulted with a wide range of interested parties, including industry bodies, producers, agents, commission buyers, processors, supermarkets and live exporters. During the study the ACCC received 85 submissions, issued several information requests, and held five public forums across the country.

The relative bargaining positions of producers and buyers vary

Concerns about industry practices and their impact on farm profitability tend to vary between small-scale and large-scale producers. For instance, small-scale producers have a greater reliance on saleyards than large-scale producers, who often sell direct to abattoirs. This can result in small-scale producers having fewer options when selling prime cattle.

There is also a cyclical element to many of the concerns about the competitiveness of market structures in the Australian industry. For instance, there were particularly strong concerns about market concentration and buyer power during the peak of the drought in 2013 and 2014. In 2014 the industry was characterised by high rates of cattle turn-off and strong overseas demand for Australian beef in export markets. These conditions were favourable to the profitability of cattle processors, especially export processors, and placed them in a stronger than usual bargaining

position relative to producers. During this period, however, producers' profits suffered due to the high costs of supplementary cattle feed and low cattle prices.

The high cattle turn-off in 2013–14 is also said to have resulted in abattoirs operating at or near full capacity. Some producers reported especially difficult trading conditions and relationships with processors during this time. Alleged behaviours by processors ranged from apathy toward negotiating with producers, to frequent and arbitrary discounting of carcase prices.

Since 2015 and the end of drought conditions in a number of areas, the supply of cattle to processing plants has altered dramatically. Favourable seasonal conditions have encouraged many producers to begin herd rebuilding, which has led to a significant reduction in turn-off. In addition, producers have entered markets to purchase cattle to rebuild herds, resulting in greater numbers of buyers in cattle acquisition markets and upward pressure on prices. The reduction in the supply of cattle is also reflected in the under-utilisation of processing facilities, with processors reporting significant excess capacity in the past year.

Competition for the acquisition of prime cattle typically takes place within a 400 km radius of a point of sale

The information available to the ACCC in this market study indicates that abattoirs typically acquire the majority of their cattle from within 400 km of the plant at which they are processed. Accordingly, the bulk of competition for the acquisition of prime cattle is generally regional, rather than state-based or national. In most regions of Australia, producers have a range of different buyers potentially competing for their cattle. These buyers can include the major supermarket chains, processors or live exporters.

However, the presence of buyers in particular regional markets and the degree of competition between them for prime cattle can vary according to a range of seasonal and commercial factors. As such, there are circumstances where further consolidation in the processing sector through mergers or acquisitions, or other conduct, could substantially lessen competition. The ACCC will continue to carefully scrutinise any proposed future aggregation.

There are practices and issues in the industry that risk harming competition and efficiency

First, the ACCC considers that cattle prices are not sufficiently transparent to provide useful signals for producers, particularly prices for prime cattle. There are significant gaps in reporting: the prices for paddock sales and OTH and saleyard transactions are inconsistently reported and in some cases incomplete in terms of the cattle types reported. This makes it difficult for producers to compare historical prices between channels on a like-for-like basis. This lack of transparency weakens price signals that guide production decisions and may create information asymmetries between industry participants.

In addition, direct sales prices are rarely reported, and reported prices for OTH transactions only reflect the prices offered to producers, rather than the prices actually paid. Further, the ACCC has found that pricing grids can be difficult to interpret and access for some producers. These issues appear to shift a significant amount of risk onto producers when selling prime cattle OTH. As cattle are transacted OTH in very large numbers, this is a significant concern.

Second, the ACCC has concerns about aspects of the grading system. Although there is a detailed training and oversight system administered by AUS-MEAT, a conflict of interest remains during the process of grading carcasses at abattoirs. Existing audit systems do not appear to give many producers faith in the integrity of the process, and there is no industry wide standard for dispute resolution. Integrity and trust in the grading system are essential, given its role in determining prices received by producers. AUS-MEAT, processors and other industry participants need to work together to extend education about the existing grading and oversight processes to producers.

Third, the ACCC has found that conflicts of interest regularly arise in saleyard transactions when buyers bid for livestock on behalf of multiple clients, and when agents represent both a cattle seller and a cattle buyer in the same transaction. Cattle producers are usually unaware of these arrangements, which can reduce competition for their cattle.

Finally, the ACCC is also concerned about suggestions of anti-competitive conduct that emerged during the market study. The ACCC takes allegations of this nature very seriously and will closely examine whether there are any breaches of the law.

Final conclusions

The Australian industry is characterised by diverse cattle supply, production regions, and producers. This means that commercial outcomes for producers vary and are not necessarily an indication of the state of competition. However, certain long-standing and industry-accepted practices, when combined with other industry features such as intersecting personal and professional relationships, are characteristics which risk damaging transparency, competition and efficiency in the industry.

Significant gains could be achieved through improvements to information flows and transparency. This requires greater engagement between parties at each stage of the value chain. Buyers, agents and representative organisations all have a role to play in ensuring that producers have clear signals that allow them to better match production to market demands.

The ACCC's findings and recommendations reflect these views.

Box A: Insufficient data to analyse certain issues

This market study relies on information provided to the ACCC by industry participants on a voluntary basis.

The ACCC sought to conduct a detailed examination of industry margins, pre-sale v post sale weighing at saleyards and processor operating costs, and requested data from industry participants, including saleyards, processors, supermarkets and agents to assist with this analysis. The ACCC received positive engagement from the industry in general and a number of companies provided useful information and data.

However, the ACCC did not receive data in sufficient detail showing prices paid for cattle, wholesale beef prices or margins for the retailing of beef. This information would be necessary to identify how profits are distributed throughout the industry, and to identify the existence or exercise of market power. The ACCC also did not receive sufficient data to analyse any differences in outcomes resulting from pre-sale versus post-sale weighing of cattle at saleyard auctions.

These topics are addressed further in the body of the report, but there are no definitive recommendations or findings relating to them.

The market study has, nonetheless, revealed the categories of information that would be relevant to future assessments of competition issues arising under the CCA. In specific circumstances where the ACCC considers there may have been a breach of the CCA, it has the capacity to compulsorily obtain information and documents to inform its investigations.

Findings

The Industry

- With a national herd of almost 25 million head and a gross value of production of \$11 billion in 2014–15, the beef cattle industry is the largest contributor to the annual value of Australian agricultural output. More than half of the total 123 000 agricultural properties in Australia are engaged in cattle production, with those farms managing more than 75 per cent of Australia's agricultural land.
- The cattle and beef industry is diverse, complex, and fragmented. There are multiple activities and a variety of channels through which cattle may be grown-out, sold, processed and reach an end market. Production and sales decisions are influenced by a number of factors, including location, climate and size of operation.

Production

- The location of a beef cattle farm has a significant bearing on its production system, size of the operation and end market. Broadly speaking, the industry can be separated into two production regions, northern and southern Australia, reflecting differences in climate, pasture, industry infrastructure and proximity to markets.
- Average herd size differs significantly between farms in northern and southern Australia. In northern Australia average herd size is 1576 head per farm, with the majority of cattle held on a relatively small number of very large properties. For southern Australia, a large number of relatively small-scale farms results in average herd size of 412 head per farm.
- Herd size is also linked to profitability, with larger herds generally associated with greater profit. Small-scale farms, with herds of between 100 and 200 head, had an average annual rate of return (excluding capital appreciation) of -0.5 per cent per annum in the 15 years to 2014–15, compared with an average return of 3.6 per cent per annum for farms with more than 5400 head. On average, farms with more than 400 head of cattle had a positive return on capital over the last 15 years.
- There are various degrees of vertical integration in cattle and beef production. For example, some processors are active in both cattle production and/or feedlot operations. Vertical integration will influence competitive dynamics, as a vertically integrated processor will be less active in markets for the acquisition of prime cattle. However, vertical integration does not appear to be a dominant characteristic of the industry at present.

Sales channels

- Small-scale producers, in general, have a greater reliance on saleyards, particularly in southern Australia where saleyard auctions account for almost two-thirds of beef cattle sales.
- The purchasing preferences of cattle buyers including processors, live exporters and major supermarket chains are shaped by operational efficiencies and market requirements. For example, live exporters primarily source cattle through paddock sales, whereas major processors tend to purchase over the hooks (OTH), and major supermarkets predominantly use paddock sales and forward contracts.

Processing

- Australian cattle processors slaughtered a record high 10 million cattle in 2014–15, producing around 2.7 million tonnes of beef and veal. Queensland is the largest processing state, contributing 43 per cent of total slaughter, followed by Victoria, New South Wales, South Australia, Western Australia and Tasmania.
- The Australian beef processing sector is dominated by two large firms, JBS Australia and Teyes Australia, which operate multiple processing facilities across the eastern states. There are several medium scale operators, including NH Foods, Northern Cooperative Meat

Company, Thomas Foods International, Bindaree Beef and Australian Country Choice, and a range of smaller processors.

- The ACCC estimates that Australia's five largest processors account for around 54 per cent of total slaughter capacity.

Factors which influence production dynamics and profitability

- Approximately 70 per cent of Australian beef production is exported. As a result, export markets, exchange rates and international competitors have a significant effect on prices paid for the majority of Australian cattle and hence producer returns. Domestic conditions such as drought also impact the prices paid to producers significantly.
- Australian beef exporters are generally considered to be 'price takers' in international markets. Around 16 per cent of global beef production is traded internationally, with Australian exporters facing strong competition from India, the United States, Brazil and other parts of South America.
- Information available to the ACCC suggests that high processing and regulatory costs reduce the competitiveness of Australian beef in international markets. Australia's high cost of beef processing compared with major competitors such as the United States and Brazil, is mostly attributed to relatively high labour costs. The ACCC has not made recommendations about regulatory and labour costs because they are outside the scope of the market study.
- The domestic beef market, although only accounting for 30 per cent of total beef production, is an important market. Producers supplying the domestic market are largely located in the southern producing region and southern parts of Queensland.
- The beef industry is, on average, less profitable than Australian cropping and sheep industries. Available research suggests that this is at least partly due to the relatively low productivity of the beef industry as a whole.
- The research suggests that the beef industry's relatively low average productivity reflects the existence of a large number of unprofitable farms. These farms are commonly small-scale, located near population centres in the southern producing region, and the owners have a strong reliance on off farm employment for income. When these unprofitable farms are removed from the analysis, the overall productivity and profitability of the industry is estimated to be considerably higher.

Selling options and market structures

- A number of factors influence competitive dynamics and the potential for processors to exert market power over producers in the cattle and beef industry. In particular these include:
 - transport costs
 - the size of cattle farms
 - the ability to switch production to different breeds and weight ranges of cattle
 - the extent of excess processing capacity within geographic markets
 - the availability of appropriate cattle to meet the processors requirements
 - factors which constrain a processor's ability to transact or process different types of cattle, including long-term service-kill contracts, and
 - the likelihood and scale of entry by new buyers.
- Many producers of prime cattle have a range of options available for selling their cattle. Sources of competition for purchasing lighter-weight cattle include supermarkets, processors and live exporters. The heaviest cattle are most likely to be acquired by export-accredited processors.
- Close competition for the acquisition of prime cattle typically takes place within regional areas of approximately 400 km from a point of sale. The ACCC found approximately 80 per cent of cattle acquired for processing travelled less than 400 km to reach an abattoir after purchase. However, the ACCC acknowledges that some portion of cattle will be

transported further than 400 km and considers this finding to be a starting point rather than a strict rule for future competition analysis.

- Most producers of prime cattle in Australia have access to various buyers within the regional market in which they sell their cattle. These buyers are generally processors, but may also include supermarkets and live exporters. The number of buyers in any one regional market will depend on a range of factors including, location, season and commercial incentives of the buyers. In some instances producers may only have the option of selling to a small number of buyers.
- Producers may be able to sell cattle at an earlier or later stage in their growth cycle to access a wider range of buyers in their region, but factors such as climate and infrastructure will be relevant. Accessing new or different buyers by making significant changes to production methods (for example introducing new genetics) is a longer term strategy for producers.
- There are regions where the ACCC has found producers are likely to have fewer buyers competing to purchase their prime cattle:
 - Northern Queensland: Beef processing in the area surrounding Rockhampton appears to be highly concentrated. JBS and Teys are the only two processors at Rockhampton. The nearest alternative, at Biloela, is also owned by Teys. NH Foods has a processing facility at Mackay, approximately 300 km from Rockhampton. Depending on their locations relative to Rockhampton, producers may need to incur significant transport costs to sell to alternative buyers, particularly for OTH or paddock sales of prime cattle. Producers in the area surrounding Rockhampton do not consider live exporters to be a viable option, because of high transport costs, and competition from the major supermarkets also appears to be minimal.
 - Tasmania: there are only two processing firms operating in Tasmania. While supermarkets are active buyers, they are focused on purchasing lighter weight cattle. This market structure may be a reflection of the size of the Tasmanian cattle market.
- Barriers to entry into processing in most regions of Australia are high. Seasonal and cyclical fluctuations in the supply of cattle can affect processors' capacity utilisation and profitability. These conditions can reduce the incentive for new entry and dampen competition among incumbents.
- In light of the above factors, there are circumstances where further consolidation in the processing sector through mergers or acquisitions, or other conduct, could substantially lessen competition.

Price transparency in cattle markets

- A range of cattle price data for OTH, saleyards and online auctions is published on a regular basis by MLA and other sources, such as AuctionsPlus. However, gaps and inconsistencies means that not all of the reported data is easy to interpret or compare, reducing its usefulness to the industry.
- There are key gaps in price reporting, specifically:
 - Direct sales prices are only partly reported and rely on a small number of contributors.
 - Reported OTH prices are aggregated to the state level and reflect the average offered price for each weight range and cattle category, not the actual prices paid.
 - Time series of saleyard data is only available upon request. Saleyard price data is reported weekly in .pdf files, making comparisons across time difficult.
- The ACCC understands that the industry has taken some steps to fill these gaps, and will continue working toward solutions. For example, since the release of the ACCC's interim recommendation, MLA has launched an update of the market reports section of its website, which allows producers to access and interrogate historical data more easily.
- Cattle prices are inconsistently reported between sales channels, particularly with respect to cattle types and geography. It is difficult for producers to compare historical prices between channels on a like-for-like basis.

- There are information asymmetries between producers, who rely on publicly available information, and buyers who have wider market knowledge, systems and staff to interpret their own prices and those in the broader industry.
- Price grids can be complex, which can limit their usefulness as a decision-making tool. 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.
- Some producers have difficulty accessing price grids, although it has been difficult to ascertain how widespread this issue is. The ACCC's view is that any delay or difficulty in obtaining price grids would limit producers' ability to make informed decisions about selling cattle.
- ACCC analysis suggests that the value of co-products appears to be adequately reflected in prices for cattle. Offal values represent a relatively small part of the value of an animal and trends in offal prices do not appear to diverge from trends in cattle prices for sustained periods.
- The arguments for and against the introduction of mandatory reporting of all non-saleyard cattle sales in Australia are finely balanced. At present, the complexity of Australian beef and cattle markets may make mandatory price reporting difficult to implement, and mitigate its potential benefits. Therefore, the ACCC does not recommend its introduction at this time. However, if market participants do not take steps to improve market reporting in line with recommendations on price reporting made below, the arguments in favour of mandatory reporting will become more compelling over time.

Over the hooks transactions and grading

- Processors submitted to the ACCC that the vast majority (approximately 90 per cent) of cattle sent to abattoirs for slaughter are acquired directly from the producer, rather than through saleyards. The price of most of these cattle is determined post slaughter via a carcass grading process. This is also an important mechanism to provide the market with price information and feedback on the preferred characteristics and specifications of cattle.
- The quality assurance process for grading carcasses to AUS-MEAT and MSA standards is rigorous, and AUS-MEAT's audits and training of chiller assessors (graders) lessen the risks of unfair grading. However, there is still potential for conflicts of interest in the trimming and grading process, because AUS-MEAT's audits of grading in individual plants are infrequent.
- Accordingly, some producers are more likely to view a negative grading result as procedural unfairness, as opposed to a carcass not meeting the requisite grade or specification. These problems are not isolated to producers and processors, but are also known to occur between the feedlots and processing plants of vertically integrated players in the industry.
- Some producers have concerns about variations in carcass trimming across processors. This can make it hard for producers, particularly those with less experience or fewer resources than many large-scale producers, to interpret pricing offers from competing processors.
- A degree of producer distrust in the grading system as a reliable feedback mechanism reduces the usefulness of market signals that might otherwise encourage producers to alter their operations to better meet market requirements.
- The ACCC understands that some education programs involving processors and in some cases AUS-MEAT, have improved relationships between producers and processors. Expansion of these initiatives, combined with more frequent random audits of trimming and grading practices, would be beneficial.

Conduct in cattle markets

- Saleyard auctions can be an efficient way to sell cattle. However, this potential is removed if buyers are able to coordinate bids.
- There are several characteristics of saleyard auctions which make them susceptible to anti-competitive conduct. For example, repeated interactions between regular buyers provide the opportunity to develop shared strategies to influence the outcome of an auction, and to quickly deal with those who break away from these strategies.
- Weak saleyard competition will have a broad impact on the industry, as auction prices act as an important price benchmark for other saleyards and for other sales channels.
- There is a high risk of conflicts of interest occurring in saleyards. Livestock agents may represent both buyers and sellers, and commission buyers commonly represent multiple customers at the same time. The extent to which a conflict of interest exists is often not transparent to producers. However, commission buyers can also increase competition in saleyards where it would otherwise not be cost-effective for every individual buyer to attend in person.
- There is significant concern in the industry, mainly from cattle producers, about pre-sale versus post-sale weighing of cattle at saleyard auctions and how this affects commercial outcomes.
 - The ACCC did not have the necessary data to analyse whether either method has a material effect on saleyard prices. However, the ACCC considers saleyards should clearly state and enforce their weighing and curfew protocols, so that market participants can select how and where they prefer to market their cattle.
 - The ACCC also remains concerned about collective behaviour by buyers, in particular boycotts, which aims to change selling practices, and which may unfairly favour certain market participants. Behaviour of this kind may breach laws which prohibit anti-competitive agreements or the proposed concerted practices legislation.
- The ACCC has heard several allegations of anti-competitive conduct which we will examine outside of this study.

Recommendations

The ACCC's market study provides an opportunity for meaningful improvements to be made to the cattle and beef supply chain. The following recommendations are made with the aim of bringing about those improvements.

Certain recommendations are aimed at improving the work of specific organisations, while others are more general and will require industry leadership and collaboration by multiple stakeholders in order to be implemented.

The ACCC notes that many of the recommendations are likely to be relevant to other red meat industries, and encourages those industries to consider whether the recommendations should be implemented more broadly.

Transparency in cattle markets

Price grids should be made publicly available

- 1. All processors and other major purchasers of prime cattle should make their price grids publicly available in a timely manner.**

Public availability of price grids will increase producers' ability to access and compare prices. This will increase price discovery and the ability of producers to negotiate and make informed and timely decisions about who to sell their cattle to.

Price grids should be easy to interpret and compare

- 2. Buyers, agents and producer representative bodies (led by the Cattle Council) should expand their engagement with producers to enhance industry understanding of price grids and their interpretation.**
- 3. All buyers should simplify their price grids, where possible, to ensure they are easy to interpret and compare.**

These measures will improve transparency and the ability of producers to negotiate and make informed choices about who to sell their cattle to.

Improvements to market reporting are needed

- 4. Meat & Livestock Australia (MLA) should continue its work to improve the collection and public reporting of cattle sale prices, including:**
 - a. reporting cattle prices across sales channels on the same basis so that indicative prices for each channel are easily comparable**
 - b. making improvements to the reporting of prices throughout the supply chain, including wholesale, retail and export beef prices.**

The ACCC welcomes progress made on some of these measures as recommended in its Interim Report. These include improvements made by MLA to the Market Reports & Prices section of its website.

MLA's ability to continue to improve market reporting will depend on the quality of information provided to it by other industry participants, such as live exporters, processors and retailers.

Additional market reporting is needed

- 5. Data collection and reporting should be expanded to cover prices paid for:**
 - a. direct (paddock) sales**
 - b. OTH sales, noting that some processors pay prices over and above those quoted on their price grids, and**
 - c. cattle sold to the live export market.**

MLA's ability to improve market reporting will depend on the quality of information provided to it by other industry participants, such as live exporters, processors and retailers.

Over the hooks transactions and grading

Objective carcass measurement should be prioritised

6. The introduction of objective carcass measurement technology should be prioritised by the industry and adopted by all processors in a consistent manner as soon as possible.

Objective carcass measurement technology will increase accuracy and transparency of value assessments. Appropriate auditing and verification systems will be needed to support the technology.

The ACCC welcomes the moves made by MLA to introduce objective carcass measurement technology throughout the industry, as recommended in the Interim Report.

Objective carcass measurement data should be shared

7. Data produced from objective carcass measurements should be shared for the benefit of the industry.

The data produced as a result of objective carcass grading will be of wider benefit to the industry if aggregated and shared. For example, producers would be able to measure their own performance against the rest of the industry and make any production adjustments necessary to achieve higher cattle grades and prices.

A uniform dispute resolution system should be developed

8. The Red Meat Advisory Council should develop a uniform and independent complaints and dispute resolution process.

Some processors have their own dispute resolution systems. However, an independent system would provide an additional and independent dispute resolution option to the industry.

The independent system should apply to all purchasers and sellers of cattle, including for OTH and electronic cattle sales. The Red Meat Advisory Council, AUS-MEAT and buyers should publish information about how parties can use the independent process.

Carcass grading audits should be strengthened

9. The carcass grading and auditing system should be strengthened by:

- a. increased communication and education about the process by AUS-MEAT and processors**
- b. increasing the number of random AUS-MEAT audits of grading results and standard trim**
- c. publication of audit results relating to grading and standard trim.**

There is a comprehensive training system for carcass graders and some random auditing of grading results ('procedural' audits). However, the ACCC considers that there is a degree of scepticism in the industry about this process.

Improving the delivery of information about the grading and auditing and language systems will help to decrease the level of misunderstanding in the industry. This information should be made easily and clearly accessible on AUS-MEAT and processors' websites.

Increasing the number of procedural audits at which grading results and standard trim measurements are audited will increase confidence in the system for producers and further reduce any risk of conflicts of interest occurring.

Publication of audit results will allow producers to make informed choices about which processor they use.

Carcase feedback and producer education should be clearer

10. Carcase feedback should be clear and easy to interpret. To achieve this:

- a. All buyers and agents who routinely deliver carcase grading feedback to cattle producers should ensure it is presented in a clear manner.**
- b. Buyers and agents, who routinely deliver carcase grading feedback, along with producer representative bodies (led by the Cattle Council) should increase their communication and education activities about interpreting grading feedback.**

Better industry understanding of carcase grading feedback will reduce disputes and encourage producers to focus on improving their operations to ensure that their cattle meet market requirements. Buyers and agents should ensure, if feedback sheets contain acronyms and processor-specific terminology, that these are explained in attached documentation.

Saleyards

A saleyard buyer register should be developed

11. A mandatory Buyers Register should be publicly available prior to the commencement of all physical livestock auctions.

A Buyers Register will increase transparency at saleyards and reduce the risk of conflicts of interest occurring.

This register should include details of commission buyers and livestock agents intending to bid at the sale and the principals that those commission buyers will be acting for.

ALPA should work with its members to have this requirement incorporated into auction terms and conditions at saleyards.

A Buyers Register will not be able to be implemented in Queensland, as this would contravene existing legislation in that state.

More detailed reporting of saleyard purchases

12. Saleyards, commission buyers, auctioneers and agents should provide MLA with information that enables regular standardised market reports for each reported saleyard.

These reports should include information about the identity of buyers, and the proportion of stock purchased by each buyer.

This will increase transparency at the saleyards and reduce the likelihood of conflicts of interest occurring. It will also allow principals and producers to make informed decisions about the commission buyers or saleyards that they use for cattle transactions.

Terms of sales at auctions should be displayed

13. Selling agents should display the terms of auction in a conspicuous position at all saleyards.

This will ensure all auction participants are aware of their rights and obligations, and encourage compliance with competition laws.

This should include a notice about the penalties for collusive practices under the CCA, in addition to any notices required by state and territory legislation. Since the Interim Report was released, ALPA has included this in its updated terms and conditions. Some saleyards and agents are also demonstrating industry leadership by doing this.

Licensing and implementation

Livestock agent licensing should be consistent across states and territories

- 14. Legislation should be introduced requiring standardised national licensing of livestock agents, professional buyers (applying to commission and salaried buyers) and livestock auctioneers.**

This will raise the levels of compliance with the CCA and general professionalism within the industry. The ACCC understands that there have been unsuccessful attempts to complete this in the past, but still considers it is an important improvement to make.

Red Meat Advisory Council to drive implementation of recommendations

- 15. The Red Meat Advisory Council should have prime responsibility for overseeing the implementation of the above recommendations, and for monitoring compliance with these. The Red Meat Advisory Council should report progress annually to state, territory and federal Ministers.**

This will ensure that recommendations are progressed, given diverse industry interests. The RMAC should also prepare an annual report to the Australian state, territory and federal Agriculture Ministers detailing progress in implementing these recommendations and any reasons for a lack of progress.

Future ACCC work

Future assessments of competition

When assessing future mergers and acquisitions in cattle and beef markets, the ACCC will continue to take into account factors which this market study has found to influence competitive dynamics and the existence of buyer power. In particular:

- transport costs
- the size of cattle farms, and producers' ability to switch to produce different breeds and weight ranges of cattle
- the extent of excess processing capacity within geographic markets
- factors which constrain a processor's ability to transact or process different types of cattle, including long-term service-kill contracts.

The above factors would also be relevant to investigations of anti-competitive conduct allegations, including the misuse of market power or agreements which may have the effect of substantially lessening competition.

Investigations of alleged anti-competitive conduct

The ACCC is currently assessing various allegations of anti-competitive conduct, raised through the course of this market study.

The ACCC will continue to monitor concerns about collective behaviour by cattle buyers, including cattle purchasing boycotts designed to alter industry practices, and other potentially anti-competitive practices in cattle acquisition markets.

In particular the ACCC notes that the government proposes to introduce new concerted practices legislation.¹ A concerted practice is a form of coordination between businesses by which, without them having entered a contract, arrangement or understanding, practical cooperation between them is substituted for competition. The ACCC considers that this proposed legislation is likely to have an impact on some of the aforementioned conduct in this industry. The ACCC will consider the conduct in this industry closely, if and when the proposed legislation is enacted. Concerted practices, coordination among competitors, and anti-competitive behaviour are considered in more detail in chapter 6.

1 The draft framework and consultation on this proposed legislation can be found at <https://consultation.accc.gov.au/legal-economic/draft-framework-for-concerted-practices-guidelines/>.

Box B: ACCC Market Studies v Inquiries v Investigations

The ACCC conducts a range of market studies, inquiries and investigations. Each of these involves different objectives and information gathering powers.

Market studies

The ACCC undertakes in-depth market, sector or industry reviews with the aim of improving our understanding of industry practices and dynamics in those sectors. We publish our findings in reports to help inform consumers, encourage public debate over competition and consumer matters, and inform policy consideration.

Market studies may also provide the ACCC with information that can lead to investigations of potential breaches of the CCA. However, these investigations will be undertaken separately to the market study itself.

As noted in box A, market studies are self-initiated by the ACCC and as such the ACCC does not have the power to compel information and documents from market participants.

Inquiries

In contrast to market studies, the ACCC can be instructed to undertake an inquiry by the relevant Minister under s. 95H of the CCA. When the ACCC conducts an Inquiry as directed by the Minister under s. 95H of the CCA, it has compulsory information and document gathering powers as detailed in s. 95ZK of the CCA. An example of such an Inquiry is the Dairy Inquiry, which the ACCC was directed to undertake by the Treasurer on 27 October 2016.

The breadth of an inquiry is determined by the terms of reference issued by the relevant Minister.

Investigations

Where the ACCC receives complaints or information about a potential breach of the CCA we may conduct an investigation. When the ACCC conducts investigations we have the power in certain circumstances to compel people and businesses to provide information and documents under s. 155 of the CCA.

Investigations can lead to any of the following:

- court cases
- court enforceable undertakings to remedy harm, accept responsibility for actions and review or improve trading practices
- infringement notices
- administrative resolutions, which, for example, could include a signed agreement to cease conduct and compensate any parties who have suffered detriment
- education, advice and persuasion to encourage compliance with the CCA.

In general, investigations are conducted confidentially and the ACCC does not comment on matters it may or may not be investigating.

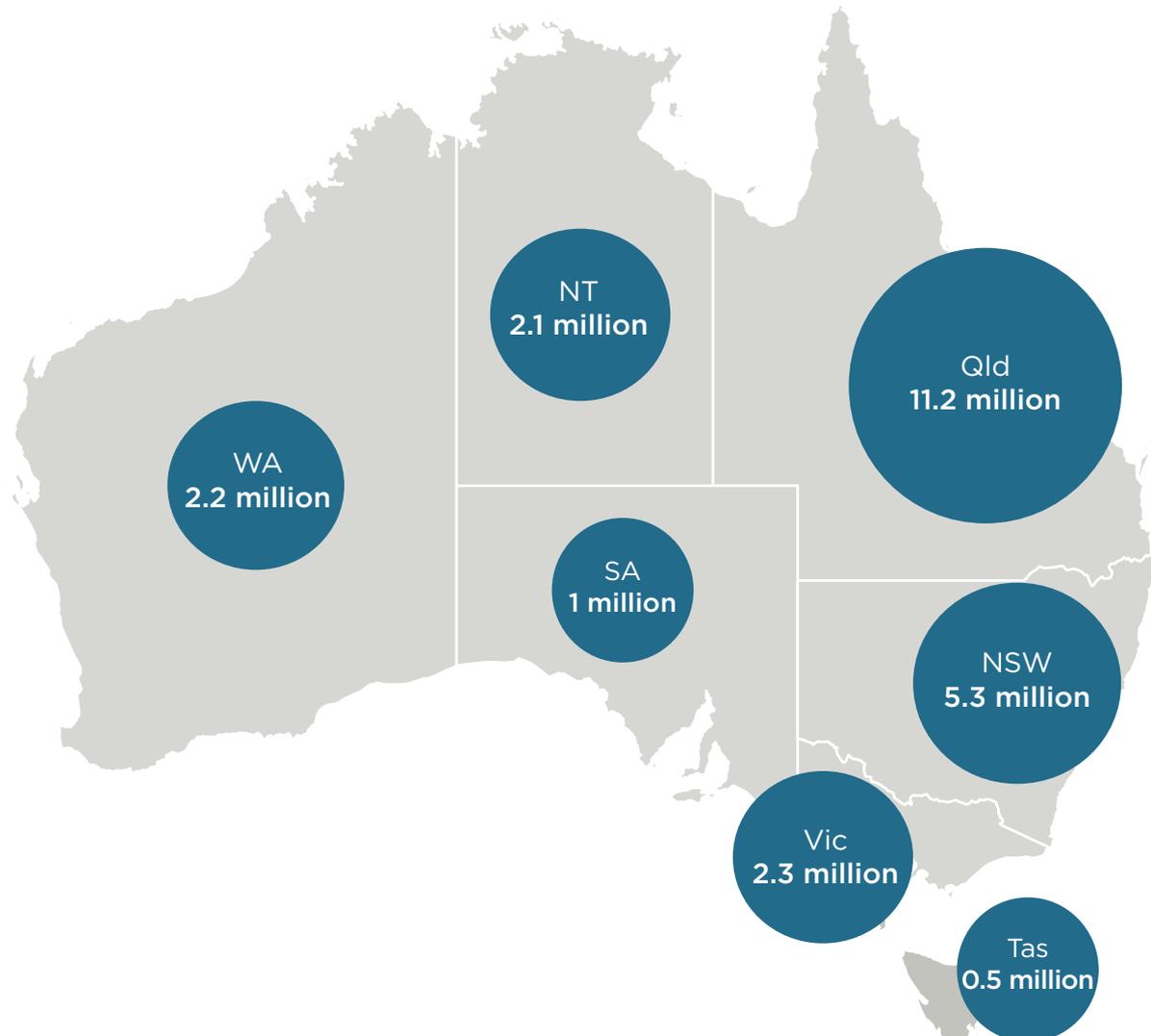
The ACCC cannot pursue all the complaints it receives or issues that come to its attention about the conduct of traders or businesses and the ACCC rarely becomes involved in resolving individual consumer or small business disputes. While all complaints are carefully considered, the ACCC's role is to focus on those circumstances that will, or have the potential to, harm the competitive process or result in widespread consumer detriment. The ACCC therefore exercises its discretion to direct resources to matters that provide the greatest overall benefit for competition and consumers.

