

Chapter 4

Selling structures in Australia

4.1 This chapter considers selling structures beyond the saleyard. It focuses on 'over the hook' sales and direct sales as well as the complexity of the grid system. In particular, this chapter explores price discounting methods and the challenges for producers in achieving a fair and consistent return for their cattle.

'Over the hook' or direct sales

4.2 As part of the 'over the hook' system, cattle are delivered directly from producer to processor pursuant to a supply agreement, including forward contracts. Under this system, price will generally be determined according to a processor 'price grid' with penalties and discounts imposed on the basis of the quality of beef produced.¹

4.3 In the case of 'from the paddock' sales from a producer directly to a buyer or agent, prices may be determined per head or by weight and stock are frequently purchased on the basis of forward contracts to secure supply.

4.4 The prices available to producers through over the hook and paddock sales may differ depending on the time between sale and processing and the extent to which agents are involved, but are generally benchmarked on traditional saleyard sales.

4.5 When selling direct, the VFF – Ovens Valley Branch informed the committee that the procedure is to weigh the cattle full and then take five per cent off or curfew cattle for six hours and weigh the animal.² To make an 'over the hook' sale, livestock are delivered from the farm directly to the abattoir with change of ownership occurring at the scales where the carcass is weighed, following a trim of the carcass.

4.6 According to the department, producers with larger herd sizes are more likely to sell over the hook or in the paddock, as they can put together a truckload of cattle of the right specifications. In 2012–13, 31 per cent of cattle were sold 'over the hook' and 27 per cent in the paddock in northern Australia. This compares with 41 per cent of cattle sold at saleyard auction.³

4.7 Direct methods of sale can reduce carcass damage and loss of meat quality caused by additional handling in saleyard and auction sales. However, the actual carcass weight measured at the abattoir can vary depending on the way that the carcass is trimmed, and whether the carcass is weighed when hot or cold. The department further noted that:

Initially, the carcass is weighed at the end of the chain while it is still 'hot'. If the abattoir trades on cold weight, around 3 per cent is deducted from the hot carcass weight to calculate the cold weight. The actual shrinkage varies

1 Cattle Council of Australia, *Submission 83*, p. 6.

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

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

from 2–4 per cent according to the quantity of water lost during cooling in the abattoir.⁴

4.8 Teys Australia suggested that these direct consignment models (as opposed to the saleyards) are more beneficial to both producers and processors for various reasons, including eliminating costs associated with intermediary parties, including commission costs for using selling agents and the cost of an additional leg of transport to the selling centre.⁵ In fact, according to Mr Rob Atkinson, the only costs for producers were that of the levy of \$5 a head and freight costs.⁶

4.9 Teys and others suggested that direct sales assist animal welfare largely due to reduced risk of injury and loss of meat quality caused by additional handling in saleyards and auction sales.⁷ Saleyards have a disadvantage in terms of the quality of final product which is 'likely to be affected due to increased stress and time off feed'.⁸

4.10 Furthermore, Teys made the point that:

- market access to the European Union (EU) cannot, for reasons of regulation, be serviced by cattle sourced through saleyards; and
- the Pasture-fed Cattle Assurance System market, which also provides a price premium, cannot be serviced by cattle sourced through saleyards.⁹

4.11 Moreover, it was argued that direct marketing of cattle provides producers with more feedback on the carcass value of their cattle, thereby potentially enabling them to adjust management practices to provide a higher quality product. In comparison, saleyards provide limited feedback on the carcass traits to producers.

4.12 Serious concerns were raised with the structure and function of over the hook sales. Underpinning them was the widely-held understanding that the direct to works option lends itself to minimal competition.¹⁰ Some producers argued that while direct sales are a better option given the lower costs, direct sales also give processors control of the market. Mr Newman and Mrs Shirley Patmore provided a case in point:

[I]n March, 2014 due to severe drought we sold half of our herd for what could be called salvage prices.

There were so many cattle flooding into the abattoirs that there was a six week lead time. At the same time there was and still is record demand for export beef.¹¹

4 Department of Agriculture, *Submission 74*, p. 10.

5 Teys Australia, *Submission 55*, pp 6 and 11.

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

7 Teys Australia, *Submission 55*, p. 11.

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

9 Teys Australia, *Submission 55*, p. 11.

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

11 Mr Newman and Mrs Shirley Patmore, *Submission 64*, p. 2.

4.13 The power imbalance was further reflected in the fact that for producers, maintaining the confidence of the processors to whom cattle is supplied was of critical importance. Mr Richard Wilson suggested that the JBS direct sales over the hook grid prices are specific and that he books a place well in advance to 'aim to carefully supply our cattle to best fit the grids for higher returns to us and then obviously meeting JBS's premium requirements too'.¹²

4.14 The committee received substantial evidence focused on the over the hook and direct selling. The primary concerns raised by submitters went to the:

- price transparency and bargaining power of producers, particularly those with smaller herds;
- complexity of the grid system and kill sheet;
- discounting practices with particular focus on the trim;
- booking system for cattle; and
- lack of a formal complaints mechanism.