More information about the ACCC's compliance and enforcement policy can be found at [Compliance enforcement policy](#) on the ACCC website.

1 Industry Background

The beef cattle industry, including slaughter and live exports, is the single largest contributor to Australian agriculture, with a gross value of production of \$11 billion in 2014–15.² The national herd, estimated at around 25 million head in 2014–15, is largely concentrated in the eastern states, as shown in figure 1.1.³

Figure 1.1: Australian cattle numbers by state



Source: Australian Bureau of Statistics, *Agricultural commodities, Australia, 2014–15*, cat. no. 7121.0, ABS, Canberra 2016.

1.1 The cattle supply chain and activities

The ACCC understands that the majority of Australian beef cattle producers are cow-calf operators, maintaining a herd of breeding cows and a relatively small number of bulls for the production of calves. Calves may be grown to slaughter weight and then sold, or sold at a younger age to other cattle producers or feedlots for fattening and subsequent sale for slaughter.

Australian cattle are predominantly raised on pasture, with some animals entering feedlots for relatively brief periods to be finished to slaughter weight on grain.

² Australian Bureau of Agricultural and Resource Economics and Sciences, *Agricultural commodities, September quarter 2016*, vol. 6 no. 3, ABARES, Canberra, 2016.

³ Australian Bureau of Statistics, *Agricultural commodities, Australia, 2014–15*, cat. no. 7121.0, ABS, Canberra 2016.

Individual circumstances, such as location, climate, farm size, production system and access to sales channels and industry infrastructure have a significant influence on farmers' production and sales decisions. However, the progression of an animal through the supply chain is broadly outlined in figure 1.2, with some common production and selling options for calves and cattle listed below.

1.1.1 There are multiple production and sales options for cattle

Vealers and weaners (calves that have been weaned from milk to be fed on grass or grain) can be sold to processors for the production of veal, and to restockers (other cattle producers) for growing out to higher weights for later sale, or herd expansion and replacement. Alternatively calves can be retained by producers for breeding purposes, to expand the breeding herd or replace older animals, or to grow them out to higher weights.

1.1.2 Production and sales options for grown out cattle vary with weight

Cattle can be grown to different weights before sale to lot feeders, restockers, major supermarket chains, live exporters and processors. Sale weights are determined by target market and seasonal conditions. The number of potential selling options available to producers generally declines as animal weight increases.

- Lot feeders: generally purchase relatively lightweight young cattle, to meet customer needs and maximise the margin captured from feeding cattle to slaughter ready weight (see box 4.1 for more information on the lot feeding industry).
- Restockers: purchase cattle of various weights to meet different needs. If intending to feed cattle to slaughter weight, restockers are likely to purchase relatively light animals. Unlike lot feeders, restockers may purchase heavier cattle if seasonal and market conditions allow. This reflects the relatively low input costs of pasture feeding compared with grain, and reduced reliance on the long-term supply arrangements commonly used in the feedlot sector. Restockers may also purchase grown out cattle of various weights for herd expansion or replacement purposes.
- Major supermarket chains: purchase relatively lightweight young cattle of specific weight and quality characteristics, largely from feedlot operators. Cattle are slaughtered by accessing service kills from major processors (see chapters 2 and 3 for more information on major supermarket chains).
- Live exporters: operators supplying Australia's largest market, Indonesia, are restricted by a 350 kg live weight imposed by the importing government. However, smaller volumes of heavier cattle are purchased for export to markets without weight restrictions, such as Vietnam, the Philippines and Malaysia (see box 1.2 for more information on the Australian live cattle export industry).
- Processors: purchase cattle of various weights and, other carcass characteristics to meet customer needs. Abattoirs operated by major processors are able to slaughter cattle of all weights; allowing them to adapt to changes in market demand and cattle supply. Processors sell beef to wholesalers and exporters and also market products directly into both domestic and export markets. See chapter 3 for more information on the variation of cattle specifications by market.
- Producers may also retain ownership of finished cattle, accessing service kills offered by some processors, before selling beef to wholesalers and exporters or directly into domestic or export markets.

1.1.3 Seedstock operations (cattle breeders) produce purebred cattle with superior genetics

Seedstock producers selectively breed cattle with improved physical and behavioural characteristics, such as such as meat quality, yield, muscling, feed conversion efficiency, and temperament. They sell bulls, cows or calves, offer stud services, or sell genetic material (including embryos and semen) for use in artificial insemination. Customers include other cattle producers and exporters servicing international markets (for both live cattle and genetic material).

1.1.4 Vertical integration is not a significant feature of the cattle and beef industry

A number of firms are engaged in multiple parts of the beef supply chain, with varying degrees of vertical integration. Vertical integration can lead to efficiencies but in some circumstances it may also raise competition concerns, for example, if a firm has the ability to anti-competitively exclude rivals from accessing a market.

Larger firms are more likely to operate at multiple points of the supply chain than smaller ones, reflecting significant capital requirements and an ability to achieve greater efficiency gains. The ACCC is aware of only a few enterprises in the Australian beef cattle industry that operate a fully integrated beef cattle supply chain.

Australia's two largest processors, JBS and Teys, have partially integrated supply chains, with feedlot (and in the case of Teys, breeding) operations in addition to processing facilities. However, the ACCC understands that these operations account for a relatively small proportion of total cattle slaughtered, and that both companies rely on other cattle producers for a substantial volume of their throughput. This is in contrast to the United States, where major beef processors source significant volumes of cattle from company-owned feedlots (see chapter 4 for more information on the US cattle production system).

Mid-tier processors and large cattle producers often have some degree of vertical integration, whether to supply beef for all markets, or particular lines of branded products. Some examples of these operations include:

- Australian Country Choice (ACC): a major supplier of shelf-ready cuts to Coles. The company operates a number of properties across Queensland for breeding, backgrounding and lot feeding cattle to Coles' specifications. Finished cattle are processed to shelf-ready beef at ACC's facilities in Brisbane.⁴ ACC is not fully vertically integrated, and is a significant purchaser of restocker and feeder cattle.
- Stanbroke Pastoral: produces cattle for branded beef product lines for international and domestic markets. Cattle are bred on company-owned properties, primarily in northern Queensland, then transferred to the south of the state for backgrounding, grain finishing and processing at Stanbroke Pastoral facilities.^{5 6} Stanbroke Pastoral is not a closed supply chain, purchasing restocker and feeder cattle from other sources.
- NH Foods: operates a vertically integrated supply chain for long-fed Angus and Wagyu cattle. Cattle are bred on a company-owned property on King Island before being shipped to southern Queensland for grain finishing and processing at NH Foods' facilities. In addition to this branded product line, NH Foods purchases cattle from producers to supply export and domestic markets and provides service kills.⁷
- AACo: produces cattle for a number of branded product lines, including Westholme Wagyu. The Westholme Wagyu program breeds and backgrounds cattle on AACo properties in Queensland and the Northern Territory before transferring animals to company-owned feedlots in Queensland. Cattle are then processed in south-east Queensland through service kills provided by major processors. In 2016 AACo commissioned its own beef processing

4 Condon J, *Beef Central profiles Australia's 25 largest lotfeeders*, Beef Central, 20 February 2015, viewed on 14 October 2016, www.beefcentral.com/features/top-25/lot-feeders/beef-central-profiles-australias-25-largest-lotfeeders/

5 Stanbroke, *The Stanbroke story*, Stanbroke, 2016, viewed on 14 October 2016, stanbroke.com/the-stanbroke-story/

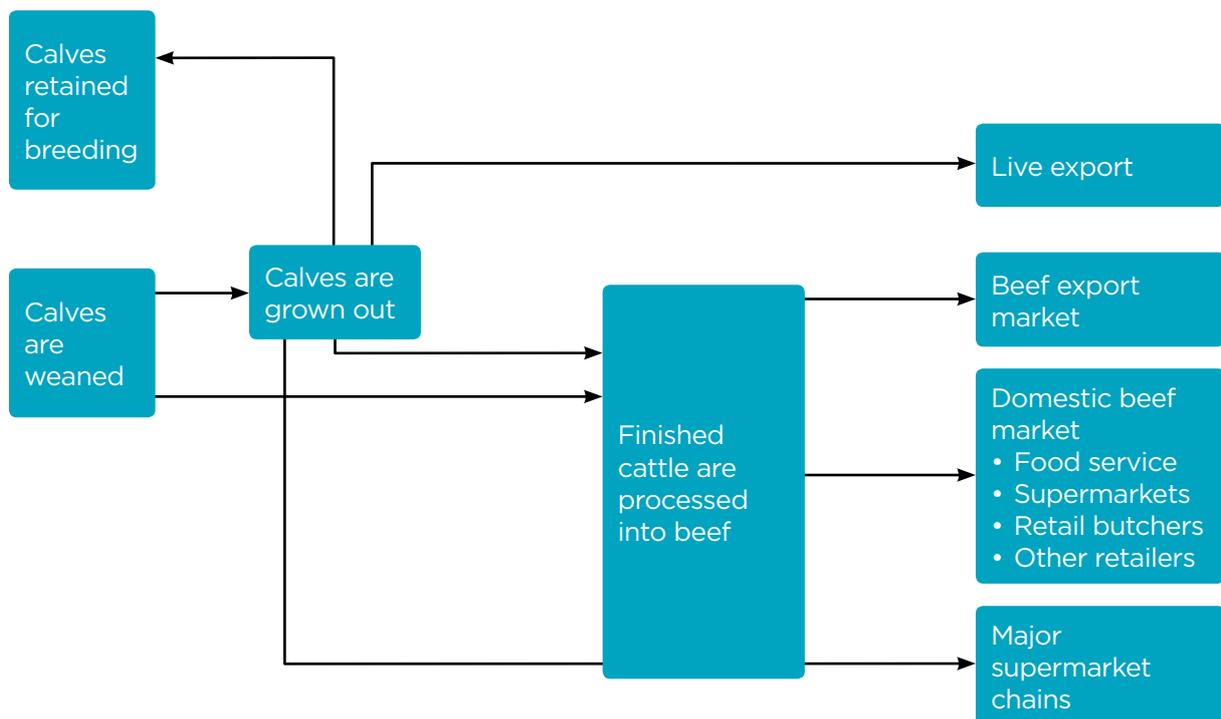
6 Condon J, *Beef Central profiles Australia's 25 largest lotfeeders*, Beef Central, 20 February 2015, viewed on 14 October 2016, www.beefcentral.com/features/top-25/lot-feeders/beef-central-profiles-australias-25-largest-lotfeeders/

7 NH Foods, *Whyalla Beef*, NH Foods, 2016, viewed on 14 October 2016, www.nh-foods.com.au/whyalla-beef/

facility near Darwin, which processes beef cattle from AACo as well as from other cattle producers in northern Australia.⁸

Concerns were raised during the market study about the effect on competition (and hence prices) of processors vertically integrating through feedlot operation. According to the Australian Lot Feeders' Association processors operate a small number of large scale feedlots, accounting for around 22 per cent of Australian feedlot capacity.⁹ In addition, information provided to the ACCC demonstrates that Australia's largest processors source a relatively small share of total slaughter from company owned feedlots. This suggests that the operation of feedlots by processors does not have a significant effect on competition, and hence prices for livestock in slaughter ready markets. Processor involvement in grain finishing may also provide some additional competition in the market for feeder cattle.

Figure 1.2: Australian cattle and beef supply chain



⁸ Australian Agricultural Company, *From the Station*, AACo, 2016, viewed on 14 October 2016, westholme.com.au/from-the-station/

⁹ Australian Lot Feeders' Association, 'Submission in response to the Senate inquiry into the "Effect of market consolidation on the red meat processing sector"', submission 46 to Senate Inquiry *Effect of market consolidation on the red meat processing sector*, ALFA, Sydney, 2015.

Box 1.1: The Australian cattle lot feeding industry has expanded significantly over the past 25 years

In 2014–15, around 2.8 million cattle were finished to slaughter weight in Australian feedlots. Queensland is the largest producer of grain finished cattle, accounting for almost 57 per cent of turnoff in 2015, with feedlots largely located in the south-east of the state. This reflects the region's proximity to inputs, such as grain, water and feeder cattle, and processing facilities. New South Wales is the second largest feedlot cattle producer, accounting for around 30 per cent of turn off, followed by Victoria (7 per cent), South Australia (4 per cent) and Western Australia (3 per cent).¹⁰

Cattle entering a feedlot are fed a grain based ration for between 50 and 120 days on average, with some long fed cattle destined for the Japanese market fed up to 650 days.^{11,12} The ACCC understands that feedlot operators typically source young cattle for feeding through paddock sales, saleyards and from company-owned breeding properties. In addition to buying young cattle for finishing, operators may also offer fee-for-service cattle finishing for other cattle producers and processors, known as custom feeding.

The feedlot sector has developed rapidly over the last two decades. Between 1992 and 2015 the share of Australian slaughter cattle sourced from feedlots rose from 8 per cent to 30 per cent.^{13,14,15} This increase has been driven by strong demand growth from both the domestic and export markets, particularly Japan.

Japan is the major international market for Australian grain fed beef, accounting for more than half of the 264 000 tonnes exported in 2015 (shipped weight).¹⁶ Demand from Japan largely reflects consumer preferences for the high levels of marbling and fat colour that can be produced through grain finishing.¹⁷ Other export markets include the Republic of Korea, China and United States, although these destinations are considerably smaller than Japan.

Domestic demand for grain fed beef is largely driven by the major supermarket chains, sourcing around 80 per cent of their cattle from the feedlot sector.¹⁸ The consistent beef quality, cut size and volume that is possible utilising grain finishing allow major supermarkets to have available a consistent product offering to consumers (see chapter 2 for more information on the domestic market and major supermarket chains).

1.2 Property location influences cattle production systems and target markets

The location of a beef cattle farm has a significant bearing on the production system, size of operation and end market. Broadly speaking the industry can be separated into two production regions, northern and southern, reflecting differences in climate, pasture, industry infrastructure and proximity to markets. The northern region includes Queensland, the Northern Territory and the northern half of Western Australia, with the southern region including the remaining states and the southern half of Western Australia.¹⁹

10 Meat & Livestock Australia, *Lot Feeding Brief, June Quarter 2016*, MLA, Sydney, 2016.

11 Australian Lot Feeders' Association, *What happens on a feedlot*, ALFA, Sydney, 2014.

12 Australian Wagyu Association, *Marbling*, AWA, Armidale, viewed 12 October 2016, www.wagyu.org.au/marbling/.

13 Department of Agriculture and Water Resources, 'Meat consolidation and the red meat processing sector', submission 74 to Senate Inquiry *Effect of market consolidation on the red meat processing sector*, DAWR, Canberra, 2015.

14 Australian Bureau of Statistics, *Livestock and Meat, Australia, Aug 2016*, cat. no. 7218.0.55.001, ABS, Canberra, 2016.

15 Australian Lot Feeders' Association, *Quarterly Feedlot Survey Results, October–December 2015*, ALFA, Sydney, 2015.

16 Meat & Livestock Australia, *Grainfed beef exports trump previous record*, 19 January 2016, viewed on 14 October 2016, www.mla.com.au/Prices-markets/Market-news/Grainfed-beef-exports-trump-previous-record.

17 Obara k, McConnell M & Dyck J, *Japan's Beef Market*, USDA ERS, Washington DC, 2010.

18 Australian Lot Feeders' Association, 'Submission in response to the Senate inquiry into the "Effect of market consolidation on the red meat processing sector"', submission 46 to Senate Inquiry *Effect of market consolidation on the red meat processing sector*, ALFA, Sydney, 2015.

19 Gleeson T, Martin P & Mifsud C, *Northern Australian beef industry, Assessment of risks and opportunities*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, 2012.

Farms in northern Australia are characterised by tropical climates with pasture reliant on monsoon rainfall that can be highly variable within and between seasons (see Chapter 2 for more information on the effect of climatic conditions on production and prices). Farms in this region are generally larger than in the southern region, with significantly lower stocking rates to accommodate lower quality pasture while maintaining sufficient scale to be profitable. The need for large scale operations and a lack of production alternatives also means that farm businesses in the northern region tend to specialise in beef cattle production.²⁰

The tropical climate also affects the type of cattle produced in the region, with farmers favouring cattle with traits derived from *Bos Indicus* breeds such as Brahman. These traits are valued by northern producers mostly because these cattle perform better in the higher temperatures associated with the tropical climate, lose less condition when transported long distances, and possess greater tick resistance.²¹ However, beef from cattle with a high *Bos Indicus* content is generally considered to be of lower eating quality.²²

The northern cattle industry is significantly more export oriented than the southern industry. This mainly reflects the lower eating quality of *Bos Indicus* cattle, the lack of proximity to domestic processing facilities and markets, and the limited ability of northern beef cattle producers to finish cattle to slaughter weight while still at a relatively young age. Around 85 per cent of beef produced in the region is exported, with the US manufacturing market a major outlet.²³ High quality beef is also produced in the region, largely in south-eastern Queensland, where producers have access to higher quality pastures and feedlots supplying high-end markets, such as Japan, the United States and the domestic market.²⁴

The northern cattle region also accounts for the majority of live cattle exports. In 2014–15, more than 1 million head of cattle were exported from northern ports.²⁵ See box 1.1 for more information on the live cattle industry.

In the southern cattle region, farms are generally of smaller size with higher stocking rates, reflecting more consistent rainfall, the availability of improved pastures and access to grain and fodder for supplementary feeding.²⁶ Beef cattle producers in the southern region are also more likely to be engaged in other agricultural activities, such as grain or sheep production.²⁷

Bos Taurus breeds, such as Hereford and Angus, are preferred by southern producers, largely because of superior eating quality. As a result, beef produced in the southern region is more commonly directed to the domestic and higher value export markets (see chapter 3 for more information on domestic and export markets).²⁸

20 Martin P, *Australian beef, Financial performance of beef cattle producing farms, 2012–13 to 2014–15*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, 2015.

21 Gleeson T, Martin P & Mifsud C, *Northern Australian beef industry, Assessment of risks and opportunities*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, 2012.

22 Meat & Livestock Australia, *The effect of tropical breeds on beef eating quality*, MLA, Sydney, 2011.

23 Gleeson T, Martin P & Mifsud C, *Northern Australian beef industry, Assessment of risks and opportunities*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, 2012.

24 Meat & Livestock Australia, *Production of Australian Beef*, MLA, Sydney, 2012, viewed on 18 October 2016, www.australian-meat.com/Foodservice/Proteins/Beef/Production_of_Australian_Beef/

25 Meat & Livestock Australia, *LiveLink, Live export statistics, August 2015*, MLA, Sydney, 2015.

26 Martin P, *Australian beef, Financial performance of beef cattle producing farms, 2012–13 to 2014–15*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, 2015.

27 Ashton D, Oliver M & Valle H, *Australian beef, Financial performance of beef cattle producing farms, 2013–14 to 2015–16*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, 2016.

28 Meat & Livestock Australia, *Production of Australian Beef*, MLA, Sydney, 2012, viewed on 18 October 2016, www.australian-meat.com/Foodservice/Proteins/Beef/Production_of_Australian_Beef/.

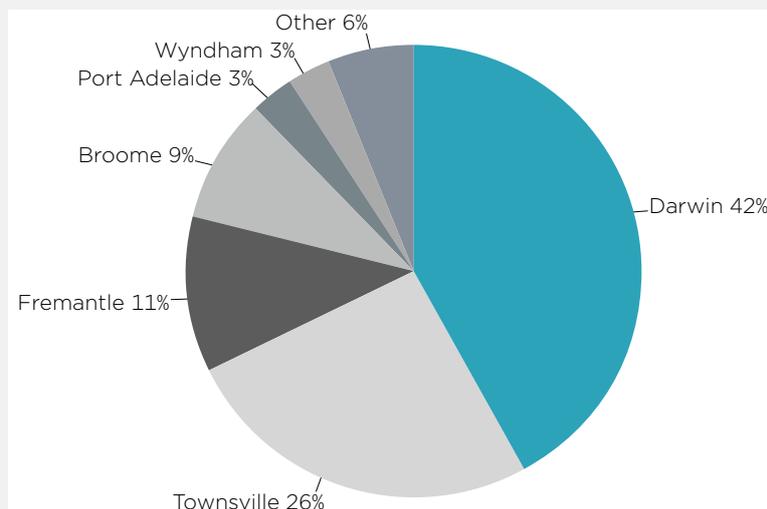
Box 1.2: Live cattle exports provide an important outlet for producers in northern Australia

Australia's live cattle trade can be separated into two streams: animals exported for breeding purposes, and those that are slaughter ready or require further feeding before slaughter.

In 2014–15, around 1.3 million head of feeder/slaughter cattle were exported, valued at \$1.2 billion. In comparison, trade in breeder cattle is relatively small, with around 83 000 head valued at \$192 million shipped in 2014–15.²⁹ Victoria accounts for around 80 per cent of breeder cattle exports, mainly reflecting significant exports of dairy cows and heifers to China.³⁰ For the purposes of this market study, the ACCC has focussed on the feeder/slaughter market because of the importance of the trade to producer returns in northern Australia (figure 4.2).

Producers in northern Australia, especially in the northern parts of Western Australia and the Northern Territory, account for the majority of live feeder/slaughter cattle exports. This reflects the region's proximity to major markets and ability to profitably produce the relatively lower weight cattle demanded by importers. The ACCC understands that live exporters source cattle largely through paddock sales, aggregating purchases in yards located close to ports for a pre-shipment quarantine period.

Figure 1.3: Live feeder/slaughter cattle exports by port, 2015



Note: Shares exclude feeder/slaughter cattle exports in October 2015; ABS did not publish exports by port for that month
Source: Meat & Livestock Australia, *LiveLink, Live export statistics, July 2016*, MLA, Sydney, 2015.

Australia's largest market for live feeder/slaughter cattle exports is Indonesia, accounting for around 60 per cent of shipments in 2014–15. Other major markets in 2014–15 included Vietnam (24 per cent), Israel (5 per cent) and Malaysia (4 per cent).³¹ The development of the live cattle trade largely reflects the emergence of South-East Asian economies in the 1980s. Strong income growth in these countries supported improved living standards and increased consumer spending on discretionary items, such as protein. Reflecting this increase in demand for protein, live cattle exports to Indonesia rose from less than 8000 head in 1990–91, when trade began, to around 740 000 head in 2014–15.^{32,33} Despite the increase in regional demand for protein, there has not been a significant increase in demand for processed beef. This reflects cultural and religious traditions, a lack of refrigerated infrastructure and distribution and, in the case of Indonesia, government policy.³⁴

The Indonesian Government restricts live imports to lightweight cattle that require finishing to slaughter weight in domestic feedlots while controlling volumes through a permit system. These measures aim to support the profitability of domestic beef producers as part of wider government efforts to improve self-sufficiency in food production.³⁵ In response to these restrictions, producers in northern Australia have developed alternative outlets for cattle that fall outside Indonesian specifications. These include other live export markets, most notably Vietnam, and the construction of processing facilities near Darwin and Broome, primarily supplying markets in South-East Asia and manufacturing beef to the United States.^{36,37}

1.3 Differences between small and large scale producers

Beef cattle production is the most common agricultural activity undertaken by Australian farmers, with more than half of a total 123 000 farms engaged in the industry.³⁸ Farms engaged in beef cattle production manage more than 75 per cent of Australia's agricultural land.³⁹

The ACCC adopted the definitions of industry activity used by ABARES for the analysis of farm performance. ABARES considers broadacre farms (including livestock and cropping) with an estimated value of agricultural output of more than \$40 000 to be 'commercial enterprises'.

Of the almost 54 000 broadacre farms considered to be commercial enterprises in 2014–15, around half (or 26 670 farms) had at least 100 cattle on hand and were defined as beef farms.⁴⁰ Although classified as beef enterprises, farms with more than 100 head of cattle may also be engaged in other agricultural activities such as cropping or sheep production. As a result, ABARES makes a further distinction between specialist and non-specialist beef farms, with

29 Australian Bureau of Agricultural and Resource Economics and Sciences, *Agricultural commodities, September quarter 2016*, vol. 6 no. 3, ABARES, Canberra, 2016.

30 Department of Agriculture and Water Resources, *Livestock Exports by Market*, DAWR, Canberra, viewed on 12 October 2016, www.agriculture.gov.au/export/controlled-goods/live-animals/live-animal-export-statistics/livestock-exports-by-market.

31 Australian Bureau of Agricultural and Resource Economics and Sciences, *Agricultural commodity statistics*, ABARES, Canberra, 2015.

32 Gleeson T, Martin P & Mifsud C, *Northern Australian beef industry, Assessment of risks and opportunities*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, 2012.

33 Australian Bureau of Agricultural and Resource Economics and Sciences, *Agricultural commodity statistics*, ABARES, Canberra, 2015.

34 Gleeson T, Martin P & Mifsud C, *Northern Australian beef industry, Assessment of risks and opportunities*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, 2012.

35 Australian Bureau of Agricultural and Resource Economics and Sciences, *Agricultural commodities, September quarter 2015*, vol. 5 no. 3, ABARES, Canberra 2015.

36 Condon J, *New Broome abattoir blazes a trail for northern Australian beef processing*, Beef Central, 9 September 2016, viewed on 18 October 2016, www.beefcentral.com/processing/new-broome-abattoir-blazes-a-trail-for-northern-australian-beef-processing-pictures/.

37 Brann M, *Beef from AACo's new abattoir in the Northern Territory exported to Hong Kong*, ABC Rural, 23 February 2015, viewed on 18 October 2016, www.abc.net.au/news/2015-02-23/aaco-livingstone-beef-exported-to-hong-kong/6177312.

38 Australian Bureau of Statistics, *Agricultural commodities, Australia, 2014–15*, cat. no. 7121.0, ABS, Canberra 2016.

39 Martin P, *Australian beef, Financial performance of beef cattle producing farms, 2012–13 to 2014–15*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, 2015.

40 Ashton D, Oliver M & Valle H, *Australian beef, Financial performance of beef cattle producing farms, 2013–14 to 2015–16*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, 2016.

specialist farms earning more than half of total farm receipts from cattle sales. Around two-thirds of beef cattle producing farms are defined by ABARES as specialist beef farms.⁴¹

1.3.1 Location, farm and herd size vary

As described above, average herd size differs significantly between northern and southern Australia (table 1.1). The southern producing region is characterised by a large number of relatively small-scale farms. In the three years ending 2014–15, farms in southern Australia had an average herd size of 412 head and operated on an average area of almost 6000 hectares. In addition, more than 90 per cent of the region’s farms had herds consisting of between 100 and 800 head, with these farms accounting for almost two thirds of the region’s cattle population.

In contrast, the majority of cattle in the northern region are held on a relatively small number of very large properties. In the three years ending 2014–15, around 40 per cent of northern beef farms had herds consisting of more than 800 head, accounting for around 85 per cent of the region’s cattle population. During the same period, average herd size in northern Australia was 1576 head with an average farm size of almost 23 500 hectares.⁴²

Table 1.1: Beef cattle farms by herd size, three-year average 2012–13 to 2014–15

Beef herd size	Northern Australia		Southern Australia	
	Number of farms	Share of beef cattle	Number of farms	Share of beef cattle
100 to 200 head	1 206	1%	6 500	12%
200 to 400 head	1 765	4%	7 279	26%
400 to 800 head	2 073	9%	3 657	26%
800 to 1600 head	1 378	12%	1 081	14%
1600 to 5400 head	1 606	32%	476	17%
More than 5400 head	389	42%	42	4%
Total	8 417	100%	19 035	100%

Note: Figures may not add due to rounding.

Source: Australian Bureau of Agricultural and Resource Economics and Sciences, *Farm survey data for the beef, slaughter lambs and sheep industries*, ABARES, Canberra, viewed on 14 October 2016, apps.daff.gov.au/mla/.

1.3.2 Farm profitability increases with scale

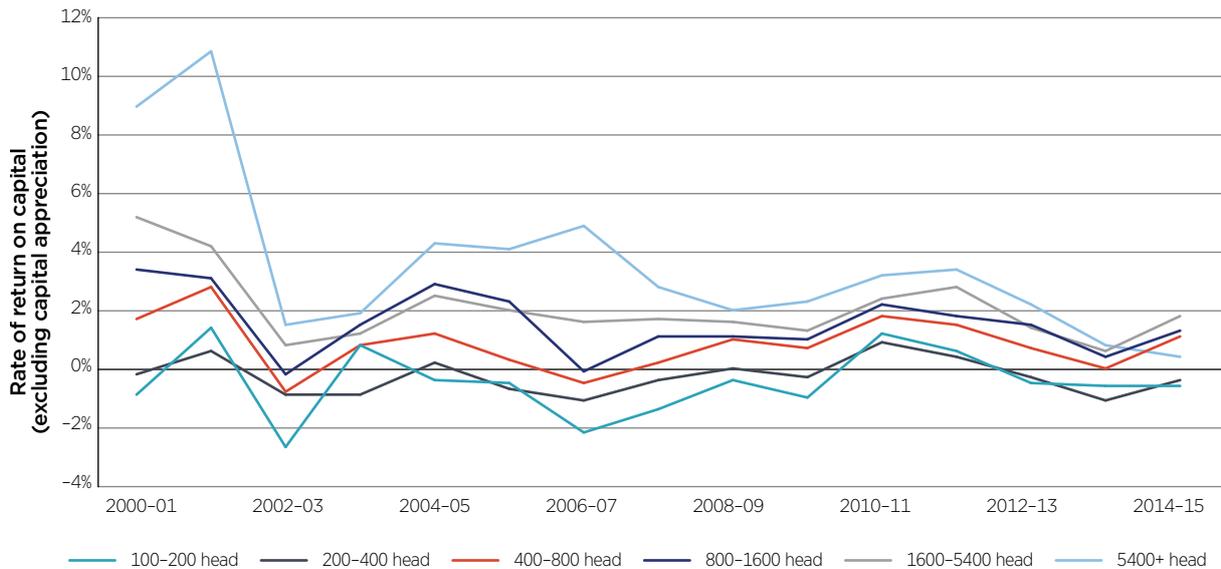
Generally, farm profitability is greater for producers with larger herds (figure 1.4). Measured as the rate of return on capital excluding capital appreciation, farm profitability for beef producers with a herd of between 100 and 200 head averaged –0.5 per cent per annum in the 15 years to 2014–15. This compares with an average of 3.6 per cent per annum for farms with more than 5 400 head of cattle over the same period. On average, farms with a herd in excess of 400 head produced a positive return over the last 15 years (see chapter 2 for more information on farm profitability).⁴³

41 Martin P, Australian beef, *Financial performance of beef cattle producing farms, 2012–13 to 2014–15*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, 2015.

42 Australian Bureau of Agricultural and Resource Economics and Sciences, *Farm survey data for the beef, slaughter lambs and sheep industries*, ABARES, Canberra, viewed on 14 October 2016, apps.daff.gov.au/mla/.

43 Ibid.

Figure 1.4: Rate of return on capital (excluding capital appreciation), by herd size



Source: Australian Bureau of Agricultural and Resource Economics and Sciences, *Farm survey data for the beef, slaughter lambs and sheep industries*, ABARES, Canberra, viewed on 14 October 2016, apps.daff.gov.au/mla/.

Reflecting the greater numbers of small-scale producers, the average rate of return on capital for the southern beef region was 0.8 per cent per annum in the 15 years to 2014-15. This compares with an average of 1.2 per cent per annum for northern beef producers over the same period.⁴⁴

1.4 Buyers, sellers and the sales channels they use

1.4.1 There are several major cattle sales channels

Producers sell beef cattle through a number of channels, including saleyard and online auctions, and through direct arrangements with purchasers. Major sales channels include:

- **Saleyard auctions:** producers transport cattle to a saleyard for sale to the highest bidder on any given day, with change of ownership occurring at the conclusion of bidding on each pen of cattle. Although the basic process is the same, some features of the selling system vary between saleyards. These include the timing of cattle weighing, curfews, the sale of prime versus store cattle, and bidding (cents per kilogram or dollars per head).
- **Paddock sales:** livestock are inspected on the producer's property by a buyer or agent and sold from the paddock. The change of ownership occurs as per the agreement made by seller and buyer, with cattle generally purchased on a dollars per head basis.
- **Over the hooks (OTH):** livestock are delivered by producers directly to processors, with change of ownership occurring when carcasses are weighed shortly after slaughter and trimming. The carcass is then graded by a processor employee, using both standard industry grading and specific proprietary grading standards. The price the seller receives depends on the carcass weight and grade, and is calculated by referencing the price grid that was offered to the cattle producer at the time the sale was agreed (see Chapter 5 for more information on grading and price grids). Arrangements for OTH sales are made in advance of delivery, with sellers and buyers (or their agents) agreeing to lot size, delivery and price conditions. Agents are also sometimes involved in the negotiation of OTH transactions, more commonly in southern than northern Australia.

In addition to processors, a number of lot feeders use a grid system for the purchase of feeder cattle, albeit these grids being significantly less complex than those used by processors.

⁴⁴ Australian Bureau of Agricultural and Resource Economics and Sciences, *Farm survey data for the beef, slaughter lambs and sheep industries*, ABARES, Canberra, viewed on 14 October 2016, apps.daff.gov.au/mla/.

- Online sales: livestock can be sold through an online auction platform, such as AuctionsPlus, livestreaming of physical saleyard auctions or direct purchases from producers, primarily stud sales. Direct purchases from producers and livestreamed saleyard auctions are extensions of saleyard auctions and paddock sales processes. However, AuctionsPlus differs from these two methods because cattle are assessed prior to sale by accredited personnel who provide a description and photographs of livestock for display online. The seller outlines sale terms, including bidding and collection conditions, prior to the auction, with results posted online immediately after completion.
- Forward contracts: arrangements to supply cattle of a particular quality and number to a buyer at a given time for an agreed price. Forward contracts can include various terms defining delivery, change of ownership and pricing mechanisms, such as a pre-agreed price or price grid.

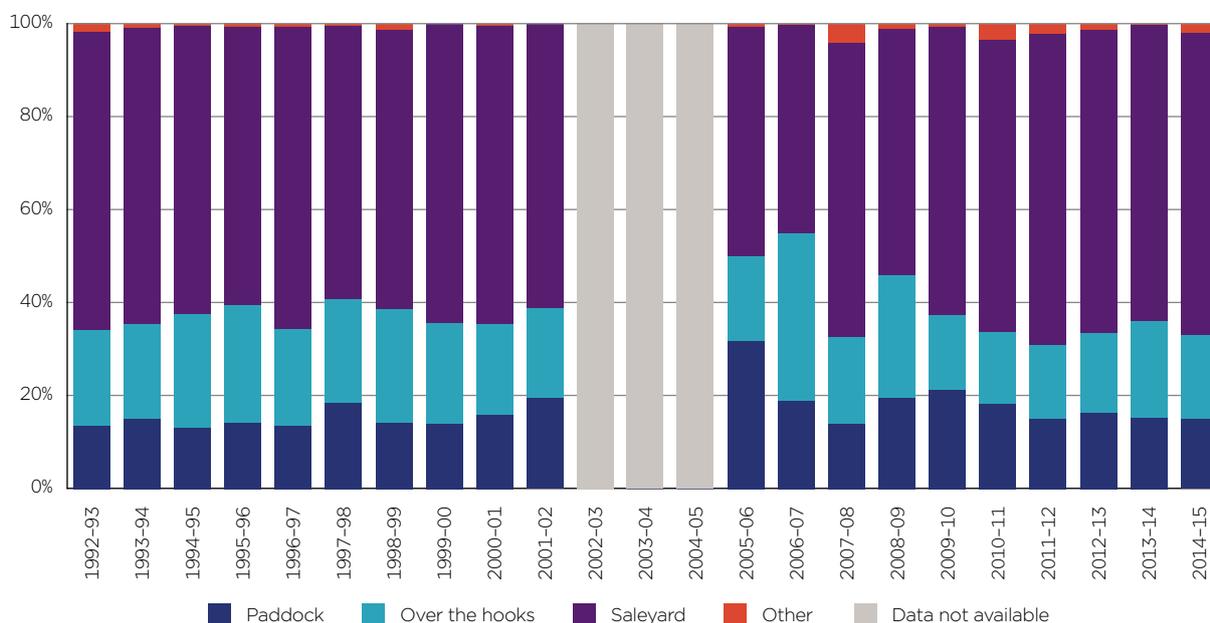
1.4.2 Preferred sales channels vary

In general, cattle producers use the sales channel they believe will maximise the return on their livestock. However, their ability to do this is influenced by access to the selling method, the sale process, market specifications and buyer preferences.

In southern Australia, saleyard auctions account for almost two-thirds of total beef cattle sales (figure 1.5), reflecting the relatively large numbers of small farms. Small farms are more likely to use auctions because they are generally located close to saleyards, (minimising freight costs) and these producers usually trade a relatively small number of multiple cattle types for store and prime markets.⁴⁵

The saleyard system enables buyers to secure efficient numbers of slaughter livestock by purchasing multiple small lots, and combining these into efficient consignments for transport and processing.

Figure 1.5: Method of selling cattle, southern Australia⁴⁶



Source: Australian Bureau of Agricultural and Resource Economics and Sciences, *Farm survey data for the beef, slaughter lambs and sheep industries*, ABARES, Canberra, viewed on 14 October 2016, apps.daff.gov.au/mla/.

In contrast, a much higher proportion of cattle in northern Australia are sold OTH and through paddock sales (figure 1.6). This reflects the greater cattle numbers of similar quality that can be produced by owners of larger herds, and the ability to reduce carcass damage and loss of

⁴⁵ Martin P, Australian beef, *Financial performance of beef cattle producing farms, 2012-13 to 2014-15*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, 2015.

⁴⁶ Figure 1.5 includes sales of both store cattle and prime cattle, therefore it overstates the significance of saleyards for the sale of prime (slaughter ready) cattle.

meat quality by avoiding handling in saleyards.⁴⁷ In addition, a lack of infrastructure and distance reduces the access of some producers, particularly in more remote areas, to sales channels, including saleyards and online sales, which are more commonly used in southern Australia.

Buyer preferences also play a significant role in the use of different sales channels for cattle. Examples include:

- Live exporters: primarily source cattle through paddock sales, particularly in the northern parts of Western Australia and the Northern Territory, largely reflecting the need to secure large numbers of cattle well in advance of shipment.
- Major processors: prefer to purchase cattle OTH because it allows for greater efficiency in operations by providing increased certainty over the type, number and delivery time of cattle. In addition, the use of price grids allows processors to send signals to the market about desired cattle characteristics required to meet customer needs.
- Major supermarket chains: prefer forward contracts because they provide certainty of supply and allow supermarkets to provide a consistent product offering to retail customers.

Figure 1.6: Method of selling cattle, northern Australia⁴⁸



Source: Australian Bureau of Agricultural and Resource Economics and Sciences, *Farm survey data for the beef, slaughter lambs and sheep industries*, ABARES, Canberra, viewed on 14 October 2016, apps.daff.gov.au/mla/.

1.5 The Australian cattle processing sector has two major national processors and a large number of smaller operators

The Australian cattle processing sector consists of two major national processors and a large number of smaller operators,

Australia's two largest beef processing firms, JBS Australia and Teys Australia, operate a number of sites across the eastern states, with abattoir and other processing infrastructure, such as boning rooms, cold storage and rendering plants (see chapter 3 for more information on abattoir location). The ACCC estimates that JBS and Teys account for around 23 per cent and 16 per cent of total slaughter capacity, respectively (figure 1.7).

⁴⁷ Martin P, Australian beef, *Financial performance of beef cattle producing farms, 2012-13 to 2014-15*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, 2015.

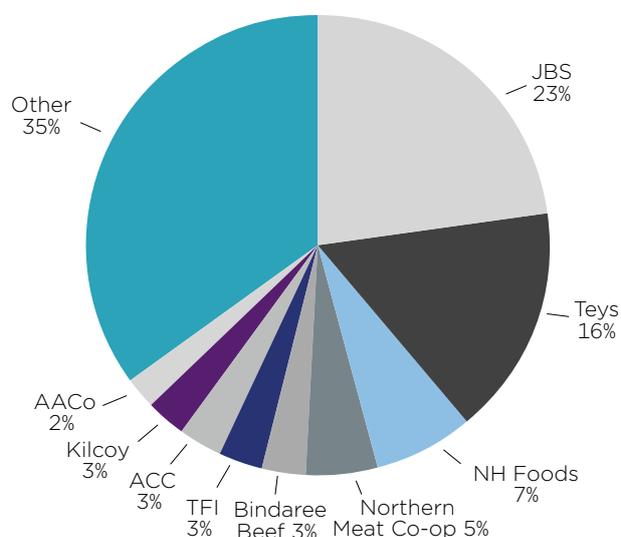
⁴⁸ Figure 1.6 includes sales of both store cattle and prime cattle, therefore it overstates the significance of saleyards for the sale of prime (slaughter ready) cattle.

Mid-sized beef processing firms include NH Foods, operating 3 abattoirs and having a 7 per cent share of national capacity, Northern Co-operative (one abattoir, 5 per cent of total capacity) and Thomas Foods International (one abattoir, 3 per cent of national capacity).⁴⁹

Combined, the top five processing firms account for around 57 per cent of Australian slaughter. In the United States the largest five firms account for 80 per cent of total slaughter.^{50,51}

Australian cattle processors slaughtered just over 10 million cattle and calves in 2014–15, producing around 2.7 million tonnes of beef and veal.⁵² This was a record number of cattle slaughtered, and largely reflected increased turn off by drought affected producers and strong demand from export markets, particularly the United States. Queensland is the largest processing state, accounting for 43 per cent of total slaughter in 2014–15, followed by Victoria (23 per cent), New South Wales (22 per cent), South Australia (5 per cent), Western Australia (4 per cent) and Tasmania (3 per cent).⁵³

Figure 1.7: Shares of processor capacity, Australia



Source: ACCC estimate.

The number of beef processing plants and firms has declined significantly over the past 35 years. According to data published by the Australian Meat Industry Council (AMIC), around 90 abattoirs closed between 1980 and 2003, reflecting increased competition resulting from trade liberalisation, efficiencies created by automation and transport improvements, the withdrawal of state and local governments from abattoir operation, and consolidation of firms through acquisition and mergers.⁵⁴ A summary of major processor acquisitions and mergers over the past 30 years is included below (table 1.2). Although the number of operators has reduced, the ACCC understands that overall processing capacity has increased as processors have sought to improve efficiency through scale.

49 ACCC estimates using data from AUS-MEAT, Department of Agriculture and Water Resources, Meat & Livestock Australia and processor websites.

50 Department of Agriculture and Water Resources, 'Meat consolidation and the red meat processing sector', submission 74 to Senate Inquiry *Effect of market consolidation on the red meat processing sector*, DAWR, Canberra, 2015.

51 Rock A, *How safe is your ground beef?*, Consumer Reports, 21 December 2015, viewed on 14 October 2016, www.consumerreports.org/cro/food/how-safe-is-your-ground-beef.

52 Australian Bureau of Statistics, *Livestock and Meat, Australia, Aug 2016*, cat. no. 7218.0.55.001, ABS, Canberra, 2016.

53 Ibid.

54 Australian Meat Industry Council, pers. Comms, 2016.

Table 1.2: Major processor acquisitions and joint ventures

Year	Transaction	Beef and cattle assets involved
1987	NH Foods acquires Oakey Abattoir	Processing plant at Oakey, Qld
1990	NH Foods acquires Bothwicks	Processing plants at Bowen and Mackay, Qld
1991	Cargill acquires Wagga Wagga abattoir	Processing plant at Wagga Wagga, NSW
1994	NH Foods acquires Wingham	Processing plant at Wingham, NSW
1998	Cargill acquires Tamworth	Processing plant at Tamworth, NSW
2002	Teys Bros. and Consolidated Meat Group enter joint venture	Processing plants at Naracoorte, SA, and Beenleigh, Biloela and Innisfail, Qld
2007	JBS acquires Swift (Australian Meat Holdings)	Processing plants at Townsville, Rockhampton, Dinmore and Beef City, Qld Feedlots at Toowoomba and Mungindi, Qld, and Caroon, Griffith and Burraboi, NSW
2008	JBS acquires Tasman Group	Processing plants at Devonport, Longford and King Island, Tas. and Yarrowonga, Cobram and Brooklyn, Vic. Feedlot at Yambinya, NSW
2010	JBS acquire Rockdale Beef	Co-located beef feedlot and processing plant at Yanco, NSW
2011	Teys Bros. and Cargill Beef Australia enter joint venture	Teys Bros: Processing plants at Rockhampton, Beenleigh and Biloela, Qld and Naracoorte, SA. Feedlot near Condamine, Qld. Cargill: Processing plants at Tamworth and Wagga Wagga, NSW. Feedlot at Stockinbingal, NSW
2015	JBS acquires Primo Group	Processing plant at Scone, NSW

Note: A number of the facilities listed above are no longer operating or are now owned by another party.

Producers have raised concerns that consolidation in the processing sector has reduced competition in cattle markets, resulting in lower prices for producers. Chapter 3 provides the ACCC's assessment of the current competitive environment in the sector.

2 Certain features of the cattle and beef industry strongly influence competitive dynamics and prices

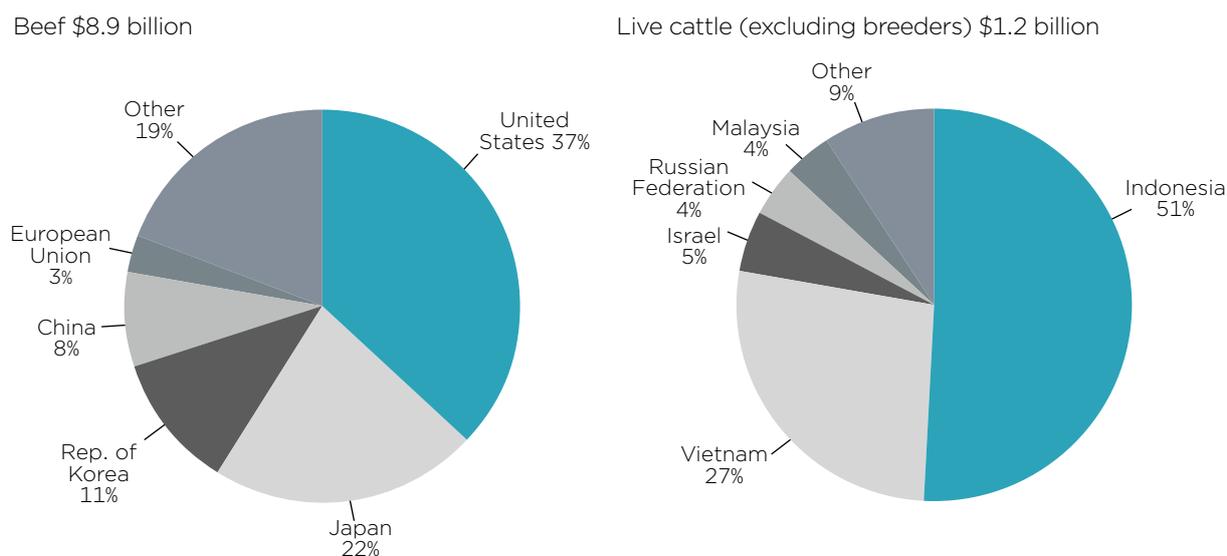
2.1 Australia's cattle and beef industry is export oriented, affecting producer and processor options and behaviours

The Australian beef cattle industry is significantly exposed to international markets. Around 70 per cent of total beef production is shipped to more than 100 destinations. In addition, more than 1 million head of live cattle (excluding breeding animals) are exported annually.⁵⁵ As a result, international markets are a major factor in determining prices for cattle, and hence producer returns.

In 2014–15 the United States was the largest market for Australian beef and veal exports, valued at \$3.2 billion, followed by Japan (\$1.9 billion) and the Republic of Korea (\$1 billion).

Live cattle shipments to Australia's largest markets, Indonesia and Vietnam, were valued at 595 million and \$319 million respectively in 2014–15 (figure 2.1).⁵⁶

Figure 2.1: Australia's major beef and live cattle export markets, 2014–15



Source: Australian Bureau of Agricultural and Resource Economics and Sciences, *Agricultural commodity statistics*, ABARES, Canberra, 2015.

Demand for certain meat cuts, quality and slaughter methods vary significantly between beef export markets, reflecting consumer preferences, income, cultural and regulatory factors. Significant exposure to fluctuations in demand from international markets, combined with varied customer requirements, mean that processors need to maintain operational flexibility. Some examples of international market variations include:

- United States: around two-thirds of Australian exports to the United States are of relatively low value manufacturing beef for use in the food service industry, particularly hamburger chains.⁵⁷ Processors supplying this market source cattle with a focus on price rather than quality, while producers often use this market to dispose of animals that are no longer desirable (e.g. because of age or herd structure).

⁵⁵ Australian Bureau of Agricultural and Resource Economics and Sciences, *Agricultural commodities, September quarter 2016*, ABARES, Canberra, 2016.

⁵⁶ Australian Bureau of Agricultural and Resource Economics and Sciences, *Agricultural commodity statistics*, ABARES, Canberra, 2015.

⁵⁷ Meat & Livestock Australia, *Market snapshot, United States*, MLA, Sydney, 2016.

- Japan: around half of Australian exports to Japan consist of grain fed beef.⁵⁸ This reflects the relative efficiency of grain feeding in the development of high levels of intramuscular fat (marbling), which is preferred by Japanese consumers. Australian feedlot operators feed Wagyu, Wagyu crossbreeds and quality European cattle for around 115 days on average and up to 650 days for full blood Wagyu. They supply a range of beef markets including high end food service, retail outlets and quick service restaurants.^{59,60,61}
- European Union: exports are largely high quality products used in the high end food service sector and premium supermarket brands.⁶² The need to meet quality and import requirements (most notably HGP-free status of cattle and lifetime traceability), results in processors sourcing cattle against stringent specifications, commonly through in-house quality assurance programs. These import and quality requirements also mean that cattle producers specialise in preparing animals suitable for the EU market.
- Malaysia: unlike the markets outlined above, the Malaysian market does not have unique quality or cut requirements. However, beef must be produced from cattle slaughtered in accordance with Islamic law, commonly known as halal slaughter.⁶³ Processors supplying this market must ensure that procedures are followed in accordance with Malaysian government regulations.

Although international markets are of major importance to Australian cattle producers, global trade in beef is relatively small compared with total world production. In 2015, global trade accounted for around 16 per cent of world beef production, in carcase weight equivalent terms.⁶⁴ As a result, beef exporters are generally considered to be price takers because they do not control sufficient market share to influence prices. In addition, strong competition from major producing countries, including India, the United States, Brazil and other parts of South America (see box 2.1 for more information on Australia's major competitors in world markets), together with fluctuations in exchange rates significantly affect prices received by Australian beef producers.

58 Meat & Livestock Australia, *Market snapshot*, Japan, MLA, Sydney, 2016.

59 Australian Lot Feeders' Association, *Grass fed versus Grain fed beef*, ALFA, Sydney, 2013.

60 Australian Wagyu Association, *Marbling*, AWA, Armidale, viewed 12 October 2016, www.wagyu.org.au/marbling/.

61 Obara k, McConnell M & Dyck J, *Japan's Beef Market*, USDA ERS, Washington DC, 2010.

62 Meat & Livestock Australia, *Market snapshot*, *European Union*, MLA, Sydney, 2016.

63 Halal Malaysia, Recognition Procedure, Procedures for Appointment of Foreign Halal Certification Bodies, Halal Malaysia, Putrajaya, viewed 12 October 2016, www.halal.gov.my/v4/index.php/en/approve-international-bodies/accreditation-procedure.

64 United States Department of Agriculture, *Production, Supply and Distribution database*, USDA, Washington DC, viewed 12 October 2016, apps.fas.usda.gov/psdonline/psdQuery.aspx.

Box 2.1: International competitiveness of Australian beef

Australian beef exporters face strong competition in international markets from major producing countries, particularly the United States and Brazil. Although Australia has a comparative advantage in the production of pasture-fed cattle, high processing and regulatory costs reduce the competitiveness of Australian-processed beef on world markets.

Australia's comparative advantage in cattle production is largely due to a pasture based production system, which involves low input costs relative to the lot feeding system used extensively in the United States. Reflecting higher input costs, US steer prices averaged 40 per cent higher than equivalent Australian cattle over the last 10 years in real terms (figure 2.2).

Brazilian cattle prices were around 15 per cent lower than equivalent Australian prices over the same period.⁶⁵ Although Brazil also operates a pasture based production system, cattle prices are lower than Australia for a number of reasons. These include the relatively low incomes of Brazilian consumers; the inferior eating quality of cattle raised (predominantly Bos Indicus breeds), and reduced access to export market due to disease (particularly foot and mouth disease).⁶⁶

Figure 2.2: International cattle prices, real terms (2015 dollars)



Notes: US steer, choice fed; Australian trade steer, average saleyard price; Brazilian steer, average saleyard price.

Sources: Australian Bureau of Statistics, *Consumer Price Index*, Australia, Jun 2016, cat. no. 6401.0, ABS, Canberra; Meat & Livestock Australia, *Market information statistics database*, MLA, Sydney, viewed 13 October 2016, statistics.mla.com.au/Report/List.

Although Australia can produce cattle relatively cheaply, processing and regulatory costs erode this advantage. Processing costs in Australia are estimated to average around \$300 a head, compared with \$150 in the United States and \$110 in Brazil.⁶⁷ Labour is the most significant component of Australian costs, accounting for 70 per cent of the total, followed by packaging and consumables, repairs, maintenance and energy.⁶⁸

Hourly compensation costs for manufacturing workers in 2012 (the latest year data is available) were US\$47.68 for Australia, US\$35.67 in the United States and US\$11.20 in Brazil.⁶⁹ In addition, the relative standardisation of beef cattle produced in the US feedlot sector and large domestic market means that processing is more efficient in the United States, reducing unit costs. The ACCC understands that large US abattoirs have throughput of around 400 head an hour, significantly faster than Australian operations.^{70,71}

Feedback received during this market study also suggested that government regulation is a significant cost to Australian processors, and the beef cattle industry more broadly. In particular, processors identified levies used to support industry research and development, employment and training of graders and costs associated with meat inspectors. Whereas these costs are borne by industry in Australia, there is substantial government support for the US and Brazilian beef processing industries. The effect of government support on processor costs is reflected in a study by ProAnd Associates that found regulatory costs accounted for 3.8 per cent and 5.9 per cent of large and medium-scale processor revenue in Australia, compared with 2.3 per cent and 2.8 per cent of equivalent sized processors in the United States.⁷²

2.2 Australia's domestic market is relatively small compared with other major beef producing countries

Unlike other major beef producing countries, the Australian domestic market is relatively small. In 2015, around 22.5 per cent of beef production by weight was consumed domestically, compared with 90 per cent in the United States and 82 per cent in Brazil.^{73,74} Australian consumers purchase beef through two main sales channels; retailers, including supermarkets and butchers, and the food service sector, including restaurants, hotels and caterers (figure 2.3).

Around 40 per cent of domestic beef sales are accounted for by the food service sector.⁷⁵ This sector sources primal cuts (such as a striploin or rump that require further butchering before sale or use), ready to cook cuts (such as steaks) and other meat products (such as hamburger patties) for further preparation.

The remaining 60 per cent of domestic beef sales occur through retail channels.⁷⁶ Major supermarket chains, butchers and other retailers source beef through a variety of means:

- Major supermarket chains may source cattle directly from a small number of specialised producers and access service kills from major processors. Further processing for shelf-ready cuts occurs at in-store butchers or company-owned boning rooms (see box 2.1 for more information on the role of supermarkets in the beef supply chain).
- Butchers source beef directly from processors and/or wholesalers, in the form of carcasses or primal cuts, or access service kills from processors for the slaughter of cattle purchased in saleyards or directly from producers. Further processing for shelf-ready cuts, including manufactured products and ready meals, generally occurs onsite.

65 Meat & Livestock Australia, *Market information statistics database*, MLA, Sydney, viewed 13 October 2016, statistics.mla.com.au/Report/List.

66 Oldfield J, *The Brazilian beef industry's slow climb could be a nightmare for Australia*, The Weekly Times, Melbourne, 29 March 2016, viewed on 13 October 2016, www.weeklytimesnow.com.au/agribusiness/decisionag/the-brazilian-beef-industrys-slow-climb-could-be-a-nightmare-for-australia/news-story/89557e992a11ff036ca0812fa4b6a8be?nk=fc09259d99a56baf64e194e43ba95085-1476334178.

67 Beef Central, *Teys holds talks with AMIEU, as workers call for close to dispute*, Beef Central, 12 June 2013, viewed on 13 October 2016, www.beefcentral.com/processing/teys-holds-talks-with-amieu-as-workers-call-for-close-to-dispute/.

68 Department of Agriculture and Water Resources, 'Meat consolidation and the red meat processing sector', submission 74 to Senate Inquiry *Effect of market consolidation on the red meat processing sector*, DAWR, Canberra, 2015.

69 Bureau of Labor Statistics, *International comparisons of hourly compensation costs in manufacturing*, BLS, Washington DC, 2012.

70 Fitzgerald A, 'A Social History of the Slaughterhouse: From Inception to Contemporary Implications', *Human Ecology Review*, vol. 17, No.1 pp. 58–69, University of Windsor, Windsor 2010.

71 Condon J, *Producers get a unique glimpse inside Macca's beef supply chain*, Beef Central, 14 August 2013, viewed on 13 October 2016, www.beefcentral.com/news/producers-get-a-unique-glimpse-inside-maccas-beef-supply-chain/.

72 ProAnd Associates Australia, *Regulatory costs in the red meat and livestock industry*, ProAnd Associates, Sydney, 2016.

73 Australian Bureau of Agricultural and Resource Economics and Sciences, *Agricultural commodity statistics*, ABARES, Canberra, 2015.

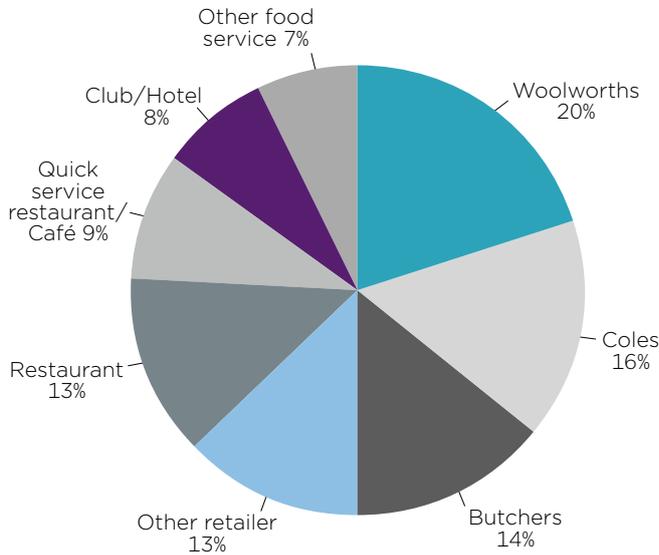
74 United States Department of Agriculture, *Production, Supply and Distribution database*, USDA, Washington DC, viewed 12 October 2016, apps.fas.usda.gov/psdonline/psdQuery.aspx.

75 Meat & Livestock Australia, *Market snapshot*, Australia, MLA, Sydney, 2016.

76 Ibid.

- Other retailers, such as smaller supermarket chains and independents, generally source shelf-ready cuts from wholesalers and processors. These retailers generally do not carry out any further processing in-house or at company owned facilities, and largely focus on servicing impulse or convenience purchasers.

Figure 2.3: Estimated share of domestic beef sales



Notes: Other retailer includes Aldi, IGA, Costco and independent supermarkets; other food service includes aged care and catering.
Source: ACCC estimate.

The relatively small proportion of total beef production that is consumed domestically could lead to a conclusion that the competitive dynamics of this market will have less impact on the prices and returns for the majority of Australian cattle producers than will international markets. While this may generally be the case and more particularly so in northern production regions, the ACCC recognises that the domestic beef market is important for some producers and some beef production regions, including those supplying major supermarket chains, branded products and premium markets, including high end restaurants and specialty retailers.

Box 2.2: The role of the major supermarkets in the domestic beef market

Cattle acquisition

Coles and Woolworths both purchase cattle from producers through contract arrangements, paddock sales and saleyards. The majority of cattle are acquired under contract with long-term suppliers, reflecting the need to secure a steady supply of cattle to provide consistent products for sale. The need for consistency in the retailed product is also reflected in the specifications that Coles and Woolworths set for cattle they buy. In general, these cattle are relatively lightweight yearling steers and heifers, with limited Bos Indicus genetics, that have been finished for a minimum period on grain.

These requirements reflect consumer preferences for eating quality and cut size while ensuring that a consistent product is available to consumers nationally over time. When contracted beef cattle suppliers cannot meet demand, supermarket buyers purchase cattle through paddock sales and saleyards to make up any shortfall. Limited volumes of primal cuts and shelf-ready cuts may also be sourced directly from processors during periods of reduced supply, or high demand or for specialty lines, such as organic beef.

Cattle slaughter and beef processing

Cattle purchased by the major supermarket chains are slaughtered through service kill arrangements with a number of beef processors throughout Australia. The resulting carcasses and primal cuts are sent to boning rooms or direct to in-store butchers for further processing into products such as shelf-ready cuts, ready meals and other value added products.

Service kill arrangements are typically secured through long-term contracts with processors, with agreed prices and guaranteed volumes. Supermarkets tend to engage large processors to provide these services because they have the capacity to process large volumes of cattle on a consistent basis. The ACCC is aware of two abattoirs, Teys Australia in Tamworth and Australian Country Choice in Brisbane, where contracted volumes are sufficient for plant throughput capacity to be allocated entirely to supermarket service kill customers.

Beef retailing

Major supermarket chains retail a range of beef products, including shelf-ready cuts, ready meals and other value added products such as sausages and marinated cuts. The ACCC understands that the major supermarket chains prefer to offer a relatively consistent range of products over time and across locations to secure consumer loyalty.

2.2.1 Margins and profitability through the supply chain

Some producers are concerned that processors and domestic retailers, particularly major supermarket chains, increase their profit margins by using market power to reduce prices paid to producers for beef.

In this market study, the ACCC requested detailed cost and revenue data from a number of processors and major supermarket chains to test this proposition and assess profitability throughout the supply chain. The ACCC did not have powers to compel industry participants to provide information during the market study. Therefore, the requests were made on a 'voluntary' basis, meaning that businesses were not legally compelled to respond. While the ACCC received some of the requested information, it was not of sufficient detail to conduct robust value chain analysis.

Some interested parties suggested several alternative sources of information about beef retailing to the ACCC. These included (box 2.3):

- MLA reporting of producer share of retail dollar
- a cut out model developed by the Australian Beef Association (ABA), and
- a previous study conducted by the ACCC into the red meat sector.

It is important to note that domestic retail beef sales account for less than 20 per cent of total sales by revenue. As a result, even if this data had been provided it would only represent a relatively small segment of the cattle and beef industry. In contrast, information on costs and revenues for processors and exporters engaged in the export market would provide a more representative picture of margins and profitability for the industry as a whole.

Box 2.3: Tools and studies examining beef retailing

MLA reporting of producer share of the retail dollar

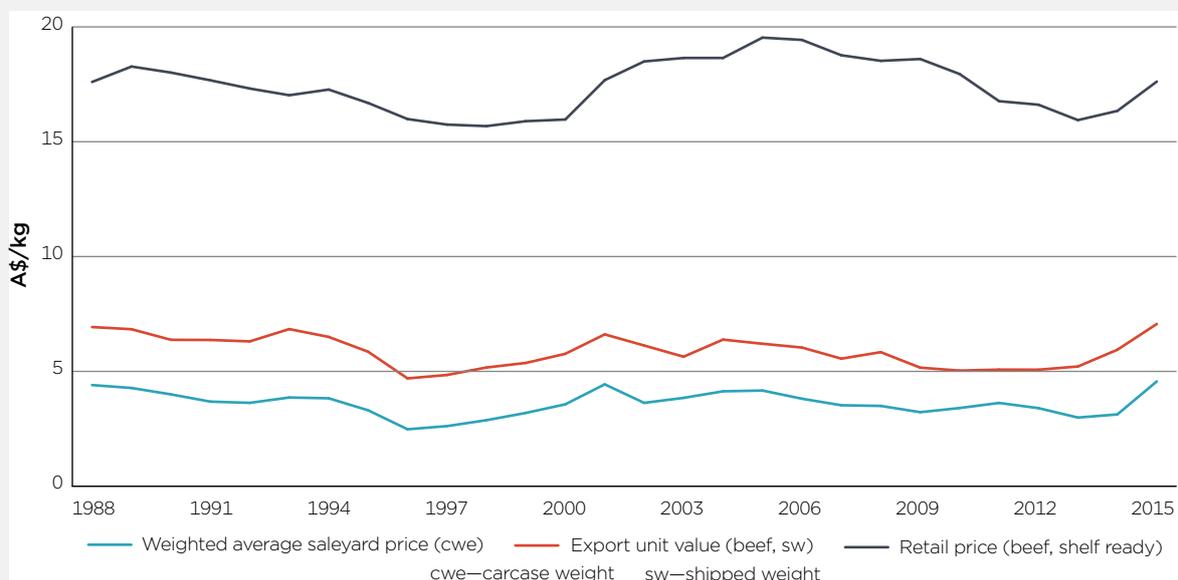
MLA calculates a producer share of the retail dollar by dividing the Australian average saleyard price for trade steers, in retail equivalent weight, by the Australian average retail beef price, published by ABARES. According to this measure, the share of retail prices captured by producers averaged around 30 per cent for the 10 years to 2015 (figure 2.4). It is important to note that the remaining 70 per cent does not reflect retail or processor margins because costs, such as retailing and processing, are not included.

However, information provided to the ACCC suggests that the use of saleyard prices does not accurately represent the prices offered by major supermarket chains to producers for two major reasons.

First, cattle sold through saleyards are predominantly grass finished, regularly sold for other purposes, such as lot feeding or restocking, and include large numbers of animals that are not eligible for supermarket buying programs, such as those with high Bos Indicus content. In contrast, cattle purchased by major supermarket chains are grain finished and must meet specific size and quality requirements. The cost of producing these animals is likely to be higher.

Secondly, as a result of these specific requirements, prices offered by major supermarket chains are largely based on prevailing prices for feeder cattle and feed grains within a grid.

Figure 2.4: Saleyard, export and retail prices, real terms (2015 dollars)



Source: ABARES

A number of submissions compared the MLA results with a similar measure published by the United States Department of Agriculture, in which the United States cattle producers' share of the retail dollar averaged around 55 per cent for the 10 years to 2015.⁷⁷

Some producers submitted that the significant difference between the Australian (30 per cent) and US (55 per cent) producer shares reflects the use of market power by major supermarket chains and processors in Australia to put downward pressure on cattle prices.

However, a number of issues complicate an Australian-US comparison. For example, the US measure uses the average price paid for grain finished slaughter ready cattle, whereas a large number of cattle in Australia are grass fed. Secondly, the cost of processing, distributing and retailing beef is lower in the United States than Australia, reflecting cheaper labour, utilities and regulatory costs, and greater efficiency because of economies of scale (see box 2.1 for more information on comparative processing costs in the United States, Brazil and Australia). Lower costs mean that retailers can profitably sell beef at lower price points, which has the effect of increasing the producer share of the retail dollar.

Australian Beef Association's carcass yield and margin calculator⁷⁸

This model calculates the producer share of the retail dollar by dividing the total purchase price for a carcass by the total value of individual cuts sold by retailers. Users populate the weight of the carcass and, on a per kilogram basis, the retail prices offered by the major supermarket chains for each cut, the carcass weight equivalent price of cattle and costs incurred by retailers associated with processing, such as service kill, boning, packaging and transport fees. This data is then used to calculate the producer, processor and retailer share of the retail value of the carcass. It is important to note that these shares are based on revenue and do not reflect margins because all costs (such as retailing costs) are not included.

Unfortunately, the requisite data to input into this model is not readily available to the public. Most of the requisite information is likely only held by the major supermarket chains, as it requires detailed knowledge of the costs of acquiring and processing cattle, which are negotiated between private parties. As a result, it is difficult to determine whether using alternative cattle price series, such as saleyard or OTH, or industry estimates for processing costs would provide an accurate observation of the share of the retail dollar captured by producers supplying the major supermarket chains.

Previous ACCC study into red meat (2007)⁷⁹

The ACCC undertook an examination of the relationship between prices paid to livestock producers and retail prices for red meat in 2007. Information provided by Coles at the time indicated that livestock acquisition accounted for 53 per cent of the end retail price, with processing and retailing costs accounting for a further 14 per cent and 30 per cent, respectively. This suggests that the margin achieved on retail beef sales was approximately 3 per cent in 2007.

As noted above, the ACCC was unable to obtain updated data during this market study therefore these figures represent the most recent retailing cost and price data available to the ACCC.

77 United States Department of Agriculture, *Historical monthly price spread data for beef, pork, broilers*, Washington DC, ers. [usda.gov/webdocs/DataFiles/Meat_Price_Spreads_17995/history.xls?v=42429](https://www.usda.gov/webdocs/DataFiles/Meat_Price_Spreads_17995/history.xls?v=42429), accessed 30/01/2017.

78 Australian Beef Association, *Carcass yield and margin calculator*, Launceston, docs.google.com/file/d/0B6X6dvS8A388VWFrbGtESGUzYkU/edit?usp=sharing, accessed 30/01/2017.

79 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*, Canberra, 2007

2.3 Climate strongly influences production and pricing

Long-term temperature and rainfall patterns are key factors in determining the production system employed by producers. For example, the cattle production system in northern Australia is characterised by stocking densities that are much lower than southern states. This reflects the lower nutritive value of pastures, which is the result of the combined effects of a monsoon rainfall pattern, sub-tropical and tropical climatic conditions, and soils with relatively low fertility (see Chapter 2 for more information). In addition, the wet season affects the ability of northern producers to access cattle markets because of road inundation and a lack of opportunities to muster.⁸⁰

Seasonal variations in rainfall and temperature can cause significant volatility in the supply of cattle. These can include fluctuations in rainfall volume and temperature ranges or the timing of rainfall and temperature events. Extreme examples include droughts and floods but even modest temperature variations or the timeliness of rainfall can have a significant effect on pastures and crops used to feed cattle. In response to changes in feed availability, producers will turn off or purchase stock to increase or decrease stocking rates, resulting in fluctuations in cattle supply.

In extreme events, fluctuations in supply can have a significant effect on prices. A drought in Queensland, the Northern Territory and parts of New South Wales and Victoria resulted in a significant increase in cattle supply as producers rapidly destocked properties throughout 2013 and 2014. The drought also negatively affected the condition and weight of cattle offered for sale and reduced the number of restocker buyers participating in the market, reflecting a lack of feed to support purchases. The combination of these factors led to a significant decline in cattle prices (see box 2.3 for more information on recent cattle price movements). Despite the sharp decline in prices, producers in drought affected areas were unable to respond by withholding cattle from markets because pastures could not support existing stocking levels.

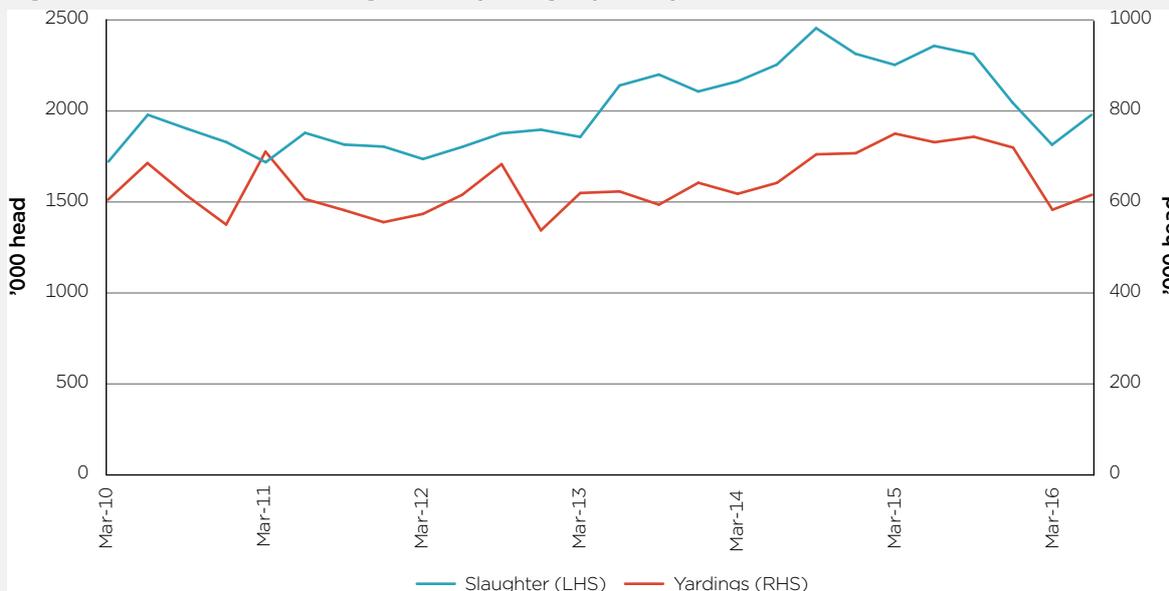
Climate can also have a significant effect on the operations of other supply chain participants. For example, the northern wet season reduces access to cattle for live exporters and processors in northern Australia. The reduced supply of cattle means that live exporters concentrate activity in the dry season while processors in northern regions have extended shutdown periods over summer. Seasonal variations that affect cattle supply can also have important implications for processors in meeting customer commitments and maintaining plant efficiency. For example, the ACCC understands that some processors will transport cattle significantly further than normal during periods of localised shortage so as to maintain throughput and retain skilled staff (see chapter 3 for more information on distances cattle are transported to reach processors).

80 Gleeson T, Martin P & Mifsud C, *Northern Australian beef industry, Assessment of risks and opportunities*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, 2012

Box 2.3: Recent movement in cattle prices

International markets and seasonal conditions have had a significant effect on cattle prices in recent years. Consecutive failures of the northern wet season in 2012–13 and 2013–14 and dry conditions across large parts of New South Wales and Victoria over the same period led to a significant increase in cattle sold at saleyards (yardings) and slaughter from early 2013, as producers destocked their properties (figure 2.5).

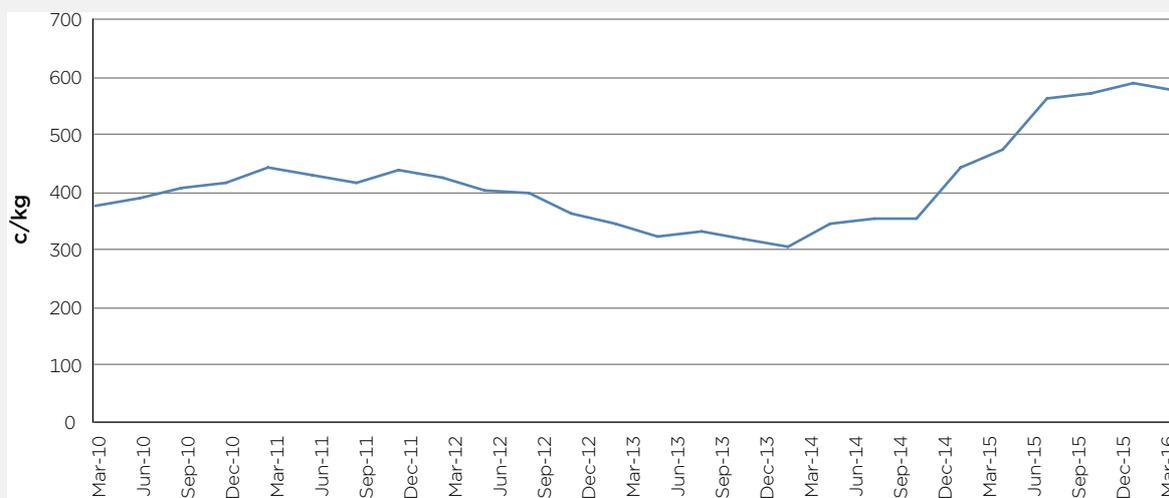
Figure 2.5: Australian cattle slaughter and yardings, quarterly



Sources: Australian Bureau of Statistics, Livestock and Meat, Australia, Aug 2016, cat. no. 7218.0.55.001, ABS, Canberra, 2016; Meat & Livestock Australia, Market information statistics database, MLA, Sydney, viewed 12 October 2016, statistics.mla.com.au/Report/List.

In response to the increase in cattle supply and reduced demand from drought affected restockers, saleyard prices fell significantly. For example, the Eastern Young Cattle Indicator (EYCI) declined by 25 per cent from an average 382 cents a kilogram in June 2012 to a low of 286 cents a kilogram in January 2014.⁸¹ From the low in early 2014, saleyard prices rose in response to strong demand from export markets, despite continued high turnoff (figure 2.6).

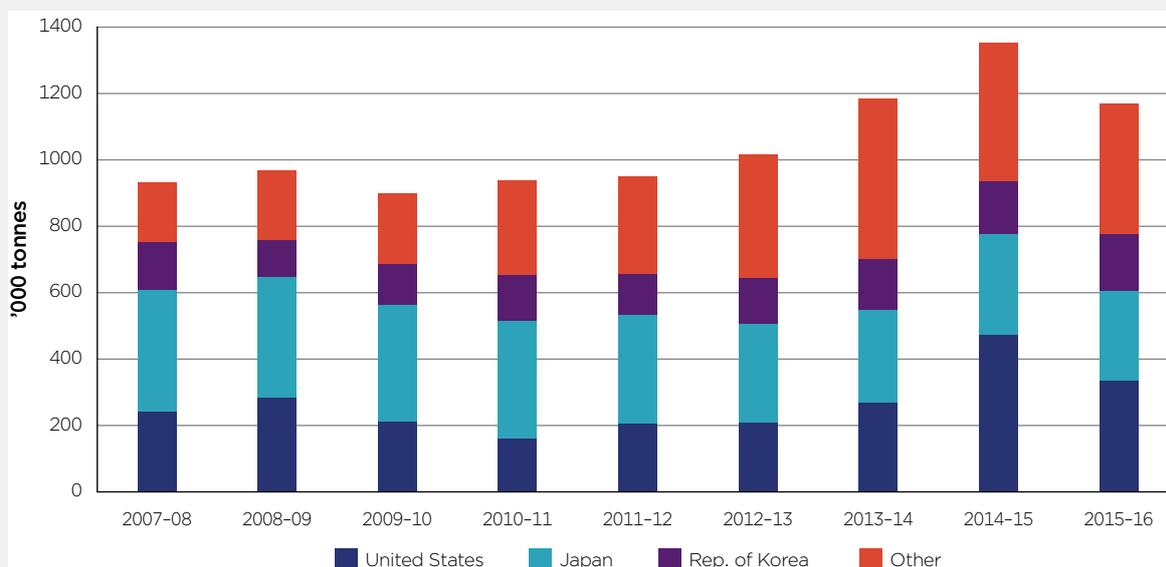
Figure 2.6: Eastern Young Cattle Indicator, real terms (2015 dollars)



Note: carcass weight equivalent price.
Sources: Australian Bureau of Statistics, Consumer Price Index, Australia, Jun 2016, cat. no. 6401.0, ABS, Canberra; Meat & Livestock Australia, Market information statistics database, MLA, Sydney, viewed 12 October 2016, statistics.mla.com.au/Report/List.

The increase in demand from export markets largely reflected a shortage of domestically produced beef in the United States and a depreciation of the Australian dollar against the US dollar, making Australian beef relatively cheaper for importers. In 2014-15, the volume of Australian beef exports rose by around 14 per cent to a record 1.35 million tonnes (shipped weight), with shipments to the United States increasing by almost 80 per cent to just over 470 000 tonnes (figure 2.7).⁸²

Figure 2.7: Australian beef exports to major markets, shipped weight



Source: Department of Agriculture and Water Resources, *Red meat export statistics*, DAWR, Canberra, viewed 12 October 2016, www.agriculture.gov.au/export/from-australia/quota/red-meat/statistics.

Although Australian exports to the United States began to slow from mid-2015 as US domestic production recovered, saleyard cattle prices remained relatively high. This reflected favourable outlooks for the 2015-16 northern wet season and summer rainfall across eastern states, which encouraged producers to reduce cattle turnoff in anticipation of improved conditions. Average to above average rainfall across the majority of previously drought affected regions resulted in producers not only reducing turnoff but re-entering cattle markets to rebuild herds. This increase in demand for restocker cattle resulted in the EYCI rising from an average 587 cents a kilogram in September 2015 (prior to the northern wet season) to a high of 713 cents a kilogram in September 2016.⁸³

2.4 Cattle prices are only one factor determining farm profitability

A number of market study participants suggested that a downward trend in cattle prices and rising input costs have resulted in low profitability for beef farms. The rate of return on total capital, excluding capital appreciation, for beef specialist farms averaged 0.3 per cent per annum over the period 1977-78 to 2012-13.

This compares with rates of return for specialist crop and sheep producers over the same period of 3.2 per cent and 0.6 per cent per annum, respectively.⁸⁴

Data from ABARES shows that beef producer costs (excluding interest) have consistently increased over the last 25 years, largely in line with inflation. In contrast, cattle prices have

81 Meat & Livestock Australia, *Market information statistics database*, MLA, Sydney, viewed 12 October 2016, statistics.mla.com.au/Report/List.

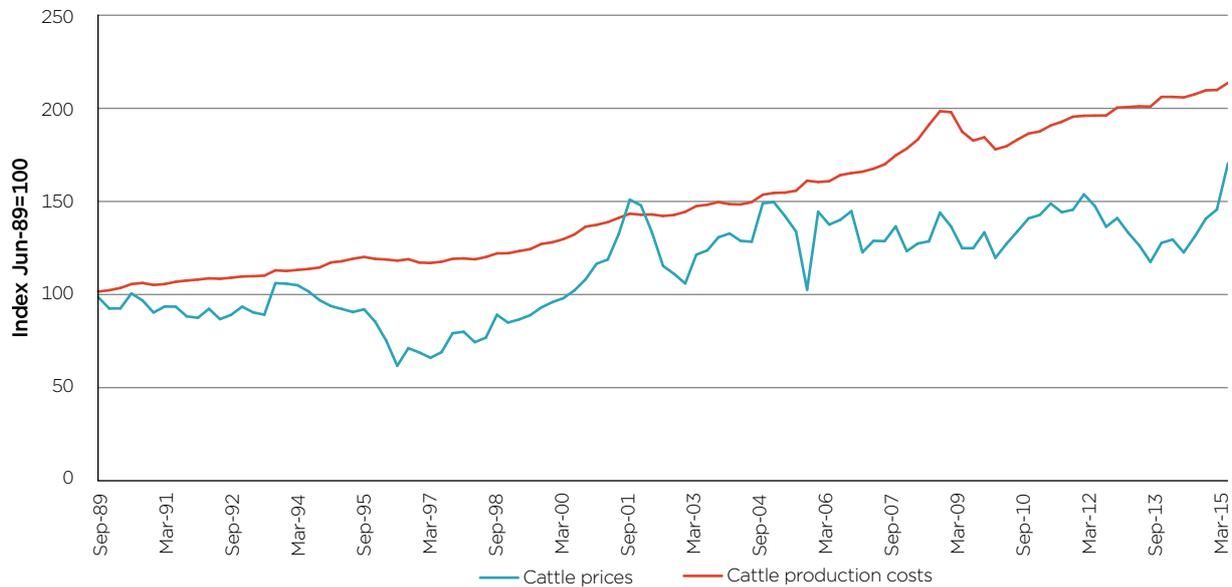
82 Department of Agriculture and Water Resources, *Red meat export statistics*, DAWR, Canberra, viewed 12 October 2016, www.agriculture.gov.au/export/from-australia/quota/red-meat/statistics.

83 Meat & Livestock Australia, *Market information statistics database*, MLA, Sydney, viewed 12 October 2016, statistics.mla.com.au/Report/List.

84 Jackson T & Valle H, 'Profitability and productivity in Australia's beef industry', *Agricultural commodities*, March quarter 2015, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, 2015, pp. 226-35.

remained relatively flat since the 2000s (figure 2.8). Specialist crop and sheep producers, however, also faced stagnant commodity prices and increases in input costs over the same period, suggesting that the relatively poor performance of beef specialists reflects other factors.

Figure 2.8: Australian cattle prices and production costs, nominal terms



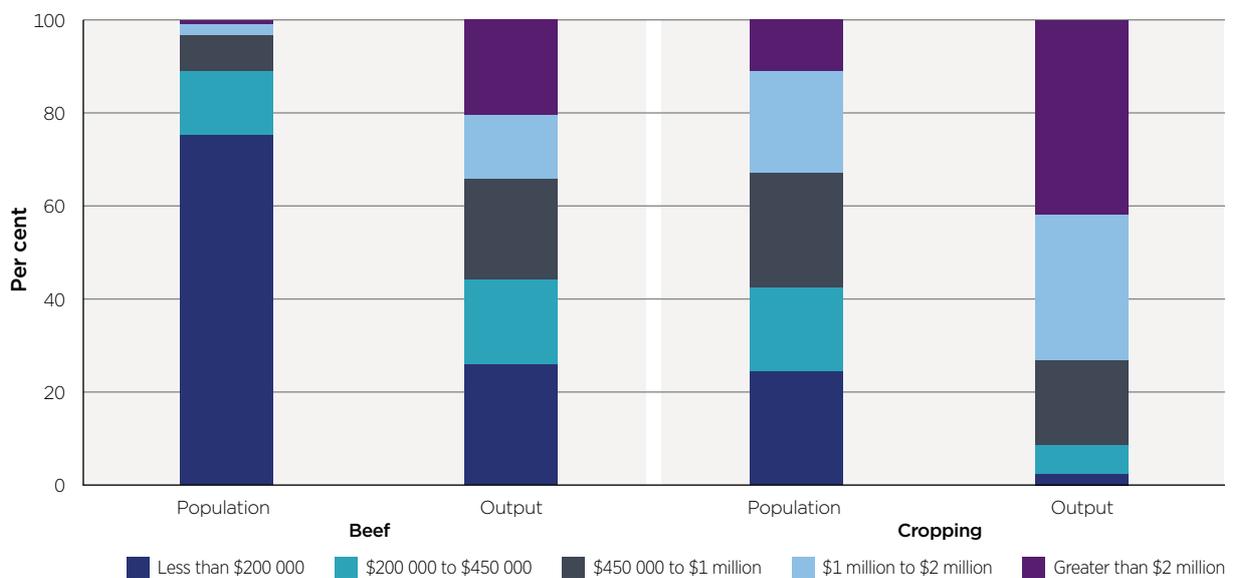
Notes: Production costs are represented by the southern Beef Producers Input Price Index (BPIPI), the northern BPIPI largely tracks movements in the southern index; cattle prices are represented by national average saleyard price for medium steers.

Sources: ABARES pers comms; Meat & Livestock Australia, Market information statistics database, MLA, Sydney, viewed 12 October 2016, statistics.mla.com.au/Report/List.

A recent study by Jackson and Valle identified several factors that negatively affect the productivity growth and hence profitability of specialist beef producers. These include the availability and adoption of new technologies to improve production efficiency, reduced returns to scale compared with other agricultural activities, and industry structure.⁸⁵

In particular the large proportion of small-scale producers have lower average productivity and profitability than larger farms. This significantly reduces the productivity and profitability of the industry as a whole.

Figure 2.9: Proportion of farm population and output, measured as total receipts, by industry, 2012-13



Source: Jackson T & Valle H, 'Profitability and productivity in Australia's beef industry', *Agricultural commodities*, March quarter 2015, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, 2015, pp. 226-35.

85 Ibid.

When small-scale farms, defined as those with total farm receipts of less than \$200 000, are excluded from the analysis, Jackson and Valle found that the average annual rate of return for the remaining specialist beef farms increases from 0.3 per cent to 2.9 per cent. When a similar exercise is undertaken for cropping specialists the increase in the rate of return is less dramatic, rising from 3.2 per cent to 5.2 per cent per annum. This reflects the relatively smaller proportion of small-scale farms involved in crop production.⁸⁶

Major reasons for the continued operation of large numbers of unprofitable small-scale beef producers include:

- off-farm income: small-scale farms often have a greater reliance on off-farm income to meet living expenses
- relatively low labour requirements: this allows for part-time operation by people with off-farm employment or in semi-retirement
- significant capital gains: when increases in land values are included, rates of return for beef specialists are similar to those for cropping. This reflects the tendency for small farms to be located in high rainfall areas or close to population centres.⁸⁷

In addition to farm productivity and profitability, the large number of small-scale farms is likely to have flow on effects on the supply chain. The ACCC understands that small-scale producers tend to sell cattle in relatively small lots at local saleyards, with the type and specification varying more significantly in these lots than those generated by larger producers. Small lot sizes can reduce the efficiency of transport, selling and processing infrastructure and thus increase costs along the supply chain.

⁸⁶ Ibid.

⁸⁷ Martin P, Australian beef, *Financial performance of beef cattle producing farms, 2012-13 to 2014-15*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, 2015.

3 Selling prime cattle: options and market structures

3.1 Introduction

Concerns were raised during the market study that producers have limited options for selling prime cattle.⁸⁸

As discussed in chapter 1, potential buyers of prime cattle include beef processors, users of service kills provided by processors (including supermarkets, food service operators and butchers). Some live export customers buy prime cattle but most do not, noting that the live export trade is concentrated in northern Australia).

The ACCC has found that when prime cattle are lighter in weight, producers have more potential buyers of their cattle than for prime cattle at heavier weights. For the latter, the number of potential purchasers tends to be more limited.

3.2 Competition between processors generally takes place within regional markets

To assess the geographic area over which purchasers compete to acquire prime cattle, the ACCC analysed information provided by a range of purchasers, including large and medium sized processors, major supermarkets and an online auction site. Not all buyers provided the information requested by the ACCC. The information the ACCC received included:

- the proportions of prime cattle movements between a point of sale to a processing plant, within different distance ranges over the past 12 months
- the costs of transporting prime cattle by road and rail
- the projected cost impact that additional transport would have on the overall quality of the processed beef (and consequently the return paid to producers) based on a collection of 10 years of data.

3.2.1 Transport distances

A range of factors impact the distances that cattle can be profitably transported. These vary based on region and the location of the producer, but include road conditions, access to rest/spell stops and weather. For example, producers located in central Australia, northern Queensland and northern Western Australia who may not have abattoirs nearby, might transport cattle thousands of kilometres. However, many producers in Victoria, NSW and other parts of Queensland and Western Australia would not regularly transport their cattle such vast distances.

The costs of transport, both in dollar and animal health terms, significantly influence the geographic scope of competition. Losses of weight and condition of cattle increase with distance and time travelled. This increases the likelihood that the eating quality of the animal will be lower, impacting a processor's ability to fulfil its supply contracts with certainty and the prices paid to producers. Cattle buyers told the ACCC they prefer to source cattle from places relatively close to abattoirs to reduce transport costs, which can represent between 5 to 10 per cent of the value of the animal.⁸⁹

The data obtained by the ACCC on the distance prime cattle are transported is reflected in table 3.1. Consistent with the information on transport costs, it demonstrates that, for the buyers who provided data, approximately 80 per cent of the cattle transported were acquired from within 400 km of the abattoir. This indicates that the bulk of competition between these purchasers of prime cattle is likely to occur within 400 km of the abattoir the cattle are being transported to.

⁸⁸ The ACCC's consultation did not reveal concerns about the availability of options for selling store cattle.

⁸⁹ Dependent on distance and prevailing cattle prices at the time.

Buyers indicated that the data provided for this analysis was typical of most years. The buyers in this list are not identified by name to protect confidentiality, but they include a cross-section of processors and retailers in terms of buying capacity and locations.

Table 3.1: Percentage of cattle acquired from within defined distances

Acquirer	<100 km (%)	100 km–200 km (%)	200 km–400 km (%)	>400 km (%)	Total <400 km (%)
Buyer A	5	12	25	58 ⁹⁰	42
Buyer B	5	15	70	10	90
Buyer C	20	66	6	8	92
Buyer D	21	23	36	20	80
Buyer E	50	20	20	10	90
Buyer F			-80	-20	-80
Buyer G			-100		-100
Buyer H	70	10	10	10	90
Buyer I			70		70
Buyer J	56	15	5	24	76

In response to the Interim Report, the ACCC received feedback on this data and analysis.

Some processors and industry bodies submitted that the appropriate area over which cattle are transported is much wider than the suggested 400 km. Some parties submitted that some abattoirs acquire a large portion of their cattle from up to 1600 km away.

The ACCC acknowledges that some cattle are transported significant distances. However, the ACCC's analysis focuses on the distances that the majority of cattle are transported. We did not receive any data to suggest that a significant proportion of prime cattle are transported over 1000 km before reaching the abattoir.

The ACCC obtained some additional data after the interim report was released, which depicted acquisition patterns at two additional abattoirs—one in NSW and one in Queensland. This data indicated that 50 per cent of cattle (rather than 80 per cent) were acquired from within 400 km of the plants over the past 10 years. This may indicate that in some regions, the distance over which cattle are transported may be wider than represented by the data in table 3.1. The ACCC accepts that there will be variances in the geographic dimension of markets across the country and we discuss our approach to this below.

3.2.2 Competition still occurs outside of regional markets in some circumstances

The 400 km concept is not a rigid market boundary, but an observation drawn from the data obtained by the ACCC for the market study.

At times, processors and retailers compete to buy cattle from producers over longer distances, particularly when cattle supply conditions in one region differ greatly to a neighbouring region. However, with the exception of the more remote regions identified in box 3.1, the data provided to the ACCC indicates that these instances are minor relative to overall prime cattle acquisition volumes. Therefore, competition across greater distances is likely to be transitory and a reaction to market conditions in the region at a particular point in time.⁹¹ As a result, competition from distant buyers is relatively inconsistent and weaker than local buyers in the relevant region.

⁹⁰ Note that a large proportion of the cattle in this bracket are acquired from 500 km away from the processing site. Slightly outside of the ACCC's posited 400 km radius.

⁹¹ For example, a shortage in supply of specific cattle in a region (e.g. to fill specific customer orders such as EU cattle or MSA grade cattle) or fluctuations in supply due to climate or other factors, may cause buyers to incur the additional costs of purchasing and transporting cattle over atypical distances. This may reflect the need to maximise processing throughput to maintain staff or fill customer orders.

The ACCC's review of JBS' proposed acquisition of Primo found that cattle in that region were normally transported distances of up to 600 km. This finding was made based on the information presented to the ACCC during this particular review, and is an indication of how geographic markets can vary according to the circumstances. Box 3.3. provides more information on the ACCC's review of this proposed acquisition.

Box 3.1: Central Australia, northern Queensland and northern Western Australia, Northern Territory and parts of South Australia

There are no processing plants in close proximity to prime cattle produced in central Australia, northern Queensland, northern Western Australia, the Northern Territory and parts of South Australia. These cattle are therefore transported far greater distances for processing than those produced in New South Wales, Victoria and southern Queensland.

The ACCC understands that cattle producers in central Australia are most likely to send their cattle to processing plants in Brisbane, North Queensland and Darwin and at times to South Australia. Cattle producers in the Northern Territory have in the past sent cattle to south west Western Australia and Queensland; however, they are now able to send cattle to recently opened abattoirs in Darwin and the Kimberley. The relevant area of competition for these producers is therefore likely to be greater than 400 km.

3.3 Producers face restrictions in switching production to meet different customer specifications

The ACCC has considered the prime cattle production process and the ability for producers to sell prime cattle to a variety of buyers, including processors.

As discussed above, cattle are often purchased according to specific attributes. Table 3.2 outlines the more significant specifications of cattle and relevant end uses listed under the column headed 'Cattle Type'.

Table 3.2: Target customer specifications for cattle destined for slaughter

Cattle Type	Carcase Weight Range (kg)	Fat Depth (mm P8)	Dentition	Sex	HGP allowed
Butcher	150-210	3-8	0-2	Steer/Heifer	
MSA graded beef	200-340	5-22	Varied	Varied	
Supermarket	200-320	4-17	0-2	Steer/Heifer	Yes
Feeder steer (short fed)	280-400	-	0-2	Steer	
Feeder steer (mid fed)	300-400	-	-	Steer	
Feeder steer (long fed)	420-470	-	0-2	Steer	
Jap Ox/Export Steer	300-440	7-22	0-4	-	No
European Union	260-420	5-22	0-4	-	No

Producers are likely to have more options for selling prime cattle when they are at a lighter weight. Potential buyers of these lighter prime cattle include supermarkets, processors and live exporters (depending on location). As cattle become heavier, demand from supermarkets decreases as the resulting meat cuts are too large for retail sale. At the heaviest weights, buyers are most likely to be limited to export processors.

As discussed in chapter 2, the characteristics of cattle (their weight, fat depth, marbling and eating quality traits) are largely driven and constrained by natural endowments and the demands of customers in the region.

To maximise their profits, producers will adopt a production system that balances return with the constraints imposed on them by location. In some cases this will lead to a production system that focuses on producing cattle to specific weight and quality attributes for a specific end use, for example supply to a supermarket. Other producers may be able to alter their production practices and grow cattle to various weights and specifications in order to maximise the number of buyers available to them at a certain point in time. For example they may be able to sell cattle at lighter weights to butchers or supermarkets, or grow cattle out to heavier weights for export. However, this will not always be feasible as some producers may be restricted in their options by the breed of cattle they are raising.⁹²

For example, cattle processed for Jap Ox export are generally bred to grow to a larger weight and develop muscle and fat at a rate which achieves the desired level of fat marbling in the muscle tissue. Conversely, cattle destined for domestic supermarkets are likely to be bred to be grown to a lighter weight with marbling and meat characteristics that are more suitable to the Australian domestic market. Accordingly, slaughtering cattle bred for the domestic market at an older age or a Jap Ox export bred animal at a younger age is likely to lead to lower quality grades of processed beef and reduce the likelihood that producers will switch between these production methods.⁹³

In the long term, producers may be able alter their production system to respond to changes in demand, to reduce their exposure to buyer power in particular sales channels, or to take advantage of new export markets. These changes could include introducing new breeds, herd structures or farm infrastructure.

Changes to farming systems can be expensive and time consuming to implement. For example, the introduction of new genetics into a herd could take between three and five years. In making such a change a cattle producer would also need to be confident that changes in market conditions, especially prices, were likely to be sustained.

3.4 A range of factors determine the level of competition between processors

As outlined above, the closest competition for acquiring heavier cattle is often between processors. Given the concerns raised about competition between processors, the ACCC has looked at these competitive dynamics.

The ACCC mapped the locations of all AUS-MEAT listed abattoirs in Australia and found there are multiple processors in most 400 km-wide regions of Australia. However, the physical presence of processors is not of itself an indicator of strong competition.

Some producers submitted that despite having a number of plants located within 400 km of their property, they still experience limited competition for their slaughter weight cattle. In particular, some producers have submitted they have difficulties gaining access to:

- processors with European Union-accredited export programs in the north of Australia
- buyers of bulls and other large cattle for slaughter in some areas of Australia.

On the other hand, cattle scarcity combined with the need to consistently meet customer requirements (e.g. EU eligible, MSA graded, PCAS or other programs) may be sufficient to ensure that returns to producers are adequate, even if there are a small number of processors in a market.

⁹² Different breeds of cattle develop muscle and fat tissue at varying rates, which are timed to coincide with the required eating qualities desired in the meat at the time of slaughter. Cattle that develop earlier will often be bred for slaughter at a lighter weight, whereas cattle that take longer to develop will often be bred for slaughter at a heavier weight, so that too much fat is not built up before slaughter. Slaughtering these cattle at times that do not line up with their maturity may adversely impact meat quality and consequent returns to the producer.

⁹³ NSW Department of Primary Industries, *Market specifications for cattle*, August 2015, Primefact 621, second edition

The ACCC found that the degree of competition in a given market is influenced by several factors, including:

- the physical features of each processing facility
- market access and certification credentials
- long term commitments to customers
- business strategy and profitability
- the availability (or scarcity) of cattle available to meet customer specifications.

3.4.1 Processing plants may focus on specific types of cattle

Processors have submitted that all processors compete with each other strongly, regardless of the beef markets they supply, as they all have the capacity to process cattle of varying weights and specifications. In addition, the vast majority have the accreditation to supply both the domestic and export markets.

Some abattoirs have submitted that they can alternate between processing different specifications and weights of cattle very quickly, in most cases from shift to shift and sometimes even within shifts. Processors submit that even if they do not actually alter the type of cattle that they process, their ability to do so acts as a discipline on other processors and maintains competitive pricing across cattle types.

Some plants are less flexible in their ability to alter their production mix. A combination of long-term contracts and restrictions in chilled or frozen storage capacity may reduce processors' ability to respond to profitable opportunities by switching their production mix. As a result, some processors focus on acquiring particular types and weights of cattle at particular times, rather than a broad cross-section of cattle all the time.

Consequently, producers' limited flexibility for altering cattle production in the short term could result in producers having fewer selling options and potentially receiving lower prices.

Processing facilities

Processing plants optimise their facilities to take account of the cattle available in particular areas and the markets which they intend to service.

Where a processor's facilities are strongly oriented toward a particular end customer (such as a supermarket or export market for grinding meat), they may not be in a position to compete strongly for purchasing cattle which are more suited to different end customers. At least one processor indicated that if, for example, facilities are designed to export frozen manufacturing meat to the US, their ability to compete in the market for the acquisition of higher quality cattle is likely to be limited by a lack of chilled storage.⁹⁴ This is despite having a kill floor and boning facilities that are capable of processing higher quality cattle.

Depending on the size of the processing plant, the cost and time for planning and constructing additional storage capacity can be significant. Accordingly, identifying the flexibility of a processing plant to expand or alter its purchases will involve a case-by-case assessment of each individual plant. The ACCC would consider this factor closely in future competition investigations and assessments.

In addition, some processors may have optimised their facilities to cater for bulk supply to some customers, particularly the major supermarkets. This situation is discussed in more detail below (see 'Supply Contracts').

The exception to this general analysis on the processing of prime cattle is the processing of vealers, described in box 3.2.

⁹⁴ Storage capacity can influence the flexibility of processors to expand the volume or alter the cattle that they can acquire at certain points in time. Processors generally appear to have frozen and/or chilled storage facilities. Frozen beef is generally lower quality beef and is destined for export to the United States. Chilled beef is generally higher quality beef and is destined either for the domestic market or for export into higher value markets.

Box 3.2: Veal processing

While veal is produced across many regional areas in Australia there are particular centres around Australia known for selling vealers or veal processing, including Casino in New South Wales, Emerald in Queensland and Mount Barker in South Australia. The ACCC understands veal processing requires substantially different processing equipment to that used in the processing of larger prime cattle.

Export demand for Australian veal is low, as Australia produces predominantly pink veal, which is not valued by the export market, and domestic demand for veal is low compared to prime beef. This means that the market is small compared to beef.

The ACCC understands that two distinct types of cattle are processed for veal in Australia. First, some of Australia's veal is sourced as a by-product of the dairy industry. These animals are unwanted dairy calves, and are not financially viable to grow out into prime cattle. These animals are slaughtered at a very young age and may weigh between 30–50 kgs.

Second, the ACCC also understands that a small number of producers raise cattle for no more than twelve months, selling them before they are completely weaned, specifically while they are still receiving 50 per cent of their nutrition from milk. These animals are heavier than those referred to above.

Supply contracts

Processors often have supply agreements with export and domestic customers of varying duration and volume. These contracts can commit significant portions of capacity to processing specific cattle types, and restrict a processor's ability to acquire different types of cattle in a region. This in turn may have an impact on competition.

Some processing plants are entirely contracted to supply beef to supermarkets. For example, Teys' processing plant at Tamworth and Australian Country Choice's processing plant at Cannon Hill, are dedicated to processing cattle for the major supermarket chains. In some instances these plants are optimised to process the smaller cattle sizes preferred by the major supermarket chains. In both cases, the plants will process only cattle required by the major supermarket chains. The ACCC understands that these cattle are grain fed and within a specific weight range to ensure consistency of the product on supermarket shelves.

The agreements to supply processing capacity to supermarkets are not uniform. In some instances supermarket chains have entered into strategic partnerships which help to fund processing operations, while other arrangements take the form of volume-based off-take commitments. The ACCC understands that substantial capacity is dedicated to supply single customers at processing plants in most states and territories.

Arrangements such as these provide processors with some certainty of processing throughput, which helps manage the risk of operating a high value asset for what processors submit is often a low margin product. However, these same agreements can also restrict processors' ability to alter their cattle acquisition profile in response to changes in cattle and beef prices in the short term. This could impact the level of competition in particular regional areas, especially if there are a limited number of options available for producers.

3.5 Barriers to entry limit competition among buyers

Barriers to entry are an important consideration in the overall assessment of competition between processors. A processor's ability to exercise market power will depend on the extent to which it is constrained by the threat of new processing capacity entering the market, or the expansion by an existing competitor.

The ACCC considers that the threat of entry or expansion is effective only if it is likely to occur in a timely way, and is of sufficient scale and nature to affect the behaviour of incumbents. The timeliness of entry and expansion depends on the dynamics of a particular market, but the

ACCC generally considers that entry will only be an effective constraint on the market power of incumbents if it could occur within 1–2 years.⁹⁵

There are a number of barriers to entry in the processing sector:

- the requirement for economies of scale
- high capital and sunk costs
- uncertain and fluctuating cattle supply, and
- regulatory requirements and costs.

Economies of scale in cattle processing mean that for the most part, large scale entry is required for cost competitiveness against incumbents. Economies of scale can increase the risk of entry if a correspondingly large share of the market must also be won from incumbents.

Studies suggest that the minimum efficient scale of a new abattoir is the capacity to process a minimum of 400 head of cattle per day.⁹⁶ A new plant of this scale would cost between \$33 million and \$49 million.⁹⁷ These figures are also consistent with the reported estimated costs of recommissioning a beef processing plant in Innisfail to process 400 head of cattle per day.⁹⁸

High capital costs are not necessarily a barrier to entry. However, the proportion of the capital and other costs which are sunk costs, and uncertainty about cash flows (arising from fluctuations in market conditions) can increase the cost and risk of entry.

There are recent examples of abattoirs being constructed or reopened:

- In 2014, the Australian Agricultural Company ('AACo') opened a new beef processing facility in the Livingstone Valley near Darwin in the Northern Territory. The plant has daily processing capacity of up to 1000 head of cattle and cost \$91 million over two years to construct.⁹⁹
- A new beef processing plant, the Kimberley Meat Company abattoir, was opened in September 2016 near Broome in Western Australia. The plant has the capacity to process up to 300 head of cattle a day. In December 2015, it was reported that the cost was over \$40 million.¹⁰⁰
- A mothballed plant was also reopened in Young in 2014 at a cost of \$10 million by Hilltop Meats.

The ACCC notes that the facilities developed by AACo and Kimberley Meat Company were opened in areas where there was little or no existing processing capacity, compared to areas of the east coast of Australia, where there is significant existing capacity.

The ACCC understands that the capital costs involving in re-establishing the mothballed plant at Young were significantly lower than establishing an entirely new plant which made re-entry viable despite existing capacity in the market. The viability of entry will depend on a case by case analysis, and the presence of existing unused infrastructure or a lack of existing capacity will have a significant impact on this.

95 ACCC Merger Guidelines, 2008.

96 Rural Industries Research and Development Corporation, 2010, *Feasibility of establishing a northern Western Australian beef abattoir*, November 2010, p. 47.

97 Rural Industries Research and Development Corporation, 2010, *Feasibility of establishing a northern Western Australian beef abattoir*, November 2010, p. 48.
Meateng, Felix Domus and Tom Hoffman Advisory, 2012, *Evaluating the commercial viability of a northern outback Queensland meat processing facility*, February 2012, p. 63.

98 Maddocks and Associates Pty Ltd, 2016, *Innisfail Meatworks—Recommissioning*, October 2016.

99 Australian Agricultural Company, *Livingstone Beef* [website], 2015, <http://aaco.com.au/operations/>
Australian Agricultural Company, 2014, AACo's northern beef processing facility begins full commercial operations, 31 October.

100 ABC Rural, 'First Kimberley abattoir since 1993 set to open in April, 16 December 2015.

Supply constraints

As noted above, processors typically need to be able to process at least 400 head of cattle per day to exploit economies of scale. However, fluctuations in the availability of cattle can increase the risk that such production levels will not be sustainable on a regular basis. There are two sources of risk that the supply of cattle will be insufficient to support profitable production:

- Volatility in the supply of cattle due to the seasonal and cyclical factors discussed elsewhere.
- Potential responses of incumbent processors who may be able to use excess capacity to expand production and make it harder for entrants to acquire the minimum volume of cattle needed for successful entry. Such strategic behaviour by incumbents could also reduce the profitability of entry by increasing the prices of cattle acquired and lowering prices received for beef.

Regulatory barriers

A broad range of regulations and associated costs apply to beef processing facilities including an export inspection system, labour regulations, customer audits and food safety requirements. Other regulatory costs include fuel excise charges and workplace health and safety provisions, as well as environmental management plans. The level of regulation and compliance imposed in the food processing sector as a whole has increased in recent years.¹⁰¹

Beef processors obtain domestic and export accreditation from AUS-MEAT to operate their facility, this accreditation is compulsory for processors wishing to export and in some cases practically a requirement if they wish to supply supermarkets. The accreditation process is a stringent and rigorous set of steps which includes the accreditation application, inspections to assess compliance with National Accreditation Standards (NAS), development of a Quality Management System and AUS-MEAT training courses for staff.

During a period of provisional accreditation, the business is audited to assess compliance with the NAS before full accreditation is awarded. Once accredited, processing plants are regularly audited to ensure compliance with AUS-MEAT standards (for more information on the audit process see chapter 5).

3.5.1 Small-scale entry into the beef processing market

Barriers to entry and expansion to the processing sector vary according to abattoir size.

The meat processing sector is characterised both by large vertically integrated businesses operating across parts of the supply chain and smaller processors with more targeted operations, such as servicing a limited geographic region or specific sections of the market (like smaller domestic butchers).

While barriers to large scale entry into the processing sector are high, there appears to be greater scope for new entry on a smaller scale targeting niche markets.

Niche entry is unlikely to have the same imperative for scale economies, as the end beef product is differentiated and could therefore command higher prices. This would also likely require lower capital costs and is less likely to provoke retaliation by incumbents.

Small-scale entry is unlikely to be sufficient to constrain a larger processor's market power in the short term. However, it could provide an additional sales channel for some producers. Niche entry may also provide a pathway for expansion in the longer term.

Barriers to expansion

The ability of an existing processor to profitably expand production depends on, among other things;

- the cost of expanding production or capacity relative to prevailing beef prices
- the ability to source an increased supply of cattle and to distribute the increased output to its customers (supermarkets, export markets etc.)

¹⁰¹ ProAnd Associates, 2016, *Regulatory costs in the red meat and livestock industry*, 3 June 2016, p. 64.

- the ability to source additional skilled labour for boning and grading
- the level of excess capacity held by existing firms that could be deployed to prevent rivals from expanding.¹⁰²

Recent examples of processing plant upgrades and expansion give an indication of the costs of expansion. Before JBS USA Holdings Inc (JBS) acquired Australian Consolidated Food Holdings Pty Ltd (Primo), Primo had announced a planned upgrade of its Scone processing facility costing \$40 million. In addition, the expansion of the abattoir at Churchill near Ipswich cost approximately \$35 million to increase throughput from 600 to 1200 cattle per day.¹⁰³

Capacity expansion could also be achieved through managing the number of shifts as a variable cost, rather than upgrading the existing plant. However, processors in Australia have submitted that there are at least two practical limitations on their ability to do this:

- Skilled labour is difficult to acquire on a short term basis when needed to increase production. This is particularly a problem in regional areas.
- Australian labour costs restrict processors' ability to operate their plants on a 24 hour basis, as the extra overtime payments would negate the profitability of expanding to round the clock production.

As is the case for new firms entering the market, volatility of cattle supply will impact on the ability of processors to commit capital to plant expansions at a given time.

3.6 In some regional areas there may be limited options for selling prime cattle

The ACCC defines markets to analyse potential competitive harm, resulting from mergers and acquisitions, allegations of the misuse of market power and other anti-competitive conduct.

It is difficult to generalise the nature and scope of cattle and beef markets. As discussed above, the geographic dimensions of a market are not rigid and will ultimately depend on the circumstances of the transaction or issue that is being considered. For example, when assessing competition in northern Australia, where processing plants and saleyards are more dispersed and cattle may travel further for sale, the ACCC will consider whether larger geographic areas of competition are relevant. In contrast, in southern Australia the relevant areas of competition may be narrower in scope, reflecting the closer proximity of saleyards and processing plants.

For the purposes of this market study, the ACCC has found that competition for prime cattle typically takes place within a 400 km radius of a producers' property or local saleyard. The ACCC acknowledges that there are a number of producers in Australia who will not have a processing plant or cattle purchaser within 400 km of their property and that these producers must sell to more distant purchasers of prime cattle.

As described earlier in this section, many producers have the option of selling prime cattle to a range of different buyers. However, there are some regions where the available buyers appear to be limited to a smaller number of processors:

- North Queensland—the Rockhampton area
- Tasmania.

The following sections consider the numbers of processors in these regions. Competition for cattle purchases in South Australia and Western Australia is also considered.

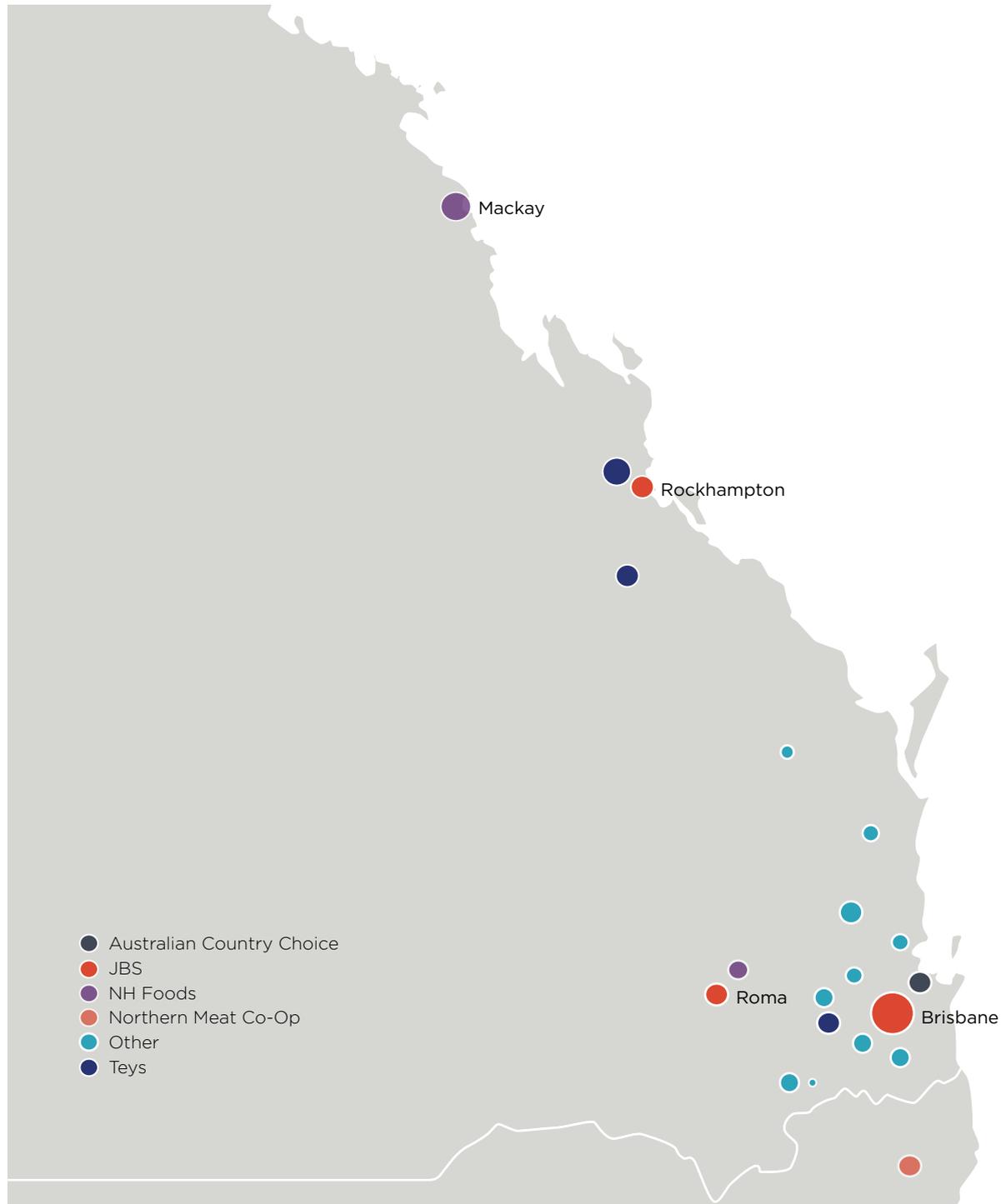
¹⁰² Merger Guidelines, November 2008

¹⁰³ Condon J, *Chinese investors in joint venture with Qld's Churchill Abattoir*, Beef Central, 11 December 2014, viewed on 5 September 2016, <http://www.beefcentral.com/processing/chinese-investors-in-joint-venture-with-qlds-churchill-abattoir/>

3.6.1 Rockhampton and north Queensland

There are two processors in Rockhampton: JBS and Teys Australia. There is a Teys plant at Biloela (144 km away) and a NH Foods plant at Mackay (336 km away). JBS is also located in Townsville, but this is over 700 km to the north and would likely only be seen as a substitute to producers bringing cattle from the north of Rockhampton. JBS and NH Foods have similar processing capacity in this region. Teys' two plants have significantly more processing capacity than both JBS and NH Foods combined.

Figure 3.1: North and South East Queensland



Producers of prime cattle in this area (figure 3.1) have submitted to the ACCC that they consider sending cattle to abattoirs in south east Queensland as an alternative to Rockhampton, Mackay or Biloela. However, they have noted that the cost of transport is usually prohibitive unless higher cattle prices adequately compensate for this (it is more than 600 km from Rockhampton to Brisbane).

Analysis completed for the ACCC estimates that the average increase in transport costs across all producers to send cattle to an alternative abattoir would be 50 per cent. This is significant considering it may represent approximately five per cent of the value of the animal. When considering lower cattle prices, this could increase to approximately 10 per cent.

Supermarkets and live exporters do not appear to be strong alternatives to the processors in the Rockhampton area. The ACCC understands that supermarkets are not substantial buyers of prime cattle in this area because cattle in this area are less likely to meet company specifications and the region's significant distance from the bulk of the supermarkets' retail outlets. Some cattle may be produced to the appropriate live export specifications, but there is currently not a suitable port in close-enough proximity for this to be a viable option for producers in the area.

Therefore, the ACCC considers that, based on this analysis, producers with prime cattle for sale in this area are likely to rely heavily on sales to three processors. As such, the ACCC would review any future proposed consolidation in the region closely.

3.6.2 Tasmania

There are two export-accredited processing businesses operating in Tasmania: JBS and Greenham. JBS has processing plants in Devonport and Longford and Greenham has a plant in Smithton. JBS and Greenham account for approximately 90 per cent of the red meat processed in Tasmania. There are smaller processors present, but their limited processing capacity would inhibit their ability to constrain JBS and Greenham.

Supermarkets also acquire lighter weight cattle in Tasmania, and provide additional competition for these cattle. However, they are unlikely to provide an alternative buyer for cattle suited for export markets.

The ACCC received a submission that a lack of options available for the disposal of livestock such as cattle makes it difficult for Tasmanian farmers to remain competitive in a global market. Further, the absence of a large meat processor on either King Island or Flinders Island means that producers in these areas face high transport costs.

There is currently a proposal to construct a multi-species abattoir on King Island. This abattoir would greatly reduce producers' transport costs and may enhance their returns, as their cattle will have a less stressful journey to the processing facility, improving the quality of carcasses.

As in the Rockhampton area, the ACCC would review any future proposed consolidation in Tasmania closely.

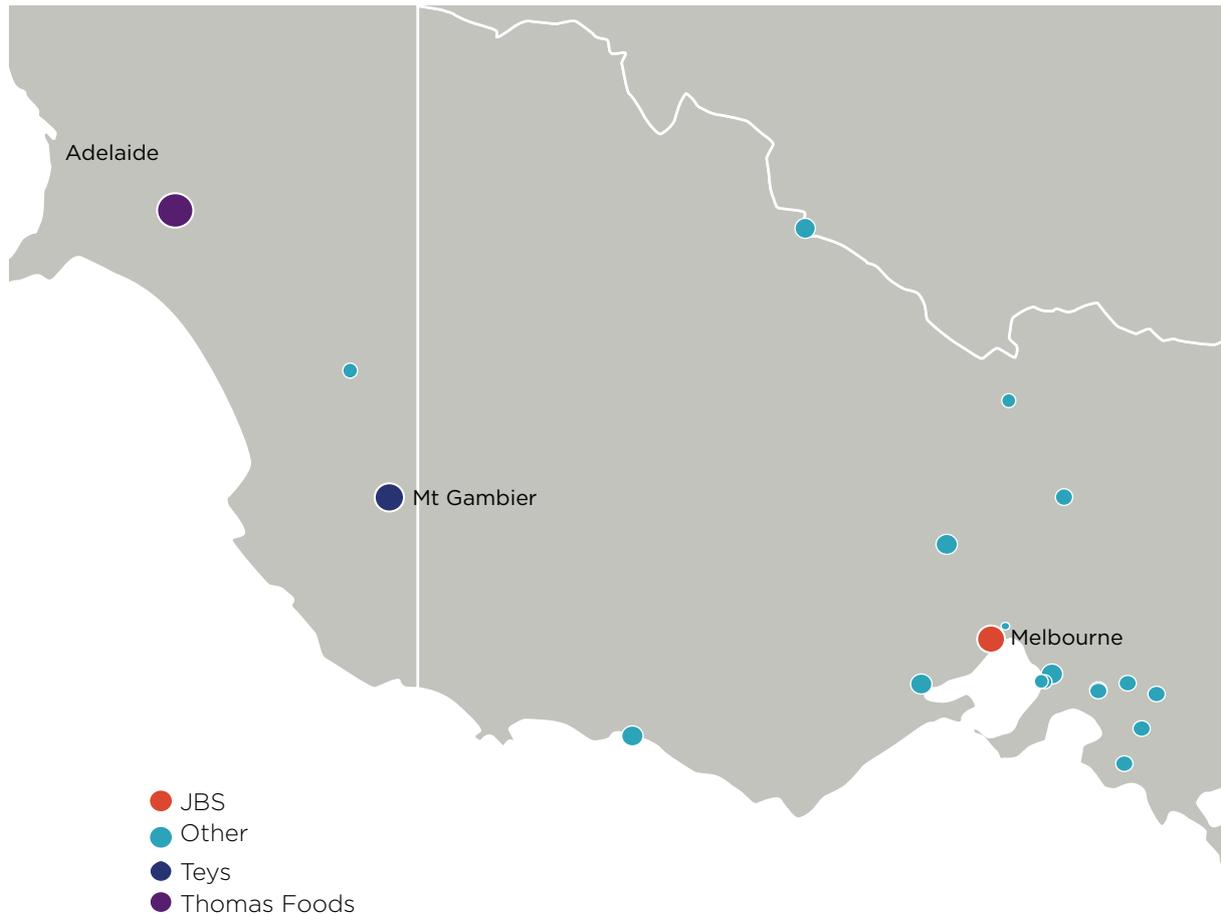
3.6.3 South Australia and Western Victoria

In South Australia there are two significant processors, Teys at Naracoorte and Thomas Foods at Murray Bridge. There are several processing plants in neighbouring Victoria (figure 3.2), and supermarkets also purchase prime cattle in this area.

As a result, the ACCC considers that producers in the area have a range of selling options across cattle of different weights and with different characteristics. However, as noted earlier in this chapter, the extent of this competition depends on the specific circumstances.

When the ACCC held its forum in Mount Gambier, the general view from participants at that forum was that they were happy with the number of options present in the market for them to sell cattle. However, it was noted that a significant number of the attendees were livestock agents and processor representatives, who may have a different view of regional competition to livestock producers.

Figure 3.2: Victoria and South Australia



3.6.4 Western Australia

There has been a reduction in the number of processing plants in WA over the past few decades.

The largest cattle processing businesses are Harvey Beef in Harvey, Western Meat Packers' (Western Meat Processors) in Cowaramup and V & V Walsh in Bunbury.

There are a number of smaller meat processors including Dardanup Butchering Co. in Picton, Goodchild in Australind, Hagan Brothers in Greenough, Shark Lake Group in Esperance and Witan Holdings in Gingin. The Kimberley Meat Company abattoir recently opened in the northern region of WA.

Although there are a number of processing plants in the state, they are not all located in close proximity to each other, as is the case in some areas of the east coast. It is likely that processors located in the south of the state mainly compete with each other rather than with plants located in the north.

Live export is a significant part of the cattle industry in Western Australia, accounting for approximately 54 per cent of the cattle turned off in the northern region of the state. The major supermarket chains are also active buyers of cattle in the southern part of the state. However, as mentioned in previous sections of this chapter, they only purchase a limited range of cattle types.

Similar to Rockhampton and Tasmania, the options for selling heavier prime cattle in the south of the state are likely to be limited to the three large processors—Harvey Beef, Western Meat Packers and V & V Walsh. In the north, the recently opened Kimberly Meat Company, AACo's abattoir near Darwin and some competition from southern processors offer alternatives to the live export market.

Cattle producers in WA did not raise any specific concerns about competition from buyers for their prime cattle. Nevertheless, since the number of existing buyers of prime cattle is relatively low, any future assessment of competition in Western Australia would need to carefully consider the closeness of competition between them.

3.6.5 Other regions with a small number of processors

Darwin and the north of Australia

Cattle production in the Northern Territory occurs in two main areas:

- the Central Australia region, and
- the Darwin & Katherine production areas

Central Australia

Producers in this region raise cattle with both Bos Taurus and Bos Indicus genetics, and therefore have access to both the live export market and the domestic processing market. Cattle can be sent to processors in the south or shipped north to the live export ports. In addition, many cattle from this area are shipped to store sales, as the properties may not have the capacity to finish cattle to a slaughter weight.

Darwin and Katherine

Before the AACo processing plant was established, cattle producers' only option in this region was to sell cattle into the live export market. When the live export ban occurred, producers shipped cattle to southern abattoirs and Townsville to be processed primarily for grinding meat. The ACCC was informed that this did not provide any significant return to producers and should not be considered as a genuine substitution option.

Overall, concerns were not raised with the ACCC about competition in the processing sector in this region during the market study.

Box 3.3: The ACCC's review of the acquisition of Primo by JBS (November 2014–February 2015)

When the ACCC reviewed the proposed acquisition of Primo by JBS in 2014–15 the focus was on Primo's Scone abattoir and the likely effect on competition for the purchase/acquisition of prime cattle, taking into account:

- The distance over which it is viable to transport cattle
- The area(s) over which buyers compete to acquire cattle
- The ability of producers to switch between producing different types of cattle and
- The ability of different processors to process different types of cattle

The Primo abattoir at Scone and the JBS abattoir at Dinmore were approximately 650 km apart.

The ACCC considered the effects of the acquisition in a regional market for the acquisition of prime cattle which included northern NSW and southern Queensland. JBS and Primo were active in many other markets but this was the only market in which their activities overlapped to a sufficient degree to raise potential competition concerns. If the ACCC had adopted a narrower catchment area in the review, it would have indicated minimal overlap between the two abattoirs.

Information available to the ACCC at the time indicated that cattle were being transported up to 600 km from farm to abattoir. The ACCC focused on the potential reduction in competition between the processors, particularly for producers located between Dinmore and Scone. The ACCC found that a number of existing abattoirs would continue to provide strong competition to JBS, noting that several of these abattoirs have a greater processing capacity than the Scone plant.

The ACCC also took account of market feedback that Primo made price and non-price offers that were particularly attractive to some producers. Concerns were raised that Primo's offer would no longer be available after the proposed acquisition; particularly their willingness to purchase prime cattle on a live-weight basis, rather than OTH. However, the ACCC did not find evidence that Primo systematically constrained the price or non-price¹⁰⁴ offer of JBS. The ACCC considered that if there were a market need for the offers Primo made, then there were sufficient competitors left in the market capable of meeting that need.

The ACCC has improved its understanding of the industry during this market study, which has been far reaching when compared with the review of a specific acquisition. This depth of knowledge has not changed the ACCC's decision that the acquisition of the Scone abattoir by JBS would be unlikely to substantially lessen competition in any market. The ACCC did not receive any information to suggest information available to us at the time of the merger review was incorrect and it remains the case that there are a number of competitors present in the relevant market.

Subsequent to the ACCC's review, the Treasurer approved the JBS—Primo acquisition subject to conditions which relate to the provision of service kill at Scone. These conditions are monitored by the Foreign Investment Review Board (FIRB).¹⁰⁵

104 Non-price refers to the conditions of acquisition of cattle that are not related directly to price paid. For instance, Primo may have offered payment on the basis of live weight, rather than carcase weight.

105 See: <http://jbh.ministers.treasury.gov.au/media-release/014-2015/>.

3.7 Mergers or acquisitions in the processing sector will continue to be carefully scrutinised

This chapter has discussed a number of issues that suggest that any further aggregation of cattle processors, particularly in some regional areas of Australia will be closely scrutinised to ensure that it does not substantially lessen competition in any relevant market.

Cattle producers typically sell their cattle to buyers within a 400 km radius of their property or local saleyards. Producers are also limited in their ability to alter the breed and weight range of the cattle that they produce, which limits their ability to access the maximum number of potential buyers in a timely way. Further, while there appear to be a number of processors available in most geographic areas, producer feedback and our analysis indicates that not all of these processors acquire all types of cattle. Producer feedback has also identified that alternative buyers of cattle such as supermarkets, restockers and live exporters may only be in the market for cattle of specific weight ranges, and in specific regions, and so may only constrain processors to a limited degree.

Processors may also be restricted in their ability to effectively compete for all types of cattle within a market. This in turn can impact the competitive dynamic of the market and the prevailing price of cattle. For instance, processors that are highly vertically integrated, committed to long term supply relationships or who are otherwise unlikely to expand their capacities may be limited in their flexibility to purchase more cattle or different cattle and thus push prices towards an equilibrium.

Finally, barriers to entry and expansion in the processing sector are significant and may be higher at times, especially when there is excess capacity in the market. The height of entry barriers will differ between regions and at different points in time. This means that in most cases, producers' options for selling cattle are likely to be limited to existing processors rather than potential new competitors.

4 The Australian cattle and beef industry lacks transparency in many areas

4.1 Clear price signals are essential for the operation of competitive markets

Competitive markets ensure that resources are allocated to their most valuable use by sending price signals to buyers and sellers. If price signals are distorted, buyers and sellers are hindered in their ability to make choices that best meet their needs, resulting in inefficient production and higher costs for consumers.

The ACCC received submissions that determining cattle prices accurately can involve significant time and effort for producers. In particular, producers said it was difficult to compare historical and offered prices across sales channels. This reduces transparency in the market and can lead to:

- a producer using a sales channel or supplier that does not best meet their needs or maximise their returns
- reduced competition between and within sales channels, which may create and protect local market power; the prices received by producers may be lower than those that would be achieved in a fully competitive market as a consequence
- the use of price discrimination by buyers, for example where a buyer offers a lower price to a producer because they are unable to compare prices effectively
- producers being unable to efficiently respond to changing customer preferences. A lack of clear price signals will distort production and investment decision making processes.

4.2 Cattle prices are inconsistently reported leading to information asymmetries between producers and buyers

Producers submitted that prices are difficult to compare across sales channels, negatively affecting their decision-making ability.

A lack of robust forward pricing mechanisms in the Australian cattle acquisition market means that producers use historical prices to assess expected future prices and returns. Access to historical cattle prices in a format that can be compared across sales channels can have a significant influence on the production and investment decisions of producers.

The ACCC attempted to make its own comparison of available price data derived from different sales channels, and found that differences in price reporting made it difficult to draw meaningful comparisons.

4.2.1 Saleyard price reports are aggregated and this impacts comparability of prices

MLA reports prices for saleyards of industry importance (41 reports in total) on a weekly basis.

MLA saleyard reporters record prices and the number of cattle for each lot sold and provide a description of the major attributes of cattle in each pen. These include the type of animal (yearling steer, grown steer, medium cow etc.), weight, the intended use by the buyer (feeder, restocker or slaughter) and muscle and fat scores. These attributes are assessed during a brief visual inspection and relate to the average condition of the cattle sold in each pen.

MLA does not publish the results of each pen but groups cattle with similar attributes together (e.g. Yearling Heifer, 330–400 kg, for slaughter, muscle score C, fat score 3), reporting low, high and weighted average prices on a cents per kilogram liveweight basis for each group. In addition, MLA estimates per head prices for all cattle sales and a carcase weight equivalent price for cattle bought for immediate slaughter. The grouping of cattle sales with similar attributes allows MLA to produce data series that are consistent over time and across the reported saleyards.

MLA further aggregates prices for cattle groups to create state, regional and national indicators, such as the Eastern Young Cattle Indicator (EYCI). The EYCI is a seven calendar day rolling weighted average of 24 young cattle types from 26 saleyards in Queensland, New South Wales and Victoria. Cattle included are vealer and yearling heifers and steers, with muscle and fat scores C2 or C3, and liveweight greater than 200 kg.¹⁰⁶ The EYCI includes prices paid for cattle for slaughter, restocking or lot feeding. These indicators provide a snapshot of the prevailing prices for the industry or sections of the industry, which can be used to benchmark individual farm performance. They may also form the basis of futures and hedge trades, as is the case with the EYCI.

The reporting of prices in aggregate reduces the ability of producers to compare historical sales of cattle with specific condition and quality characteristics to cattle ready for sale.

4.2.2 Over the hooks reporting does not reflect prices achieved

MLA reports OTH prices by state on a weekly basis, using grids supplied by major processors to derive weighted average prices on a cents per kilogram carcass weight basis (see section 4.3 for more information on price grids). Prices are grouped by cattle type, weight range, dentition, muscle score and fat depth, allowing for comparison over time and across states.

Issues relating to the reporting of over the hooks prices

Like saleyards, there are a number of issues with the collection and publication of OTH prices that could negatively affect the ability of producers to make effective decisions. These include:

- Collection of offered prices: prices published by MLA reflect those offered by processors, not the actual prices achieved after grading. If producers do not have a good understanding of how grids operate, they could make inaccurate comparisons between individual offers/results, and state averages
- State-wide reporting of prices may not reflect regional variation: the state-wide basis for reporting prices is unlikely to reflect the prices available to a producer in a certain location. This could be particularly relevant to producers in New South Wales, where processing operations are spread across a wide area
- The reporting of prices is not comparable to other sales channels: the grouping of cattle by type, weight range, dentition, muscle score and fat depth is different from the format used for the reporting of saleyard prices. As a result it can be difficult for producers to make meaningful comparisons between sales channels (see section 4.2.5 for a summary of the ACCC's efforts to compare OTH and saleyard prices).

4.2.3 Reporting of paddock sales and forward contracts is not robust

Direct sales arrangements, including paddock sales and forward contracts, are important sales channels for a range of producers including those supplying live export markets and major supermarket chains. However, reporting of these prices appears to be less robust compared with other sales channels, because coverage of sales is limited and relies on relatively few sources of information.

The lack of reporting on direct sales prices reduces transparency, which may result in less competitive outcomes in cattle acquisition markets and affect the ability of producers to effectively respond to changes in market demand.

4.2.4 Realised prices for online sales are readily available in the short term

AuctionsPlus makes sale results available online shortly after the conclusion of a sale, with prices added to the description and photos of cattle provided in the pre-sale catalogue. Results are currently displayed online for the most recent two months, with older data available on request. The ACCC understands that AuctionsPlus is developing a tool to query historical sales results for cattle of specific characteristics (for example, breed) and location of seller.

¹⁰⁶ Meat & Livestock Australia, Interpreting the Eastern Young Cattle Indicator (EYCI) daily summary report, MLA, Sydney, n.d.

4.2.5 Saleyard and over the hooks prices are not easily comparable

Given the concerns raised by producers throughout this market study about comparability of prices across sales channels, the ACCC attempted to make a comparison between publicly available saleyard and OTH price data. However, a valid comparison was unable to be made, reflecting differences in the major saleyard and OTH price series reported by MLA.

As stated above, MLA collects saleyard price data on a liveweight basis which is converted to a carcass weight equivalent price. However, the carcass weight equivalent prices for major saleyard cattle types (e.g. heavy steer, medium steer, trade steer and medium cow) do not match the weight categories used for OTH prices reported for these cattle types. For example, saleyard prices for Queensland heavy steer are converted to carcass weight equivalent by applying a dressing percentage of around 54 per cent to liveweight (500–600 kg), implying a carcass weight of between 290 and 350 kg. This compares with a carcass weight of between 300 and 400 kg used for the equivalent OTH indicator (grown steer).

In addition, the state wide average reported for OTH prices may not reflect local or regional processor offers. This reduces the ability of producers to accurately assess and compare potential returns from selling cattle through a saleyard or directly to a processor.

Although other factors, such as cattle quality, transport arrangements, selling fees and number of potential buyers, will affect producer returns from each sales channel, comparing prices on the same basis is important for producer decision making. Without the ability to easily compare prices across sales channels, the effectiveness of producers' decision making is likely to be reduced and could result in lower returns from cattle sales.

4.3 Understanding how price grids are set, and selling against them, is not straightforward

4.3.1 Price grids are generally complex, reflecting the wide variety of customer requirements

Cattle buyers, primarily processors, use price grids to indicate prices that will be paid for specific carcass attributes of processed cattle. In general, a processor will offer the highest price, for carcasses that closely meet customer requirements for attributes including age, weight, meat colour, and fat coverage and colour (the grid 'sweet spot'), with discounts applied to carcasses that have fewer of these attributes or are damaged (for example, bruising) (see Chapter 5 for more information on the grading process). The ACCC understands that under certain market conditions, particularly in periods of strong competition between processors or for cattle with specific characteristics, processors will offer prices over and above those in their published grids. Price grids are offered as dollars or cents per kilogram on a carcass weight basis.

Although the basic principle behind the formulation of price grids is common across processors, the format and complexity of grids can vary significantly. This largely reflects the number and variety of markets that a processor supplies, and the cut and quality attributes of beef demanded by each market. For example, a price grid made available to the ACCC by a major processor contained more than 200 individual prices, with additional discounts outlined for bruising, fat and meat colour and fat coverage and premiums for pasture certified cattle. In addition, price grids are regularly updated to reflect changes in the supply of cattle and end market demand. The ACCC understands that grids are generally reviewed and updated by processors on a weekly basis, but this can occur more or less frequently as required.

4.3.2 The method used for determining price grids varies across the industry

The ACCC requested information from processors about the methods used to determine price grids. Feedback from processors suggested that methods for developing price grids varied, but a number of common factors are considered, including:

- Pricing models: models are used by processors to analyse the prices that can be achieved for various cuts of beef and co-products on export and domestic markets, which is combined with processing costs to calculate a break even figure per animal

- Competitor prices: are obtained for comparison
- Order book: processors consider existing and expected orders and adjust prices to ensure the acquisition of required cattle
- Prevailing cattle prices: are obtained to compare the prices offered for cattle with similar characteristics in alternative sales channels, particularly saleyards
- Historical cattle prices and other data: processors consider the prices they paid in the recent past to assess expected future prices for similar cattle. The ACCC understands that some processors maintain records detailing price offers that were accepted and rejected.

4.3.3 Some producers have difficulty accessing price grids

Several cattle producers submitted that it is difficult to access price grids in a timely way. Some producers also suggested that they were reluctant to agitate for buyers to provide grids to them in case this damaged ongoing business relationships.

Prospective cattle suppliers can access grids through a number of different channels, including:

- cattle buyers' websites, although this is not common practice
- direct contact with cattle buyers, usually by phone, to discuss pricing, consignment and delivery arrangements; this appears to be the preferred method of the processors
- completing an online request form
- pre-registering as a supplier to a company, and
- other sources, such as livestock agents and word of mouth.

Where price grids are not publicly available on a company website, a buyer maintains discretion over whom it releases price grids to. This may limit the bargaining power of cattle producers if they cannot easily access price grids from alternative buyers and dampen competition in cattle acquisition markets.

Many small-scale producers submitted that their requests for grids are often ignored because the consignments they propose to send are too small. Although buyers are not obliged to purchase cattle from any supplier, information on expected future prices will influence the production and investment decisions of producers. For example, if a small-scale producer finds that higher returns could be achieved by increasing turn-off to supply cattle OTH, then they may purchase additional restocker cattle for finishing or invest in feedlot infrastructure to intensify their operation. If producers cannot access this information, then it is difficult to make these decisions.

The ability of producers to make appropriate production and investment decisions is significantly affected by the availability of accurate and timely pricing information. As a result, limited access to price grids reduces the ability of producers to respond to market signals efficiently. In addition, a lack of transparency in prices offered by processors may lead to less competitive outcomes in cattle acquisition markets.

The ACCC considers that to improve transparency and industry efficiency, cattle buyers using price grids should make them publicly available to producers in a timely manner. Grids should be published in a prominent position on the processor's website and also be made available through a unconditional phone request as soon as practicable after prices are updated.

In response to the Interim Report, the ACCC heard concerns that publishing price grids may reduce price competition. Some parties were concerned that greater price transparency would increase the risk of co-ordinated conduct amongst processors.

The publication of price grids of itself would not increase the risk of co-ordinated conduct. Publishing price offers would only raise competition concerns if processors coordinated the timing of the publication of grids and/or then used this information to co-ordinate their pricing conduct.

Further, the ACCC considers that many processors already have a reasonable understanding of their rivals' prices and so any additional risk of coordination would be low. The benefits to

producers of more timely and transparent price information would also counter any increased risk of coordination.

4.3.4 Not all producers have the resources required to accurately assess a live animal to determine the carcass grade

The ACCC received feedback that producers may not have the necessary resources to accurately predict the grade that their cattle would achieve when processed. This could result in producers forming unrealistic price expectations that do not accurately reflect the actual outcomes that can be achieved, with implications for production and investment decision making.

Feedback from the industry suggests that assessing live cattle for carcass grade is difficult, requiring significant skill and regular benchmarking for accuracy. Reflecting this, MLA saleyard market reporters are regularly assessed to maintain their accreditation as livestock assessors, with testing to ensure that they meet a consistent standard of accuracy in the assessment of liveweight, dressing percentage, fat scoring and muscle scoring.¹⁰⁷ AuctionsPlus also operates a similar system of assessor accreditation and review for agents listing animals for sale through its website.

Given the level of skill needed to achieve accurate assessments of cattle and the ongoing training and review of assessors required to maintain this, it is unlikely that many cattle producers will be able or find it profitable to maintain similar capability. This is likely to be particularly relevant to small-scale producers because they sell cattle in relatively small lots with wider variation in condition on a few occasions throughout the year.

Alternatively, producers can access services of accredited assessors and livestock agents to provide advice on the selling option for cattle that maximises return. Although costs will be associated with these services, producers may yield higher returns by having a better understanding of potential outcomes.

Processors also have a role in improving producer understanding of grids and the assessment of expected returns. If producers are better informed, processors are less likely to receive cattle that are outside specifications, increasing processor efficiency and improving trust between buyers and sellers.

4.3.5 There are contradictory claims about how the value of co-products is reflected in price grids

Co-products are the edible and non-edible parts of an animal, such as offal, blood, fat, hide and bones, derived from the cattle slaughter process. They are used in a range of consumer and industrial applications, including offal exported for human consumption, hides used for the production of leather goods, and blood and bones used in the production of fertilisers.

Initial submissions to the market study raised concerns that the value of co-products is not incorporated into price grids. Producers submitted that the prices offered by processors (on a carcass weight basis) exclude the weight of co-products. It was claimed that this indicates that processors capture additional margins from the sale of co-products. In contrast, processors claimed that grids offered prices that represented the value of the whole animal, not just the beef fit for human consumption.

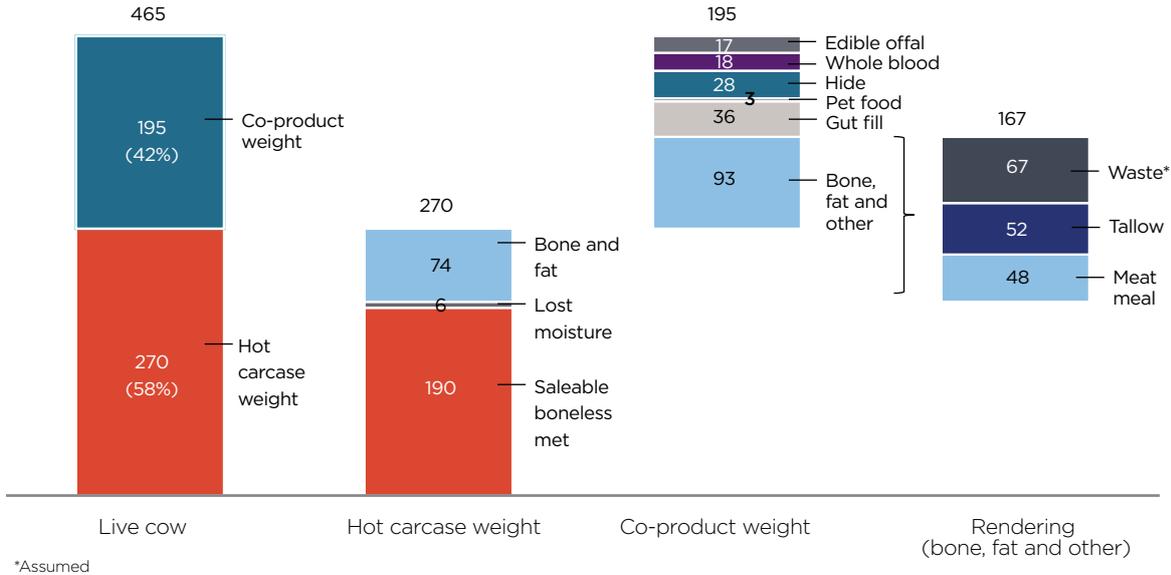
The ACCC analysed co-product values to assess the relationship between co-product price movements and cattle prices using publicly available data compiled by MLA.

Although MLA publishes prices for individual co-products, information is not readily available on the total value of co-products derived from an entire animal.¹⁰⁸ In order to assess the relationship between changes in the value of total co-products and cattle prices, edible and non-edible offal price indices were created based on the co-product yields from a 465 kg grass fed steer (figure 4.1).

¹⁰⁷ Meat & Livestock Australia, *NLRS cattle assessing*, MLA, Sydney, 2005

¹⁰⁸ Meat & Livestock Australia, Co-products Report, available at www.mla.com.au/prices-markets/Trends-analysis/

Figure 4.1: Accounting for the whole animal: 465 kg grass fed steer example



Sources: MLA Co-products compendium, 2009; ACCC analysis.

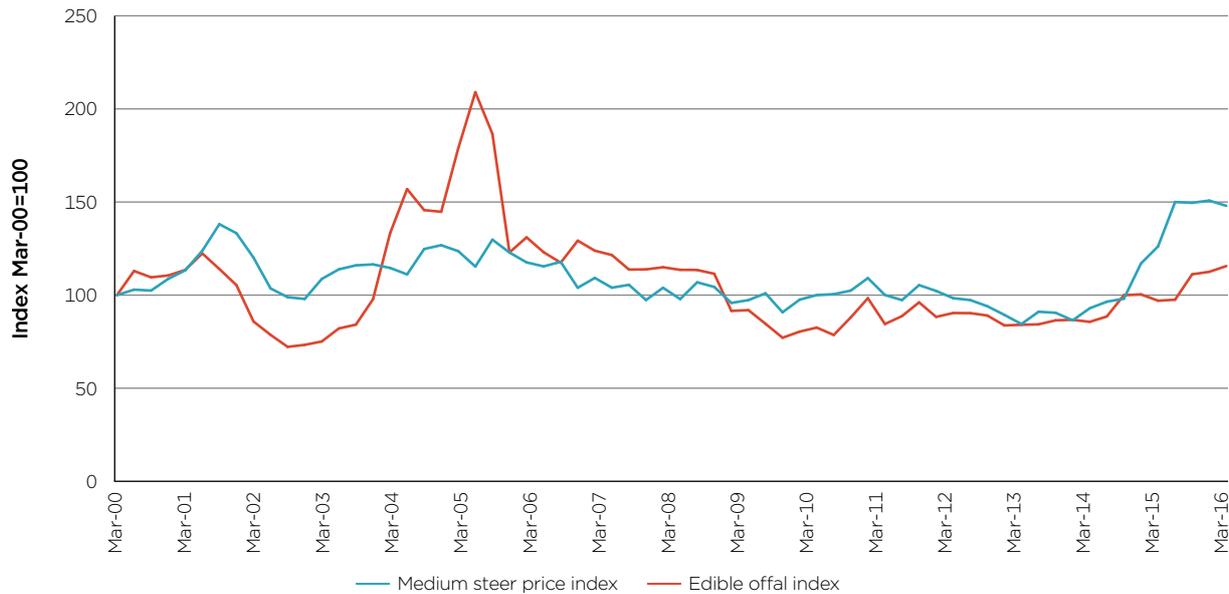
Co-product price movements have a limited effect on total animal value

The ACCC has found that when calculated and tracked over the past 16 years the edible offal price index has not diverged significantly from an index of the Australian average saleyard price for medium steers (figure 4.2). This suggests that cattle prices generally reflect movements in offal prices.

In periods where prices have diverged, the rise in total offal values largely reflected short-term increases in demand from export markets. The most notable example of this was in the period between March 2004 and October 2005 when prices for rumen pillars, tongue SW and thick and thin skirt rose significantly in response to the outbreak of bovine spongiform encephalopathy (BSE) in the United States and the subsequent banning of US beef and co-product imports by key Asian markets, particularly Japan.¹⁰⁹

109 Giamalva J & McConnell M, *Japan Allows Expanded Access for U.S. Beef*, Executive Briefing on Trade, July 2013, United States International Trade Commission, Washington DC, 2013.

Figure 4.2: Medium steer and edible offal price indices, real terms (2015 dollars)



Note: Medium steer prices are considered to be representative of all saleyard prices for the purposes of this analysis because prices for major cattle types largely track each other.

Sources: ACCC analysis; Australian Bureau of Statistics, Consumer Price Index, Australia, Jun 2016, cat. no. 6401.0, ABS, Canberra; Meat & Livestock Australia, Market information statistics database, MLA, Sydney, viewed 12 October 2016, statistics.mla.com.au/Report/List

For non-edible offal, prices were relatively more volatile compared with cattle prices over the past 16 years. For example, ACCC analysis shows the price of bone meal has grown faster than cattle prices since late 2007. However, the relatively low value of bone meal and the associated costs of processing mean that these fluctuations in value did not have a significant effect on cattle prices. In addition, hide prices have decreased significantly relative to cattle prices since 2003. This suggests that the value of hides and other non-edible offal are not major drivers of cattle prices.

In summary, this analysis indicates that offal index prices in the past 16 years have not diverged significantly from an index of average saleyard prices. Where they did diverge, this was either temporary or represented only a small proportion of the total value of cattle, and therefore unlikely to have had an impact on the total value of the animal.

The ACCC’s analysis indicates that the value of offal is likely adequately accounted for in the price of cattle, and the development of separate market information systems for offal is unlikely to create significant value for the industry.

Box 4.1: Foetal blood is very valuable and prices have varied greatly

Concerns were raised during the market study about the effect of price movements for bovine foetal blood on cattle prices. In particular, producers raised concerns that the relatively high prices for foetal blood achieved in 2014 were not adequately reflected in cattle prices.

Bovine foetal blood is obtained from cattle fetuses during the slaughter of pregnant cows, with between 500mL and 1.5L of blood can be harvested from each animal. Products derived from this blood used in the pharmaceutical industry, as a growth medium for tissue and cell cultures, in vaccines and other products.¹¹⁰

The price of foetal blood has varied significantly since 2000, at times reaching up to \$600 per litre. Periods of particularly high prices were 2003–04 and late 2013 to mid 2015, when prices peaked at around \$520 per litre and around \$600 per litre (in 2015 dollars), respectively.¹¹¹ The spike in 2004 largely reflected a significant reduction in trade because of the outbreak of BSE in the United States and Europe in the early 2000s.¹¹² In 2014, prices for foetal blood peaked because of strong demand and a significant shortage in pregnant cow slaughter in the United States, resulting from strong herd rebuilding after an extended period of drought.¹¹³

While the price of foetal blood, is regularly reported by MLA, there is no publicly available information on prices for Pregnancy Tested in Calf (PTIC) cows. As a result, it remains unclear whether processors consistently offer premiums for pregnant cows, to reflect the expected value of foetal blood. On the one hand, media articles during the price spike of 2004 report that premiums of up to 70 cents a kilogram (or around \$280 a head) were offered for PTIC cows.¹¹⁴ On the other hand, similar reports were not made during the most recent foetal blood price spike while the ACCC has also been told that pregnant cows may not be specifically targeted by processors.

4.4 Mandatory price reporting can improve transparency, but moves towards a US-style system need to be carefully assessed

Several industry stakeholders submitted that Australia should implement mandatory beef and cattle price reporting which is modelled on the US system.

In 2014, a Senate Committee inquiry into industry structures and systems governing levies on grass-fed cattle held in 2014 recommended that the Department of Agriculture, in consultation with industry, conduct an assessment of the benefits and costs of introducing a US-style mandatory reporting system.¹¹⁵ As a result of this recommendation, the Cattle Council of Australia requested MLA to undertake such an assessment.¹¹⁶

110 Kelly J, *Foetal calf blood the latest hot item from cattle co-products*, *Weekly Times*, 18 September 2014, viewed on 20 October 2016, www.weeklytimesnow.com.au/agribusiness/cattle/foetal-calf-blood-the-latest-hot-item-from-cattle-co-products/news-story/3f9a822fb1b5097c0138e127d83cea4c?nk=7da09f7d9af7388a194155536baaa6b-1476937693.

111 Meat & Livestock Australia, *Market information statistics database*, MLA, Sydney, viewed 12 October 2016, statistics.mla.com.au/Report/List.

112 United States Animal Health Association, *Report of the Committee on Import-Export*, USAHA, 25 October 2004, viewed on 20 October 2016, www.usaha.org/Portals/6/Reports/2004/report-ie-2004.pdf.

113 MbioserviceS, *FBS Production—What Can We Expect?*, MbioserviceS, 22 September 2014, viewed on 20 October 2016, www.mbioservices.com/fbs-production---what-can-we-expect/.

114 O'Toole K, *Foetal Blood in Demand*, *NSW Country Hour Summary 20 September 2004*, viewed on 20 October 2016, www.abc.net.au/site-archive/rural/nsw/stories/s1203015.htm.

115 Senate Standing Committee on Rural and Regional Affairs and Transport, *Industry structures and systems governing levies on grass-fed cattle*, Department of the Senate, Canberra, 2014.

116 Todd B & Barnard P, *Beef Transparency, Options to address cattle and beef price transparency*, Milestone 5, MLA, Sydney, 2016.

4.4.1 Mandatory price reporting in the United States: how it works and its effect on the market

Operation of the US Livestock Mandatory Reporting Act

The United States Department of Agriculture (USDA), on behalf of the US Government, operates a mandatory reporting system for livestock transactions. The system is fully funded by the US Government.

The Livestock Mandatory Reporting Act, requires meat packers (i.e. processors) with annual slaughter of at least 125 000 head of cattle to report on cattle purchases and beef sales.¹¹⁷ Processors must report details twice daily on cattle purchases, including volume, quality and price; and weekly on the volume of cattle slaughtered by method of acquisition (saleyard, forward contract, price grids etc.) and intended discounts and premiums applying to grids. Processors must also report twice daily on the price, volume, quality, cut, trim and delivery specifications for each box of beef sold.¹¹⁸ This data is published online by the Agricultural Marketing Service of the USDA in an aggregated form shortly after receipt.

The effect of price reporting on US cattle and beef markets

The ACCC understands that mandatory price reporting has improved the accessibility and amount of information available to all cattle industry participants in the US, including producers. However, several government reviews and independent studies, conducted since price reporting became mandatory in 2001, have offered various conclusions on the broader effect of the system on competition in the market and producer-buyer interactions.

A study by Ward, found that mandatory price reporting increased the amount, type and timeliness of data available to market participants that allowed for comparison of prices across purchase methods. The study also found that although prices did not vary significantly by purchase method, transparency was enhanced.¹¹⁹

A study by Njoroge et al. concluded that while increased information reduced the uncertainty faced by processors, it also had the potential to foster anticompetitive outcomes by making it easier to detect whether firms were complying with a cartel arrangement.¹²⁰ While other studies dismissed the potential for mandatory reporting to facilitate collusion, the effect of mandatory reporting was found to be small compared with other factors driving prices, such as market power or collusion between competitors.¹²¹

The attitudes of US feedlot operators to price reporting were surveyed shortly after the introduction of mandatory reporting system. This study found that the majority of operators did not think the mandatory system provided additional benefits to the industry over the voluntary reporting system previously used. When asked if mandatory price reports enhanced their ability to negotiate prices, nearly three-quarters disagreed to some extent while only 10 per cent agreed. In both cases, feedlot operators that gave positive responses tended to be small-scale operations.¹²²

117 Mathews K et al, *Mandatory Price Reporting, Market Efficiency, and Price Discovery in Livestock Markets*, United States Department of Agriculture Economic Research Service, Washington DC, 2015, viewed on 20 October 2016, www.ers.usda.gov/media/1896210/ldpm-254-01.pdf

118 U.S. Government Publishing Office, 'Livestock Mandatory Reporting', Electronic Code of Federal Regulations, GPO, Washington DC, viewed on 20 October 2016, www.ecfr.gov/cgi-bin/text-idx?SID=776d5666e8abcdaf592b8aa682bd18a0&node=pt7.3.59&rgn=div5.

119 Koontz S & Ward C, 'Livestock Mandatory Price Reporting: A Literature Review and Synthesis of Related Market Information Research', *Journal of Agricultural & Food Industrial Organization*, vol. 9 Iss. 1, article 9, Berkeley Electronic Press, Berkeley, 2011.

120 Njoroge K et al, 'Market and Welfare Effects of the U.S. Livestock Mandatory Reporting Act', *Southern Economic Journal*, vol. 74 no. 1 pp. 290–311, Southern Economic Association, Chattanooga, 2007.

121 Mathews K et al, *Mandatory Price Reporting, Market Efficiency, and Price Discovery in Livestock Markets*, United States Department of Agriculture Economic Research Service, Washington DC, 2015, viewed on 20 October 2016, www.ers.usda.gov/media/1896210/ldpm-254-01.pdf

122 Koontz S & Ward C, 'Livestock Mandatory Price Reporting: A Literature Review and Synthesis of Related Market Information Research', *Journal of Agricultural & Food Industrial Organization*, vol. 9 Iss. 1, article 9, Berkeley Electronic Press, Berkeley, 2011.

Modelling of the US fed cattle market suggested that increased reporting on forward contracts encouraged greater use of this sales method. The increase in the use of forward contracts, that tend to offer lower prices than spot markets because they reduce production risk, resulted in downward pressure on prices in saleyards. However, this study found that these lower prices were more than offset by a reduction in price risk, an improvement in production efficiency, and less divergence in price expectations, which increase producer profitability.¹²³

4.4.2 The complexity of the Australian industry would make the implementation of a US-style mandatory reporting system difficult

Although US research has shown that mandatory price reporting has provided some benefit to the US cattle industry, US cattle and beef supply chains have characteristics which are better suited to this type of detailed and timely reporting of prices than the Australian industry.

The first relates to the cattle processed in the United States. Around 90 per cent of US cattle are grain fed for an extended period before slaughter, reducing variability in animal quality and size.¹²⁴¹²⁵ In addition, the requirement for processors to only report on cattle and beef used to service the US domestic market, and a relatively simple grading system, means that processors report a small number of prices.¹²⁶

In contrast, a similar system employed in Australia would require processors to report a significantly broader range of prices that may not be easily comparable across regions and time periods. This reflects the need to include prices for beef exports, which would require processors to report prices by cut and quality for more than 100 markets, and the variability in animal quality and size resulting from a pasture-based production system.

The second issue relates to the concentration and scale of the US processing sector. Based on 2012 data (the latest year data is available), 24 processing plants exceeded the 125 000 head qualification to participate in mandatory price reporting, accounting for almost 95 per cent of US cattle slaughter.¹²⁷ Of these, four firms, Tyson Foods, Cargill, JBS, and National Beef Packing Co., accounted for around 80 per cent of total US cattle slaughter.¹²⁸

To achieve similar coverage, an Australian collection system would require significantly more processors to report on their operations. This reflects the relatively less concentrated processing sector in Australia and the higher number of smaller operators. In contrast to the United States, the top five Australian processors account for around 57 per cent of total cattle slaughter, with JBS (23 per cent) and Teys (16 per cent) accounting for the largest shares of national capacity (see chapter 2 for more information).¹²⁹¹³⁰

The third issue relates to government intervention. The US mandatory reporting system is underpinned by federal legislation, with funding for the collection and publication of prices provided by the US Government. In contrast, government intervention in Australian agriculture, has declined significantly over the last three decades. While a matter for government, it is likely that legislation for mandatory price reporting would only be introduced if significant positive benefits were identified.

123 Ibid.

124 Australian Lot Feeders' Association, *Grass fed versus Grain fed beef*, ALFA, 2013, viewed on 20 October 2016, www.feedlots.com.au/wp-content/uploads/2014/07/grassvgrain.pdf

125 Beef USA, *Fact Sheet: Feedlot Finishing Cattle, National Cattlemen's Beef Association*, n.d, viewed on 20 October 2016, www.beefusa.org/uDocs/Feedlot%20finishing%20fact%20sheet%20FINAL_4%2026%2006.pdf

126 Tatum D, *Beef Grading*, Department of Animal Sciences, Colorado State University, Fort Collins, 2007, viewed on 20 October 2016, www.beefresearch.org/cmdocs/beefresearch/beef%20grading.pdf

127 Cattle Buyer's Weekly, *Top 30 Beef Packers 2013*, CBW, viewed on 20 October 2016, www.themarketworks.org/sites/default/files/uploads/charts/Top-30-Beef-Packers-2013.pdf

128 Rock A, *How safe is your ground beef?*, Consumer Reports, 21 December 2015, viewed on 14 October 2016, www.consumerreports.org/cro/food/how-safe-is-your-ground-beef

129 Department of Agriculture and Water Resources, 'Meat consolidation and the red meat processing sector', submission 74 to Senate Inquiry *Effect of market consolidation on the red meat processing sector*, DAWR, Canberra, 2015.

130 ACCC estimates using data from Aus-Meat, Department of Agriculture and Water Resources, Meat & Livestock Australia and processor websites.

4.4.3 Aspects of US-style reporting system would improve market transparency in Australia but must be balanced against costs

The introduction of a US style livestock mandatory pricing system in Australia is likely to improve the volume and type of information available to market participants. This improvement could enhance producers' understanding of market demands and production decisions.

The complexity inherent in the industry and beef end markets could also limit the usefulness of such a system to producers. In addition, it would have high collection and administration costs relative to the United States, which are likely to be borne by the Australian industry.

The final milestone report into improving price transparency in the beef supply chain, commissioned by MLA, suggests that there are a number of areas where additional market information could improve market transparency. These include, wholesale beef prices, export beef prices and beef production by each processor. However, the report concludes that alternative methods to collect this information are likely to be more cost effective than mandatory reporting and will not rely on government legislation for implementation.¹³¹

The ACCC supports the pursuit of additional data collection and publication by MLA through voluntary participation of the industry. This is likely to improve market transparency and system integrity at the least cost to the industry as a whole. If market participants are unwilling to fully participate in this initiative, industry and government may need to re-consider possible legislative change.

¹³¹ Todd B & Barnard P, *Beef Transparency, Options to address cattle and beef price transparency*, Milestone 5, MLA, Sydney, 2016

5 Over the hooks sales leave discretion to processors, with varying accounts of how it is exercised

5.1 There are concerns about the integrity of the grading system for over the hooks sales

Major beef processors and supermarkets in Australia submitted that approximately 90 per cent of the cattle they purchase are acquired directly from producers. Many of these cattle are acquired on an OTH basis, making this the most important channel for information about prices and the quality requirements of end customers to flow between processors and producers.

The ACCC received complaints from producers about the independence, transparency and integrity of the OTH grading system.

In particular producers submitted that the OTH process:

- is not transparent, in particular they have noted difficulty in accessing, interpreting and comparing grids and carcass feedback sheets
- raises conflicts of interest, because the grader is an employee of the plant and is not independent
- shifts some of the risks inherent in cattle production (i.e. variability in animal quality at the point of slaughter) onto producers, and
- is subject to inconsistent trimming of carcasses, which reduces producers ability to compare prices between processors.

This chapter explores the Australian beef carcass grading system in detail, focusing on the implications for market transparency and efficiency. The chapter concludes with a discussion of opportunities to improve the system.

5.2 The grading process

When selling cattle OTH, beef producers deliver livestock to an abattoir based on a grid of prices offered by that processor. The grids detail the prices, premiums and discounts that apply for different carcass attributes.

Processors use price grids to indicate to cattle producers the beef characteristics desired by customers. Accordingly, the highest price on the grid is allocated to the specifications that the customer desires the most, which is known in the industry as the grid 'sweet spot'.

Premiums and discounts typically apply for attributes such as fat depth, muscle cover, carcass shape, meat colour, dentition (age) and breed type. Processors will also penalise producers for undesirable features such as bruising or injuries. Processors will also offer premiums for desirable features, such as breed or pasture fed certification. These attributes, and hence the final prices paid for the animal, can only be determined post slaughter, when the carcass is inspected by a grader.¹³²

Grading specifications fit into one of three categories:

1. specifications based on the AUS-MEAT language, a requirement for any beef that is to be exported
2. MSA-defined specifications or
3. processor-defined specifications.

¹³² See chapter 4 for more information on the price grids.

In theory, processors are able to determine the parameters they will use to grade carcasses. However, processors have submitted that in practice, the grading parameters that they use are dictated by their end customers. Where these customers require the use of the AUS-MEAT language or MSA grading (e.g. export customers and some large retail outlets), processing plants must adhere to the AUS-MEAT standards.¹³³

5.2.1 There are concerns about conflicts of interest in the trimming and grading process

Many producers are concerned about the level of independent scrutiny of processing steps which directly impact the final prices paid to producers. The concerns raised by producers included that:

- carcasses are trimmed and graded by a processor employee
- carcasses are graded without direct oversight by AUS-MEAT
 - AUS-MEAT’s audit processes involve checks of each processor’s quality assurance procedures, including whether grading is carried out by appropriately trained and accredited personnel
 - AUS-MEAT does not audit individual grading outcomes.

A number of producers suggested that carcass trimming varies significantly between processors and is used as a tool by processors to unfairly reduce the weight of carcasses, and hence payments to producers. Producers also submitted that it is unclear what the trim levels are at each processing plant, leading to difficulties in comparing price grids from different plants. For example, if the level of trim is lower at a plant, then the final weight of a producer’s carcass and thus return will be higher, all else being equal.

AUS-MEAT specifies a standard trim, which is the maximum amount that can be trimmed from a carcass prior to weighing (at AUS-MEAT accredited abattoirs). AUS-MEAT submitted that reasons for trimming beyond the standard could include contamination issues or religious stipulations for animal slaughter.¹³⁴

It is important that producers understand what level of trim will apply to the cattle prior to sending them to the abattoir, as this will have an impact on the payout producers receive. The ACCC considers that the AUS-MEAT standard trim is a useful tool to enhance transparency and allow price comparisons. Any systematic deviation from the standard to the disadvantage of beef producers would harm efficiency and should be investigated by AUS-MEAT.

Beef processors theoretically have the ability to favour their own commercial interests by trimming and grading carcasses in a way that minimises prices paid to producers. However, having visited several plants including an audit of a major export processor plant it appears that to systematically disadvantage producers would require coordination of several different employees and supervisors of the plant. While theoretically possible, for major processing plants the scale of operations, seems to make this scenario unlikely. This is detailed in section 5.2.2.

While disputes over grading, trim or dentition results are not ideal and should be dealt with in an improved manner (see following), they do not necessarily indicate the use of trimming and grading practices that systematically benefit processors at the expense of producers. Due to the heterogeneity of cattle and the large volumes processed, even if processing and audit systems are impartial and sound, isolated issues or queries may still arise.

¹³³ Producers also raised concerns regarding additional specifications that processors add on top of the AUS-MEAT requirements. Producers have no oversight when processors decide to add these additional criteria and they have submitted that they do not know whether these additional specifications are really driven by the end customer. Some producers allege that processors use these additional specifications in order to downgrade carcasses but still sell beef at premium prices. Processors submit that they take this process very seriously, as for many of them, audit costs and their AUS-MEAT accreditation depend on compliance with regulations. Processors also submit that they have no incentive to downgrade the quality of meat during the grading process, as they would then not be able to sell it as premium grade meat to clients. Processors also submit that there is strong competition to acquire quality cattle, and that downgrading meat would not assist them in acquiring cattle.

¹³⁴ For example, neck trimming is required for animals slaughtered in accordance with Islamic law (halal slaughter).

5.2.2 Existing oversight systems should be expanded to address conflicts of interest

After releasing the Interim Report the ACCC viewed AUS-MEAT's training and correlation facilities and attended an audit of a major export processor's plant. The ACCC observed that the AUS-MEAT accreditation system involves rigorous training and standards. The quality control systems of the processing plant we visited were also quite detailed and reflect the processing and meat quality standards required by its customers.

The ACCC considers that the AUS-MEAT oversight system mitigates some degree of risk of inaccurate grading results. However, the random auditing of grading and trimming results more generally is limited and is focused on demonstrated assessor skill, rather than actual performance.

Therefore, the ACCC recommends an increase in the frequency of which actual grading results are checked during the current procedural audit programme run by AUS-MEAT. In addition, publishing the results of these audits on a regular and timely basis would enhance transparency about carcase grading and trimming outcomes. An increase in education about the auditing processes would also benefit the industry.

The ACCC has formed these views based on the information detailed below.

The AUS-MEAT process

AUS-MEAT is the industry organisation which manages a number of industry product standards, and also accredits and audits meat processing plants. It endeavours to promote proper grading practices through its training and accreditation role and by following these up with audits.

AUS-MEAT-accredited meat chiller assessors are trained to grade carcasses and to use the AUS-MEAT standard description language and/or the Meat Standards Australia (MSA) language (where appropriate) to describe the grading allocated to each carcase.

The AUS-MEAT language is used to describe meat products and ensure consistency of supply for customers of processors. It is a legal requirement that the AUS-MEAT language is used in the description of meat that is exported. The AUS-MEAT language includes determining factors such as fat depth, dentition and bruise scores.

MSA grading is separate to the AUS-MEAT language and focuses on determining the eating quality of the meat being graded. It is not a requirement to complete MSA grading on carcasses, however some customers may require that processors do this. MSA grading involves the assessment of a number of carcase attributes and can include meat colour, tropical breed and pH content.

Beyond these two types of grading, processors may also grade carcasses on the basis of additional attributes which are not connected to MSA or AUS-MEAT requirements. Processors have submitted that these additional requirements are derived directly from customers, and can include content, ossification, fat depth, meat pH and marbling content.

Meat Chiller Assessors undertake detailed training before they are approved to grade carcasses at the plant. This training requires them to reach a high level of accuracy before they are accredited and amounts to approximately 2–3 weeks of full time work. In addition, they are required to re-calibrate their understanding of the grading techniques with AUS-MEAT every eight weeks to ensure they are still able to successfully match the required colours and marbling qualities. The margin for error in this testing is low.

Frequency of audits

The frequency of AUS-MEAT's audits of accredited facilities varies based on the history of audit performance at each particular plant.

Audit frequency is overseen by an Industry Committee, including representatives from the Department of Agriculture and producer representative bodies. These audits check that the procedures undertaken at the accredited plant are correct and the grading is consistent and accurate. As part of this, AUS-MEAT audits the performance of the processor-employed graders, to ensure that they are accurately grading and labelling carcasses. To do this, AUS-MEAT auditors

will grade a sample of carcasses with the relevant chiller assessor, and then compare their results to determine accuracy. This assessment happens twice per year, during what AUS-MEAT calls 'procedural audits'.

Producers have noted that a major concern with the AUS-MEAT audit process is that processors are notified up to four days in advance that the audit will be conducted. Producers submitted that this advanced warning gave processors the opportunity to prepare for the audit. However, AUS-MEAT submitted that this is necessary for full plant audits to ensure that the correct employees are on site in order for compliance testing.

In addition to full plant audits, AUS-MEAT also conducts random audits that test the compliance of selected components of a full audit, such as chiller assessment, trimming and boning room operations. These audits are largely unannounced, with AUS-MEAT submitting that they are announced for some plants in remote locations to ensure the plant is in operation.

Other quality control systems

In addition to AUS-MEAT's audits, the internal quality control systems for carcass grading of the processor whose plant the ACCC visited were very detailed:

- A number of different processor employees are involved in assessing carcass characteristics such as meat colour, fat depth and dentition and these assessments occur at different positions throughout the processing chain, for example, assessments are all completed by different employees at different positions on the floor.
 - Any effort to alter grading results consistently in favour of processors would require the coordinated participation of numerous people including supervisors.
- Measurements taken by staff are checked by supervisors on a regular basis. For example, fat depth measurements were checked randomly by supervisors up to four times daily.
- Employees conducting the grading at the plant are not aware of who owns the cattle when they are grading them, which reduces their ability to downgrade carcasses from a particular producer.
- The incentive for processors is to have meat graded at a higher level than its quality, so that they can receive more for the beef when it is sold. It appears that AUS-MEAT focuses much of its resources on ensuring that this does not happen.
- We understand that dentition readings are now photographed at some plants, so that any disputes can be resolved objectively.
 - Especially in a large plant, skewing the grading results would require co-ordination amongst these employees as well.
- Some plants are also audited by the national food safety regulators of overseas nations and major domestic and international retailers or food outlets. These third party audits are often focused on food safety, but in some cases also involve a rigorous analysis of whether or not the beef that is being sold is correctly labelled.
- The abattoirs' larger customers also conduct audits. Some of these audits include product tracing to ensure that the label on the box of processed beef accurately reflects its contents. These audits are generally conducted by representatives from countries to which beef is being exported and by supermarket chains and hospitality businesses.

Box 5.1: The development of the current system and the role of AUS-MEAT

In 1982 a Royal Commission was conducted into the Australian red meat industry. The Royal Commission was set up to investigate allegations that poor arrangements and procedures for the export of meat had resulted in horse meat being labelled as beef and exported.

The Royal Commission concluded that:

- the incentives to adhere to export regulations were not significant; the maximum fine per breach was \$100 and the Commonwealth Department of Agriculture had a limited ability to address breaches
- the oversight system was not comprehensive and did not adequately communicate information on previous breaches
- the Department of Agriculture inspection service was focussed more on animal welfare outcomes than on ensuring labelling was accurate.

Following the Royal Commission a national standard for grading and labelling was developed and records of export certification and information about breaches of grading standards were recorded electronically. The Department of Agriculture was also given powers to investigate and audit businesses involved in the beef supply chain to ensure compliance.

In response, the Department of Agriculture developed:

- quality assurance frameworks for supply chain participants, and
- industry standards and inspection verification procedures.

The Department then devolved responsibility for these functions to industry, which led to the establishment of AUS-MEAT.

AUS-MEAT is an industry body which is jointly owned by Meat & Livestock Australia (MLA) and the Australian Meat Processor Corporation (AMPC) and has been operating since 1987. A Memorandum of Understanding sets out the arrangement between the Department of Agriculture and AUS-MEAT regarding AUS-MEAT's role as an accreditation and auditing body.

AUS-MEAT provides accreditation for all export abattoirs in Australia, to ensure that processors are:

- compliant with the Australian meat language standards when they describing the cut and quality of the meat they sell, as this language forms the basis of the AUS-MEAT grading specifications, and
- upholding the National Accreditation Standards—this includes ensuring that the plant can consistently meet customer requirements and maintain appropriate food safety systems.

In order to become AUS-MEAT accredited, processing plants must implement an AUS-MEAT approved quality management system which is designed to ensure these standards are met. AUS-MEAT estimates that they accredit approximately 90 per cent of beef abattoirs in Australia.¹³⁵

To ensure processing plants are meeting their requirements, AUS-MEAT trains, accredits and audits meat graders working at AUS-MEAT accredited facilities. Meat graders are plant employees, and their role, as far as AUS-MEAT is involved, is to grade carcasses in line with the AUS-MEAT language. This may also include grading against eating quality standards (Meat Standards Australia (MSA) grading) in cases where the carcasses are eligible for such grading. These same graders may also assess additional attributes of a carcass that are not required under AUS-MEAT regulations, but are specific to a particular company.

Audits are carried out multiple times a year by AUS-MEAT on both the graders and the processes undertaken at the processing plant (as discussed above). The frequency of audits is dependent on the plant's audit compliance history and requirements of accredited markets.

5.3 The industry lacks effective dispute resolution

The ACCC received a number of submissions which indicate that some producers distrust the grading system and the dispute resolution mechanisms available to challenge grading results. Such producers are more likely to view negative grading results as being due to procedural unfairness rather than the carcass not meeting required grades or specifications.

Processors, on the other hand, submitted that the dispute resolution systems they have in place are designed to allow producers to raise any issues that they have in response to grading results.

The ACCC reviewed a number of dispute resolution systems offered by processors. Overall, the ACCC found that the availability and robustness of dispute resolution is inconsistent across the industry. Only one of these appears to be robust, as it allowed producers to make anonymous complaints to an independent adjudicator and remain anonymous throughout the investigation. The independent adjudicator is an expert in meat grading and is able to oversee mediation or deliver a decision which will bind the processor and the producer.

Further, the ACCC's consultation indicated either a lack of awareness of these dispute resolution processes or a lack of trust in their effectiveness. In particular, producers noted that by the time they receive feedback sheets their cattle have been processed, the beef has been shipped and there is no evidence for them to fall back on in any dispute about the grading results of their animals.

Of the producers who have queried grading results, concerns were expressed about their inability to properly dispute these results with processors. It was also noted that producers were deterred from raising concerns with processors by fears of future retaliation.

AUS-MEAT does not operate a dispute resolution process for producers and encourages producers to first contact the processor if they have concerns. However, AUS-MEAT can be requested to provide technical information that may assist in clarifying disputes relating to carcass grading when it is undertaken at an AUS-MEAT accredited processing facility. In such a circumstance AUS-MEAT focuses on ensuring adherence to the technical meat language, grading procedures and national meat language standards.

The ACCC's consultation found that there is limited awareness and understanding among producers of AUS-MEAT role. Many were confused about its operation and accordingly there was not a great degree of confidence in it. Greater producer education on the role of AUS-MEAT auditing and technical assistance in grading disputes would improve understanding and confidence in the oversight system.

5.4 A uniform dispute resolution system should be developed

The ACCC considers that a uniform, independent dispute resolution process should be developed for the industry to boost the integrity of the grading process. The independent system should apply to all purchasers and sellers of cattle and apply to all cattle sale methods (OTH, electronic sales).

The ACCC's Interim Report recommended that processors should develop a uniform dispute resolution process with AUS-MEAT filling the role of an independent and binding arbitrator. However, many submissions received in response to the Interim Report were not in favour

¹³⁵ Processors can choose whether or not they wish to have their processing plant AUS-MEAT accredited. However, if processors wish to export their product then, under the *Australian Meat and Live-Stock Industry Act 1997*, they must gain AUS-MEAT accreditation. Some end customers of processing plants may also require the processing plant to be AUS-MEAT accredited as part of their ongoing supply contracts. This is common practice by some major domestic retailers in Australia. In practice this means that most of the abattoirs in Australia are AUS-MEAT accredited in some way.

of AUS-MEAT having this role. The industry considers that AUS-MEAT's current role is to independently manage the descriptive language of the industry and that if it became involved in commercial disputes, there is a risk of some parties perceiving bias and thus reducing AUS-MEAT's ability to carry out its core role.

The ACCC still considers that a dispute resolution process is necessary, as the industry lacks an adequate framework for disputes to be raised and resolved. After consulting with different areas of the industry, the ACCC considers that the most appropriate body to establish this process is the Red Meat Advisory Council (RMAC).¹³⁶

The ACCC considers that given its technical expertise in training and assessing graders, AUS-MEAT should be involved in the dispute resolution process, by providing the technical expertise needed to determine the accuracy of grading.

The RMAC should take steps to build awareness of how the dispute resolution system can be accessed and AUS-MEAT's role. AUS-MEAT should also make detailed information about the grading parameters, audit processes and dispute resolution processes easily accessible on its website.

5.5 Grading technology has the potential to improve outcomes in the near future

There is work currently being done within the industry to introduce new objective carcass measurement technology into the industry. The technologies that are currently being explored are:

- Colour sensing and hyper-spectral imaging to determine attributes like meat colour, fat colour and marbling—image analysis systems are in practical operation for carcass yield appraisal in the European Union and the United States of America.
 - A sophisticated image analysis system capable of measuring marbling, rib fat, eye muscle area, meat colour and fat colour is currently being developed in Japan and is due for field evaluation in early 2017. Based on current information, this system will be able to provide a full image analysis of a carcass within 10 seconds. Developers of this technology claim that hyper-spectral imaging can deliver a useful tool, with key questions around their ability to identify new dimensions that could help predict eating quality.
- Dual Band X-ray to produce three dimensional images of carcasses and meat, showing fat depth and bone composition—this is currently used for lamb carcasses and is being further developed so as to be able to penetrate the greater mass of a beef carcass.
- RGB-D (Wii) cameras to produce detailed images and depth measurements of carcasses and meat—these systems are low cost due to their use in gaming and, while development has been slow, they show great potential in their ability to measure live animal conformation and carcasses.
- CT Scanning for an accurate yield assessment of carcass composition—this technology is capable of assessing any portion that can fit through the machine's chamber and could be a useful beef grading tool, particularly if developed to allow large beef carcasses to be scanned rather than being limited to scanning beef cuts or carcass portions. The ACCC understands the costs of this technology may hinder its development.

Some processors have indicated that these technologies are close to being launched and may be operational in plants within the next one to two years. The ACCC understands that X-ray scanning is likely to be implemented by at least one major processor within the next one to two years, and that once implemented, the information arising from this technology will greatly enhance both the objectivity and the scope of carcass feedback provided to producers.

¹³⁶ RMAC is the peak industry representative body, with representatives from Cattle Council, Sheepmeat Council, Goat meat Council, Australian Lot Feeders' Association, Australian Meat Industry Council and Australian Livestock Exporters Association. RMAC therefore has a broad base of representation from both the processor and producer sector, and is best-positioned to garner the consensus required to develop the required dispute resolution system.

The ACCC believes that the use of more objective carcase appraisal systems should be a high priority for the industry, and should be supported by industry leaders and relevant policy makers. The introduction of such technology, and the sharing of resulting objective data with livestock producers creates very important opportunities to capture accelerated productivity gains in the livestock production and processing sectors. The development of common data standards across the sector, and industry-wide agreements covering data access rights will be important steps in building the confidence of all industry participants in such systems, and may also facilitate better risk management options through the development of tradeable derivatives that have an objective quality standard underpinning them.

However, the ACCC notes that technology is not a panacea. During the market study, producers raised concerns with the ACCC about the calibration of the grading technology and who would oversee this. The ACCC considers that technology should be implemented in conjunction with suitable auditing systems and an independent dispute resolution system, to maximise integrity in the trusted system.

5.6 Improving producer trust in the integrity of the grading and audit system should be a priority for industry

The ACCC considers that the general lack of trust in the integrity of the OTH system is a serious issue as this method of sale is arguably the most important price determination process in the industry. If producers do not have confidence in the information available to make decisions in response to competing price offers and market demands, then the overall efficiency of the cattle market is reduced, and an economic cost is imposed on the entire industry.

Exacerbating these concerns is the lack of control that producers have over some critical stages of the supply chain that can have a significant impact on carcase grades. Producers claim that they have no control over what happens to their cattle on receipt into the processors' lairage, and that mistreatment or poor management of cattle during the period they are held in lairage can have a significant impact on carcase grades.

It should also be noted that damage which occurs to cattle while they are under the processors' control will lead to lower quality beef products, and is likely to have a negative effect on the ability of processors to fill customer orders. The ACCC is aware that some processors have undertaken extensive research to minimise damage and stress on cattle whilst within their control.

The ACCC recognises that this is a difficult issue and that processors are currently working closely with a number of producers to develop improvements to minimise any damage to cattle. We also recognise that there are always likely to be cattle which perform poorly when graded, and that producers are likely to blame the grading system, rather than question their skill in producing cattle that meet customer requirements. However, if the grading system is accurate and trusted, then producers will have the information they require to understand these poor results and take steps to remedy any identified problems. In this regard we also note that larger-scale beef producers raised fewer concerns about the grading and price grid system. Some producers claim to have established good working relationships with processors and that they alter their practices to improve their performance on the price grid.

The ACCC considers that the more positive experiences of large volume producers is due in part to the transport and handling efficiencies that both parties derive from dealing in large-volume consignments. Large-scale producers are also likely to be more able to profitably invest in resources necessary to clarify unclear price information and to follow-up concerns about grading results.

The ACCC's recommendations in regard to grading have focused on improvement of the dissemination of information about the AUS-MEAT oversight system, formalising a dispute resolution system, and an increase in the frequency of AUS-MEAT audits. These recommendations aim to balance regulatory burden with increased producers' confidence in the integrity and independence of the system.

6 The ACCC shares industry concerns regarding conduct in cattle markets, particularly in saleyards

6.1 Saleyards are an important cattle sales channel

While most slaughter-ready cattle in Australia are sold OTH, saleyard auctions are also a major and important sales method.

Saleyards tend to be most favoured by producers who have small herds and sell in small lot sizes, but are occasionally used by larger producers when saleyard prices offer higher returns. An animal may pass through the saleyards more than once during its lifetime as it changes hands from a breeder, to being fattened, to being sold for slaughter.

Saleyard prices can also impact prices across alternative sales channels. If saleyard prices are not established through effective competition between buyers acting independently, not only will those selling the cattle be negatively affected, but so will producers who use saleyard prices as indicators to make production or selling decisions.

The mix of buyers present at any given sale depends on the type of cattle being auctioned, as these cattle may appeal to different categories of purchasers, including processors, retailers, feedlots, or cattle producers. Therefore, salaried buyers working for a single customer (such as a major processor) may be present, as may commission buyers (representing one or more customers), buyers bidding on their own behalf, or stock agents bidding on animals on behalf of a client.

Information received during the course of this study has revealed issues and concerns about:

- a lack of transparency in saleyard auctions, particularly in relation to information about the buying-side of auctions
- allegations of agreements between buyers to rig the outcomes of saleyard auctions
- multiple purchasers employing a single buyer to coordinate bidding to avoid competition.

6.2 Saleyard processes lead to competition risks

Saleyards establish prices by auctioning lots of cattle using open ascending bids (an 'English auction'). Under this system, the physical identity of the bidder (not necessarily the principal on whose behalf they are bidding) and the amounts bid are visible.

Well-designed English auctions have the potential to be an efficient sales process. For example, they ensure that the bidder who values an item the most will purchase that item. However, these desirable properties are eliminated if buyers are able to co-ordinate or engage in bid rigging.

Ways in which this might be done include:

- agreeing in advance of an auction who will purchase specific lots
- agreeing not to bid strongly for cattle for which a competitor is bidding or to sit out of a bidding round, or
- taking turns to be the low bidder.

Bid-rigging is a form of cartel conduct, when competitors agree or make arrangements such that they do not compete with each other. Cartel conduct can involve express, formal agreements between competitors, as well as arrangements where competitors deliberately coordinate their conduct indirectly, including through third parties. Bid-rigging is illegal and may result in criminal penalties.

Box 6.1: What is cartel conduct?

Cartel conduct, also referred to as collusion, exists when businesses agree to act together instead of competing with each other. This agreement is designed to drive up the profits of cartel members while maintaining the illusion of competition. There are certain forms of anti-competitive conduct that are known as cartel conduct. They include:

- price fixing, when competitors agree on a pricing structure and/or level rather than setting their own prices
- sharing markets, when competitors agree to divide a market along customer or geographic lines so participants are sheltered from competition in those divisions
- rigging bids, when competitors communicate before lodging their bids and agree among themselves who will win and at what price
- controlling the output or limiting the amount of goods and services available to buyers.

The incentive for parties to engage in cartel conduct can arise if the profits that could be earned by cartel members from acting collectively will be at least as much as the profits that could be earned by making these decisions independently.

Although cartel conduct is illegal, it should be noted that competitors can reach independent decisions that result in similar outcomes to cartel conduct. This can occur in markets where there are a small number of participants or prices and other information is public, and readily available. Cartel-like outcomes can arise from competitors merely observing the actions and reactions of each other and taking these into account when deciding whether and how much to bid. As long as competitors reach their bidding decisions independently, this is not illegal.

In order for a cartel to be effective, the participants in the cartel will rely on:

- having reliable information about their competitors' conduct to enable them to reach an agreement on how to collude
- market transparency to be able to monitor compliance with that agreement, and the ability to rapidly punish those who deviate
- the cartel being free from disruption, such as from new competitors. Cartel members may take action to deter new competitors from entering the markets in which they operate, by bidding aggressively against them or making explicit or implied threats.

There are several elements of the way in which saleyard auctions are conducted and buyers are represented which can meet these requirements and make the process susceptible to coordinated behaviour by competitors:

- Auctions are held frequently with the same individuals often attending a network of yards within a region. Repeated interactions provide opportunity for buyers to:
 - communicate private information and develop strategies for bidding in a way that maximises their joint profits
 - observe the actions of each other
 - 'punish' those who break away from any 'agreed' bidding strategies in an effective and timely way. The buyer's (and his or her family's) social networks within the local community also provide a broader range of options for isolation of parties not acting together.
- Commission buyers are generally sole traders, while salaried buyers are employed to buy for a single company, working under varying degrees of management oversight. Both have the authority to enter into transactions with a level of autonomy. This is likely to make it easier to coordinate with others at a saleyard, as agreements can be reached without having to seek managerial approval for actions, or refer back to another party.
- The auction process is transparent in that the physical identity of bidders and their bid amounts are visible to all. Regular attendees with good networks have additional understanding and visibility of who is bidding for which buyers.

- Transparency results in both advantages and disadvantages to the competitive process:
 - on one hand, price transparency through the bidding process helps to stimulate competition between buyers by revealing information about valuations and therefore can be positive for competition
 - on the other hand, transparency makes it easier to establish and enforce a coordinated arrangement, which can negatively impact on competition as detailed above.

Box 6.2: Did you know the maximum penalty for a criminal breach of the Australian cartel provisions is 10 years in jail?

In 1977, when the average weekly male wage was \$212.60¹³⁷, the penalty for collusion in a Victorian saleyard was not more than \$20 for a first offence, and not more than \$50 or up to a month in prison for subsequent offences.¹³⁸

Today, the law takes anti-competitive conduct much more seriously, and it is of serious concern to the ACCC that there are persistent allegations of anti-competitive conduct at saleyards.

The ACCC enforces the *Competition and Consumer Act 2010* (the CCA). Among other things, the CCA prohibits cartels and other forms of agreements which restrict or limit competition between rivals.

Today, substantial civil and criminal penalties may apply.

Civil offences

Under the CCA, individuals may incur penalties of up to \$500 000 per contravention:

- The maximum number of contraventions that may apply to parties engaged in a cartel could potentially be very high as the making of a cartel agreement and the giving effect to it are separately prohibited under the CCA. Even an unsuccessful bid pursuant to a cartel agreement may constitute a contravention. Various other orders can be made by the court, including disqualification from managing a corporation.

Under the CCA, corporations may incur a penalty **per contravention** of up to \$10 million or three times the gain obtained through the conduct (whichever is the greater). **Or** if the gain from the cartel conduct cannot be ascertained, the maximum penalty will be 10 per cent of the annual turnover of the corporation and any related corporations in the 12 months preceding the contravention.

Criminal offences

For individuals: a maximum penalty of 10 years imprisonment and/or a fine of 2000 penalty units (which currently equates to \$360 000) in addition to a conviction per contravention.

For companies: the same maximum penalty that applies for a civil contravention.

¹³⁷ Australian Bureau of Statistics.

¹³⁸ Final Report from the Meat Industry Committee Upon Future Operations of Lickstock Selling Centres, Victoria, 1976–77, p. 8.

Box 6.3: Example scenarios that would constitute behaviour of concern under the Competition and Consumer Act 2010

Hypothetical scenario—Bid rigging

You regularly buy cattle at a certain saleyard. Competition for cattle at the saleyard is strong. A number of other buyers frequently attend and bid on the same pens of cattle as you.

You find yourself chatting with one of your competitors after a sale one day. The conversation eventually moves on to the tightening of profits in recent years. You agree with your competitor that times are tough, and that things were better in the good old days.

No problems here—you are simply exchanging views.

Your competitor goes on to say that part of the problem is that there has been a reduction in cattle going to saleyards—farmers are trying to rebuild their herds after selling most of their stock during the drought. Your competitor says that it would be a good idea for all of the regular buyers to decide on which cattle to each bid for so that everyone's orders can be filled at the lowest possible price. You ask whether other bidders feel the same, and your competitor says that they do.

Warning: If you agree on which cattle to bid for you will be a party to a bid rigging arrangement. This is illegal. Your competitor may have already contravened the law by attempting to get you to enter into a bid rigging arrangement.

A couple of days later your competitor calls to ask your thoughts on the earlier discussion. You tell your competitor that you are a bit uneasy about the whole thing, and that you would rather let the market decide who wins. Your competitor reminds you that you have been friends for years, and says that they would never lead you astray. You are non-committal and end the conversation there.

Warning: Although you are clearly not the ringleader, giving in to the pressure would make you part of a bid rigging cartel. Also, your competitor may have again contravened the law by inducing or attempting to induce you to enter into a bid rigging arrangement.

Hypothetical scenario—Price fixing

You are a regular buyer of cattle at a certain saleyard. At the pub one night you start chatting with one of your competitors about how the price of cattle has recently skyrocketed. Your competitor tells you that they have had to reduce the commission they charge out to clients to compensate for the price increase so they don't lose business. You say that you have had to do the same.

No problems here—you are simply exchanging views.

At the next sale your competitor approaches you in the car park when you are alone. Your competitor says that part of the problem is that buyers are 'cutting each other's throats'. Your competitor suggests that all buyers should agree not to buy cattle above a certain price.

Warning—Where there is an understanding between competitors not to buy cattle above a certain price, then a price fixing arrangement has been made. Your competitor may have already contravened the law by attempting to get you to enter into a price fixing arrangement. You will be breaking the law if you agree to do this.

Several weeks later at the pub your competitor approaches you and mutters a price. Your competitor says that they and other buyers have agreed not to bid above this price at the next sale.

Warning—Your competitor is clearly trying to fix, control and/or maintain prices, and such an agreement between competitors would be illegal. Even if you didn't agree to the arrangement, you may be implicated if you do nothing, because it could be inferred that you tacitly agreed.

You may wish to get legal advice and report the matter to the ACCC. See box 6.7 for details of the ACCC's cartel immunity policy.

6.3 Potential conflicts of interest are common and create competition risks

6.3.1 Commission buyers frequently represent multiple customers

The ACCC received several submissions stating that commission buyers reduce competition in saleyards, and reduce transparency about the number and identity of buyers represented. Some submissions and comments at public forums called for a cap on the number of clients a single commission buyer may represent.

Conversely, the ACCC also heard that commission buyers can promote competition at saleyards by enabling buyers who would not otherwise find it worthwhile attending a particular auction to be represented (for example, small butchers or buyers located outside the geographic region).

Commission buyers act for their customers at livestock auctions and are typically paid on a \$/head basis, with the usual fee being approximately \$5. The ACCC was also advised that commission buyers will not find it worthwhile to attend a sale if they have orders for less than 100 cattle. These factors provide a strong incentive to purchase as many cattle as possible, and hence to represent multiple purchasers.

A variety of parties retain commission buyers (including processors, feedlots and cattle producers): information provided to the ACCC demonstrates that in general, the larger the number of cattle purchased by a processor, the more likely they are to employ their own buying staff. The percentage of stock purchased through commission buyers on behalf of processors appears to be roughly inversely related to the number of animals purchased by a processor.

There are two key ways in which the presence of commission buyers may harm competition:

- The number of buyers is reduced if a commission buyer holds multiple orders for the same type of cattle.

The reduction in competition between buyers could mean that prices, and thus returns to producers, are lower than they would otherwise be in a fully competitive marketplace (see box 6.4).

A smaller number of buyers also makes it easier to reach and enforce an agreement/ understanding to coordinate bids (over and above the risk identified below).

- Commission buyers may facilitate coordinated conduct or collusion between their clients through the exchange of private information, thus leading to lower saleyard prices.

Hence the potential for commission buyers who represent multiple clients to harm competition will depend on:

- The number of other buyers present at a saleyard.
- The extent to which the customers represented by the commission buyer are competing for a particular lot(s). If buyers would not otherwise be in competition with one another then the potential harm to competition is lower.
- The extent to which they are a conduit for information sharing. This depends on the type of information conveyed to commission buyers by their clients, and the extent to which this is shared with other clients. For example, if a commission buyer shares information as to whether a particular client is intending to purchase stock at an auction, or the number and type of cattle that the client wishes to purchase this could help to facilitate cartel conduct.

The conduct of commission buyers also potentially raises conflicts of interest if the cattle they are buying for different clients are substitutable. Such a conflict would be of concern in two ways: to the buyer due to fears that they may not get the best cattle; and to the ACCC because it would reduce competition. Large processors submitted that they actively avoid retaining a commission buyer where there is the potential for overlapping orders through the use of exclusivity arrangements.

Commission buyers have strenuously submitted to the ACCC that they endeavour not to accept orders where a conflict of interest would occur.

However, saleyard data obtained by the ACCC for a single sale suggests that overlapping orders do occur (box 6.4). Although we do not suggest that this narrow sample is representative of the industry as a whole, it does give weight to industry concerns, and demonstrate that behaviour that may reduce competition in saleyards does occur.

Box 6.4 Overlapping orders of commission buyers

The ACCC analysed invoices for 200 transactions which took place on a randomly selected day in 2016 at a large saleyard located in eastern Australia. This data included comprehensive detail for every animal transacted, including the buyer and seller, who acted for them, the breed and gender of the animal, its brand (if applicable), the sale price, and drafting information such as pen number.

There were apparent overlaps in the orders held by all commission buyers present. Table 6.1 shows that:

- There were three commission buyers present on the day, representing clients fitting into four different categories of business. These were feedlots, processors, cattle producers and livestock agents. Each 'Client Business Type' in table 6.1 represents one of these categories, but the actual businesses have been de-identified to protect confidentiality.
- Commission buyer 1 represented two clients operating the same Business Type (and therefore with potentially overlapping requirements), and a further client with a different Business Type.
- Commission buyer 2 represented four clients all operating within the same Business Type category, in addition to one client in each of two other categories.
- Commission buyer 3 represented four clients each operating a different kind of business.

Table 6.1. Number of clients represented

	Client business type			
	Processor	Feedlot	Livestock Agent	Cattle producer
Commission buyer 1	2 clients	1 client	0 clients	0 clients
Commission buyer 2	0 clients	4 clients	1 client	1 client
Commission buyer 3	1 client	1 client	1 client	1 client

Although Commission Buyer 3 did not buy for more than one client in any category, the buyer divided up the animals in some of the pens of cattle they purchased. In each pen, the cattle were from one vendor, were of the same breed and gender and sold for the same price, yet were sent to different clients. This suggests that the cattle were substitutable and that there was a conflict of interest in the commission buyer's orders.

Table 6.2 shows three pens for which this occurred.

- The animals in Pen A had a shared set of characteristics, and all sold for the same price, yet were split between two different purchasers, identified in the table as J and K.
- Pen B was split between purchasers L and M.
- Pen C was also split between purchasers J and K.

Table 6.2. Pens where all animals were purchased by Commission Buyer 3, but animals within the pen were purchased on behalf of more than one client.

Pen	Characteristics shared by all animals in pen	Price	Buyer	% Of cattle in the	
				Pen	Sale
A	Lot number, vendor, breed, gender	XXX.XX c/kg	J	5.9%	< 0.1%
			K	94.1%	0.3%
B	Lot number, vendor, breed, gender	YYY.YY c/kg	L	7.1%	< 0.1%
			M	92.9%	0.2%
C	Lot number, vendor, breed, gender	ZZZ.ZZ c/kg	J	71.4%	0.1%
			K	28.6%	< 0.1%

In addition to overlapping orders, insufficient publicly available information makes the impact of commission buyers on competition difficult to analyse at a distance. The ACCC heard concerns that doing this analysis can also be difficult for someone physically in attendance at a saleyard, as commission buyers will seek to not disclose the identity of their client, to minimise the risk of their competitors 'poaching' the business. Instead, they may identify the various clients they represent on the day as, for example, 'Smith 1' or 'Smith 2'. This reduces the transparency of the saleyard process, and the ability to detect the impact on competition from practices such as representing multiple clients with overlapping requirements. It may also lead to agents selling cattle to buyers representing principals with which they would not otherwise transact (for example, if they deem them to be at risk of not paying), if they are unaware of their true identity until after the auction concludes.

As noted above, the ACCC also received submissions that commission buyers can promote competition at saleyards by enabling purchasers to be represented who would not otherwise find it worthwhile attending a particular auction. This could be the case if the commission buyer is only acting for an otherwise absent purchaser. However, if the agent is also representing other purchasers that would otherwise compete with the new purchaser, the presence of the additional purchaser will not necessarily increase competition.

The overall competitive impact commission buyers will therefore vary from case to case. Their presence has the potential to positively impact competition by increasing the number of purchasers and orders represented at a sale. Conversely, it may harm competition if the number of purchasers competing at the sale is reduced by through multiple purchasers using the services of a single commission buyer; in particular if orders overlap; or if collusion, coordinated conduct or information sharing is facilitated.¹³⁹

¹³⁹ A number of submissions from cattle producers identified and raised concerns about these key ways in which competition can be harmed. Some submissions alleged that businesses employ commission buyers with the specific purpose of reducing the competition they face to acquire stock. However, no evidence has been presented that supports this, and there are good commercial reasons for a business to want to retain a commission buyer.

Box 6.5: Example of impact of a common buyer's agent

Although the below is a simplistic representation of saleyard conduct, it demonstrates the potential effects of cattle purchasers using common bidders, including commission buyers, on saleyard prices.

There are six buyers interested in purchasing an item at auction. Each buyer is willing to bid up to the maximum valuation of the item as shown in the table below.

Buyer	Value of item to buyer = maximum bid
1	1000
2	1100
3	1200
4	1300
5	1400
6	1500

If each prospective buyer bids independently, then it would be expected that buyer 6 would win the item and pay \$1401 for it—this is just enough to knock buyer 5, who has the second highest valuation of the item, out of the bidding contest. This is also the maximum amount that the seller could expect to receive given the bidders' valuations. The auction is efficient in that the bidder with the highest valuation has won the auction and the seller's revenue is maximised.

If instead, buyers 5 and 6 are represented by a single bidder acting on their behalf, then a different result would emerge. Now, the common bidder will only need to bid \$1301 in order to knock bidder 4 out of the bidding contest. The seller will receive \$1000 less than would be obtained through competition between all buyers.

The extent of price suppression will also depend on the rankings of the bidders' valuations of the items. For example if the common bidder represents buyers 1 and 2 in the example above, then there will be no impact on price at the auction of this particular pen. This is because the four remaining bidders have a higher valuation of the item and competition between them will result in bidder 6 paying \$1401 for the item (as is the case when buyers 1 and 2 bid independently). However, if during bidding for a later pen of animals, buyers 1 and 2 are the only remaining bidders interested in purchasing cattle, this may have an impact on price.

6.3.2 The incentives of agents and potential conflicts of interest create competition risks

Livestock agents are engaged by sellers, and charge a commission for the service of selling their stock. The level of commission varies, but is typically between 2.5 per cent and 5 per cent.

The ACCC received submissions stating that:

- It is common for a single livestock agent or agency to represent both the buyer and the seller in the same transaction, both at auction and in paddock sales.
- Livestock agents do not always declare to the vendor who is buying the cattle, and at times purchase stock for an affiliated company or even for themselves.
- Some agents do not properly act in the interests of their client (usually a producer) so that they maintain good relationships with buyers.

Submissions reported incidents of agents not declaring to all parties that they are acting on both sides of the transaction. The ACCC has found that it is common for a single livestock agent or agency to represent many sellers at any one time, and may also purchase cattle for themselves. As shown in box 6.4 (above), a single agent or agency represented both the buyer and the seller in almost one in 10 pens of cattle transacted on a particular day at a large eastern Australian saleyard.

Livestock agents have advised the ACCC that incidences of agents representing both the buyer and seller are not uncommon, and that they endeavour to act ethically when such situations arise. While the ACCC does not believe that an agent acting for multiple parties to a transaction is always a competition concern, it can limit transparency and create conflicts of interest because:

- when acting for the seller, the agent has a duty and incentive to achieve the highest price
- when acting for the buyer (or purchasing for themselves), the incentive is to pay the lowest price.

Similar conflicts arise in situations where agents purchase stock for a company affiliated with the agent or agency (such as a parent company or another arm of a parent company), or if the agent is in fact buying the animals for themselves.

The ACCC notes the concerns raised in some submissions that livestock agents do not properly act in the interests of their vendor clients. It is also recognised that as market intermediaries, it is necessary for agents to maintain good relationships with livestock buyers in order to be effective for their clients. The need to maintain good relationships with buyers may create a misalignment of incentives associated with achieving the best price and outcome for the buyer or seller, but this is likely to be at least partly balanced by the threat of lost business from vendors if agents unfairly favour buyers.

6.3.3 Links between saleyards and agents can lead to exclusion of rival agents

Allegations were raised during the Market Study about instances of livestock agencies having control of, or a preferential relationship with, a particular saleyard. It was alleged that the agencies use this position to prevent rival agents from competing, either by completely foreclosing access to auction sales by that agent, or providing access at a level that prevents the rival agents from competing profitably.

If an agent with control over a saleyard prevents a competing agent from selling through that yard, this might harm competition. The degree of harm will depend on factors such as the availability of other saleyards/other sale channels for agents and producers in the region. In some cases, the conduct could be illegal under the CCA.

The ACCC is presently assessing an allegation that two livestock agency businesses are engaging in anti-competitive conduct by excluding an independent stock agent and auctioneer from conducting auctions at a particular saleyard.¹⁴⁰

6.3.4 Licensing requirements for livestock agents are inconsistent across states and territories, and between sellers and buyers

Livestock agents require a licence to operate in New South Wales and the Australian Capital Territory, but no other states or territories have licensing requirements for these occupations. In both the Australian Capital Territory and New South Wales, commission and professional buyers also require a stock and station agent's licence as the relevant legislation in these jurisdictions covers those acting for vendors as well as buyers. The New South Wales and Australian Capital Territory systems are effectively two-tier, with those carrying on an agency business required to be licensed, and those in their employ as stock and station agents required to hold a certificate of registration. There are rules of conduct to be observed by holders of licences and certificates of registration, and penalties may apply if these rules are contravened. In New South Wales, the licence is issued by the Office of Fair Trading. To obtain such a licence, in addition to meeting

¹⁴⁰ The ACCC does not comment on the specifics of current investigations for operational reasons.

a number of eligibility criteria, a Certificate IV in Property Services (Stock and Station Agency) must be successfully completed.

The regulation of these occupations is inconsistent with the standards in other industries where property is transacted through agents. For example, agents who represent clients for the purchase of real estate require a minimum level of training. While the licencing requirements for real estate agents vary from state to state, it is generally a short course, with successful completion entitling a person to become a “registered” buyer’s agent with the local Office of Fair Trading.

The regulation of livestock auctioneers similarly varies across Australian jurisdictions. In South Australia and Victoria, livestock auctioneers are not required to hold a licence. In New South Wales, Queensland, Western Australia, Tasmania and the Northern Territory livestock auctioneers are required to be licenced. It would appear that livestock auctioneers also require a stock and station agents licence in the Australian Capital Territory given that the *Agents Act 2003* definition of “stock and station agent service” includes “negotiating with, or inducing or attempting to induce, a person to buy, sell, exchange or otherwise dispose of livestock”, which would appear to capture services supplied by a livestock auctioneer.

Auctioneers are subject to a number of record keeping requirements in the jurisdictions that require them to be licensed, but only Queensland requires the auctioneer to keep a contemporaneous bidders register for livestock auctions. Notably, the identity of bidders are not able to be made public in Queensland and can only be disclosed to an inspector or a court. The relevant Queensland legislation, the *Motor Dealers and Chattel Auctioneers Act 2014*, also exempts livestock auctioneers from a general rule that prohibits chattel auctioneers from acting for more than one party to a transaction.

In New South Wales, livestock auctioneers are subject to the same rules as those who conduct a business purely as a stock and station agent. These include general duties such as non-disclosure of confidential client information, acting in accordance with client instructions and acting in a client’s best interests. It is a requirement in New South Wales that a written notice outlining the prohibition on collusive practices at saleyards is displayed at each auction in a conspicuous place.

6.3.5 Weak saleyard competition will have a broader impact as auction prices are important benchmarks

Saleyard prices are published in a variety of forms, including local newspapers, NLRS reporting on the MLA website, and a variety of other market reporting or subscription services. They also form the basis of various indicators, most notably the EYCI.

If saleyard prices are not established through effective competition between buyers acting independently, this will not only affect returns to particular sellers but might also impact prices across other saleyards and alternative sales channels. Farmers referring to saleyard prices or indicators as a benchmark may not be observing prices that genuinely reflect the value of their stock.

The ACCC received submissions about this issue. Producers are concerned that buyers frequently use the EYCI as a benchmark for OTH prices, when it is not an accurate representation of the value of cattle sold, particularly for good quality processing cattle. However, it should be noted that information provided by processors states that in general, their price grids are set with reference to factors other than the EYCI. Price grids and the reporting of saleyard prices are considered in detail in Chapter 4.

6.4 Do weighing and curfew practices influence competition at saleyards?

6.4.1 Various weighing and curfew practices are in use around the country

At various times before and during the consultation for this market study, the ACCC heard concerns about changes by saleyards from post-sale to pre-sale weighing. This issue was most notably highlighted by the incident concerning the Barnawartha saleyard (see box 6.5).

These concerns reflect the fact that the point at which an animal's weight is determined impacts on the amount of information available to buyer and vendor at the time of sale. The options commonly used are:

- post-sale weighing: the animal is weighed after it has been sold
- pre-sale weighing: the animal is weighed prior to the auction commencing
- on-scale selling: the animal is weighed while in, or as it enters, a selling ring.

These methods offer varying levels of transparency and certainty for the buyer and seller about the weight of the animal at the time of sale.

Livestock auctions are conducted by agents taking bids on a cents/kilogram liveweight basis, which means that pre-sale weighing enables bidders to compete for stock of known liveweight.

In addition to varied weighing practices, curfews vary from saleyard to saleyard. A curfew regulates the time by which animals must arrive, allowing for stock to be prepared for sale and drafted into pens. It also provides a level of certainty for buyers and sellers regarding how long before being weighed the animal is likely to have eaten (and hence the weight of feed in its digestive system, which will affect the yield of saleable meat relative to the animal's liveweight).

6.4.2 There are concerns that saleyard practices can be manipulated to the commercial advantage of some buyers

There is significant concern in the industry, mainly from cattle producers, about pre-sale versus post-sale weighing for saleyard auctions and how this affects commercial outcomes. Much of the debate relates to the amount of time that elapses between curfew and weighing, and perceptions of who is commercially advantaged or disadvantaged by this.

Arguments raised by producers in favour of pre-sale weighing were focused on whether the bidding confidence of some buyers is impacted by the weight of the animal being unknown at the time of sale, and the animal having an unknown final value at the time of sale (as price per kilogram but not the total weight is known).

Submissions pointed to a preference for post-sale weighing among processors and some other buyers, as they wish to minimise uncertainty about the amount of undigested feed (known as 'gut fill') contributing to the sale weight of the animal.

Due to a lack of suitable data, the ACCC could not analyse whether either method has a material effect on saleyard prices. Mixed feedback was also provided on the matter. As such, the ACCC does not have a view on whether pre-or-post sale weighing is optimal, or what constitutes an 'ideal' curfew time. However, it does appear that pre-sale weighing has certain benefits, such as increased transparency of cattle transactions.

Various theories could be advanced as to how and why weighing times are preferred by different market participants and how they affect commercial outcomes. The ACCC observes that some new or upgrading saleyards had announced plans to operate on a pre-sale weighing basis, but later changed to a post-sale system. It is alleged that these changes occurred in response to pressure from cattle/livestock buyers. This implies to the ACCC that post-sale weighing favours buyers, but we have not been able to form a conclusive view.

At a broad level the ACCC considers that saleyards should clearly state and enforce their weighing and curfew protocols, so that market participants can select where they prefer to transact. While the ACCC's investigation of the Barnawartha incident did not find evidence of an anti-competitive agreement between competing buyers, we remain concerned about collective behaviour which results in changes to selling practices (such as weighing or curfew times), and which unfairly favours certain market participants. Such behaviour may be in breach of laws which prohibit anti-competitive agreements or the upcoming concerted practices legislation, and hence we remain vigilant for instances where it occurs.

Box 6.6: The Barnawartha saleyard incident

The ACCC investigated allegations that nine cattle buyers collectively boycotted the prime cattle sale at the Wodonga (Barnawartha) saleyard in Victoria on 17 February 2015. The evidence obtained by the ACCC in the Barnawartha case did not demonstrate that the processors had reached an agreement not to attend the sale.

Similar to cartels, group boycotts are another form of collective behaviour which can be illegal. A company may, acting independently, refuse to do business with another firm; but an agreement among competitors not to do business with certain individuals or businesses may be an illegal boycott.

The ACCC's investigation followed reports that buyers had agreed not to attend the sale at Barnawartha in response to the saleyard using pre-weigh selling. The investigation found that there was uncertainty before the sale about whether the saleyard would use a pre-or-post weigh selling method. It was also clear that certain buyers strongly opposed the pre-weigh method.

The ACCC used its statutory powers to request information, data and documents from all of the nine buyers involved. The ACCC followed this up by conducting a number of compulsory examinations of key individuals involved in buying cattle from the Barnawartha saleyard.

Although it was clear that buyers communicated about the sale, the evidence did not demonstrate that any of them entered an arrangement or reached an understanding not to attend the sale. To establish a breach of the CCA, the ACCC would need to demonstrate that there was an agreement, or a 'meeting of the minds' between at least two of the parties not to attend the sale.

It is the view of the ACCC that there is sometimes a fine line between social discussions between competitors about industry issues on the one hand, and exchanging information in circumstances that may constitute an understanding between competitors on the other. Competitors talking about whether they will buy goods or services is a high-risk activity which may breach competition laws.

6.5 Options for addressing concerns around conduct at saleyards

6.5.1 Transparency would be improved by a pre-auction buyers register and a post-auction report

While livestock agents and saleyard operators keep records of the purchaser of each pen of livestock auctioned, if the bidding is conducted by a commission agent then the identity of the actual purchaser is known only to the bidder and the agent. This creates transparency problems for producers wishing to sell, as they cannot accurately determine the level of competition for their stock without knowing how many potential purchasers for their cattle are being represented by the same buying agent (generally commission buyers, but sometimes also livestock agents).

Furthermore, a lack of easily auditable records of which commission buyer or buying agents bid on behalf of which principals make it difficult to assess the impact of these buying practices on saleyard competition.

In contrast, in other industries where sales are based on auction formats, such as wool and real estate auctions, buyers (in some jurisdictions) are not permitted to bid unless they register with the selling agent. In addition to identifying themselves for a bidders record, those who are bidding on behalf of another person or a company may need to show the auctioneer a letter authorising them to bid.

The ACCC considers that a buyers register should be publicly posted prior to the commencement of the auction to provide transparency. This record should continue to be publicly available on the saleyard website following the auction.

Further, a report of auction results should also be prepared, indicating the identity of buyers (including any principal that they are acting on behalf of), and the proportion and type of stock purchased in each transaction. This will increase transparency at the saleyards and reduce the likelihood of conflicts of interest occurring. It will also allow principals and producers to make informed decisions about the commission buyers or saleyards that they use.

The introduction of these reporting measures would provide a traceable and auditable record of the actions of buying agents at auctions. Vendors and other buyers also could see how many principals were being represented at any given auction, and by how many buying agents.

Greater buy-side information would enable patterns of buying practices to be transparent, enabling sellers to gauge the effectiveness or strength of competition. Over time, sellers could use this information to adapt their selling practices if they wished, such as by selling cattle at different saleyards, or selling online or OTH.

The ACCC acknowledges that the proposed buyers' register may contravene existing laws in Queensland and as a result may not be able to be implemented in that State.

6.5.2 A consistent licensing system for livestock agents and professional (salaried or commission) buyers should be implemented nationally

The ACCC's consultation demonstrates that some producers experience lack of trust that livestock agents and professional buyers will act legally and ethically.

It is also possible that buyers have an inadequate level of understanding of the types of behaviour that would be of concern under the CCA, and the severity of the potential consequences for engaging in such behaviour.

These concerns could be addressed by establishing a licensing system for both livestock agents and professional buyers. This system would involve training and registration, including learning about the CCA and their responsibilities under it, behaviour that would be of concern, and the types of penalties and risks attached.

The ACCC considers that a licensing system would raise the level of professionalism within the industry, and would also be consistent with the standards in other industries where property is transacted through agents.

The ACCC understands that there have been unsuccessful attempts to complete this in the past. However, we still consider it is an important improvement to make.

6.5.3 The terms of auction should be clearly displayed and the auctioneer should call attention to them prior to commencement

There should be a mandatory requirement for the terms of auction to be displayed in a conspicuous position so that they can be inspected prior to and during an auction.

This should include a notice about the penalties for collusive practices under the CCA, in addition to any notices required by state or territory legislation.

The notice of the terms and conditions should be brought to the attention of all participants by the auctioneer prior to commencement, including a statement regarding minimum acceptable bid increments.

This would provide all attendees with greater clarity as to their rights and responsibilities during the auction, and increase transparency.

6.5.4 Saleyards are consolidating but competing harder to attract buyers and sellers

A shift toward fewer and larger saleyards is already occurring. There were approximately 190 saleyards holding regular sales (of both cattle and sheep) around Australia in 2006¹⁴¹; a number which fell to approximately 160 saleyards by 2016.¹⁴² Of these 160, a number are completely new, or significantly renovated and modernised. In addition to a more modern design, newer saleyards tend to have a larger capacity. These design features are more attractive to both buyers and sellers, as they offer both better animal welfare outcomes and may be safer and more comfortable for those working at or attending the sale. The ACCC heard during the Market Study that:

- improved, modern saleyard design results in animals from the sale being more attractive to a greater range of buyers due to improved animal health outcomes
- efficiencies of scale mean that larger yards may be able to offer lower costs per head of stock that travel through the yard, making it more attractive to buyers and sellers
- in several areas, carriers are establishing or using 'consolidation hubs' for smaller lots of stock which would be uneconomical to transport long distances. These animals can then be loaded onto a single large transport and economically taken a longer distance to a large saleyard.

Larger, consolidated yards should offer improved outcomes for competition if they attract a greater number of buyers. A greater number of stock moving through the yards, particularly ones that are attractive to a range of buyers, should make it more likely that a larger number of principals will have an interest, and can expect to acquire a larger number of stock at a single sale. This may enable the principal to employ a commission buyer on a more exclusive basis, as they can provide sufficient volume themselves to avoid the buyer also working for other clients who may represent a conflict of interest. For the reasons discussed above, a greater number of buyers in attendance may make coordinated or anti-competitive conduct more difficult if it makes it harder to reach an agreement.

6.5.5 Live streaming of saleyard auctions may increase-competition

Some saleyards are beginning to stream auctions online and accept live bids. While streaming auctions is a concept still in its infancy, they appear to have the potential to increase competition for cattle sold through saleyards by:

- enabling remotely located or smaller buyers to participate, thus reducing reliance on commission buyers and the likelihood that a commission buyer would represent more than one buyer
- reducing potential for collusion by reducing opportunities for signalling during auction process.

A major constraint to any potential increase in the number and frequency of live streaming auctions is internet connectivity, which is currently limited in many rural areas.

¹⁴¹ Hassal & Associates Pty Ltd, A Review and Analysis of Saleyard Marketing in Australia, final report prepared for the Australian Government Department of Agriculture, Fisheries and Forestry.

¹⁴² The ACCC researched whether saleyards from 2006 were still operating, and identified newly opened saleyards.

Box 6.7: Harper Review proposals for concerted practices law change, including possible results in cattle markets

On 5 September 2016 the Australian Government announced that it is consulting on an exposure draft of the Competition and Consumer Amendment (Competition Policy Review) Bill. The purpose of the Bill is to implement, in part, reforms identified by the Competition Policy Review (Harper Review). One area of reform included in the exposure Bill is to amend the *Competition and Consumer Act 2010* to introduce prohibitions against concerted practices that substantially lessen competition.

Section 45 of the CCA currently prohibits corporations from making or giving effect to contracts, arrangements and understandings that have the purpose, effect or likely effect of substantially lessening competition.

If the Bill is enacted, s. 45 will also prohibit corporations from engaging in a 'concerted practice' that has the purpose, effect or likely effect of substantially lessening competition.

A concerted practice is a form of coordination between competing businesses by which, without them having entered a contract, arrangement or understanding, practical cooperation between them is substituted for the risks of competition.

The following example is of conduct that is likely to amount to a concerted practice:

- Buyers for two of the largest beef processors in Australia regularly catch up over coffee before each auction. The buyers give each other a heads-up on which lots each is more interested in, on the range of prices they are authorised to bid for the lot, but are never committed to giving the information and never agree not to bid on a lot. Neither is surprised when the bidding starts. This could amount to a concerted practice, with the buyers substituting cooperation with each other for the uncertainties and independent rivalry of competition.

It is important to emphasise, though, that the conduct will only be prohibited if it also has the purpose, effect or likely effect of substantially lessening competition.

A more detailed discussion of these concepts including examples is provided in the draft Framework for Concerted Practices Guidelines, available from the ACCC website <https://consultation.accc.gov.au/legal-economic/draft-framework-for-concerted-practices-guidelines>

If the Bill is enacted, the ACCC will publish guidelines that will be based on this framework to explain our approach to possible breaches of these prohibitions.

Immunity for cartel participants

The ACCC has established an immunity policy for both corporations and individuals who have been involved in a cartel but then report their involvement to the ACCC.

Further details can be found in the ACCC's Immunity policy for cartel conduct and Immunity policy interpretation guidelines, which are available from the ACCC website—<https://www.accc.gov.au/publications/accc-immunity-cooperation-policy-for-cartel-conduct>

The only valid way to make an immunity application or request a marker to contact the **ACCC Immunity Hotline:**

Marcus Bezzi
Executive General Manager
Competition Enforcement

Telephone: (02) 9230 3894 (business hours)

Email: cartelimmunity@accc.gov.au

If you call the hotline, it will not be adequate to leave a voicemail or other message.

If you would like to know more, or wish to report suspicious behaviour, please feel free to contact the ACCC Info Centre on 1300 302 502.