Price and bargaining power of producers

4.15 Concerns were raised in relation to direct sales. According to the ABA, existing selling structures and saleyards are becoming increasingly irrelevant as processors and supermarkets are aware of the fact that buying over the hook gives them an advantage – a producer cannot withdraw stock for slaughter if the stock is dead on the processor's floor.¹³ It further noted that, whereas saleyards were once the preferred means of sale, now processors and supermarkets set the price (often working from the EYCI) and producers can only accept or reject the price, terms and conditions, and the potential of meeting company specifications as there are few alternatives.¹⁴

4.16 VFF noted that direct sales in an otherwise public market serve as a form of 'partial vertical integration' whereby no information is publicly available on the price or volume of such trades.¹⁵ The VFF Valley Branch continued:

The impact of consolidation and issues with the sale yard auction system has seen many farmers sell direct to the processor, however with the ongoing impact of consolidation we are becoming more aware of the increasing manipulation of pricing by the processor through discounting and tightening of killing grids eroding the end price. Different abattoirs have varying systems and kill-out procedures of trimming further affecting the end price result.¹⁶

12 Mr Richard Wilson, *Submission 56*, p. 1.

13 Australian Beef Association, *Submission 23*, p. 3.

14 Australian Beef Association, *Submission 23*, pp 3–4.

15 Victorian Farmers Federation, *Submission 87*, p. 10.

16 Victorian Farmers Federation – Ovens Valley Branch, *Submission 62*, p. 5.

4.17 Similarly, the Mr David Farley made the point that the processing sector lacked external independent and transparent benchmarking for producers to make informed production and marketing decisions. He expressed the view that total cost and revenue transparency was also important to ensure that accurate data was analysed in order to capture all inefficiencies in the system.¹⁷

4.18 The fact that producers have no ability to monitor what happens, let alone what price they may obtain, was expressed by Mr Howard Smith, President of CCA:

We have no ability to monitor what happens from when we drop those cattle off to when they are processed. There are myriad things that can happen between dropping off and that end point, when we receive the price, that can have an effect on our bottom line.¹⁸

4.19 JBS Australia purchases 85 per cent of its livestock weight and grade on a grid.¹⁹ Mr Brent Eastwood, CEO of JBS noted that with this weight and grade sales method, the farmer will not know what will be returned for an animal until it is processed.²⁰

Inconsistent and impenetrable grid and unchallengeable kill sheet

4.20 The slaughter and processing stage of the beef value chain can 'greatly reduce value if not done properly'. Mr Sweeting made the following observation:

Excellent hygiene, maintenance of the cold chain and stress free handling of cattle prior to slaughter are all required to prevent contamination, spoilage and loss in meat quality. Poor boning will also lead to a lower percentage of prime cuts and a greater percentage of lower value trim. Whilst value can very easily be lost during processing it is difficult to add value during this stage.²¹

4.21 Mr Bradley Teys of Teys Australia described the grading process in relation to meat processing:

The grid shows weight, fat depth, age and dentition. That is graded at the slaughterhouse scales. If you are buying cattle direct from the producer, that is where ownership changes. And then, after a 20-to 24-hour chill, more grading occurs around meat colour, fat colour, marbling and whether something is MSA or not. At that point, that is the price that the producer will get.²²

4.22 The VFF made the point that in theory, grid pricing is the most critical signal to encourage farmers to produce beef products demanded by consumers.²³ Similarly,

17 Mr David Farley, *Submission 35*, p. 3.

18 Mr Howard Smith, Cattle Council of Australia, *Committee Hansard*, 27 August 2015, p. 48.

19 Mr Brent Eastwood, JBS Australia, *Committee Hansard*, 27 August 2015, p. 16.

20 Mr Brent Eastwood, JBS Australia, *Committee Hansard*, 27 August 2015, p. 16.

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

22 Mr Bradley Teys, Teys Australia, *Committee Hansard*, 27 August 2015, p. 4.

23 Victorian Farmers Federation, *Submission 87*, p. 13.

according to AMIC, processors consider livestock purchased on contract to generally comply more closely, with their needs as producers work to supply in accordance with the contract specification and grid.²⁴

4.23 However, for the pricing signal to provide appropriate signals, accurate measurement of beef quality attributes is necessary. According to the VFF, this has been the 'Achilles heel' of the processing sector given concerns as to whether processors accurately measure and properly apply grids to determine value:

The existing quality grades and grids categorise carcass based primarily on subjective visual observation and appraisal. This renders the grading system to subjectivity and manipulation, in particular in circumstances where farmers have no recourse to demand a reassessment of the carcass. Let alone the bullying tactics used by processors when farmers express their incredulity to the processor's grading assessment.²⁵

4.24 CCA suggested that as over the hook grids vary considerably, are inconsistent and appear not to have a standard format, it has become increasingly difficult for producers to compare or interpret them.²⁶ Evidence before the committee indicated that there were different compliance rates and grid price reductions received between plants. There are also differences in dressing percentages between plants, and at different times in the same plant, and in cattle that have been consigned from the same mob at the same time.²⁷ Along with evidence of discrepancies in processing yield between different processors with some returning a consistently lower yield, it was argued that carcass feedback was difficult to explain with producers receiving variations between P8 and rib fat measurements that are not consistent with current understanding of the correlation between the two measurements.²⁸

4.25 The concerns were reflected in the evidence of Mr Andrew Hunter who noted that with sales based on carcass weight, 'you are putting faith in the honest practice of the processor'.²⁹ Therefore, the argument was made that transparency in relation to the grid as well as the penalties applied is required.³⁰

Discounting practices

4.26 In terms of a sale, beef processors sell whole carcasses, boxed beef and other parts of the animal. Mr James Maclean, Managing Director of Allied Beef explained that beef processing was unique in the sense that one product goes into a plant with up to 100 or more components coming out the other end:

24 Australian Meat Industry Council, *Submission 93*, p. 17.

25 Victorian Farmers Federation, *Submission 87*, p. 13.

26 Cattle Council of Australia, *Submission 83*, pp 8–9.

27 Mr David Hill, *Submission 96*, p. [7] and Cattle Council of Australia, *Submission 83*, p. 9.

28 Mr Andrew Hunter, *Submission 75*, p. [1] and Cattle Council of Australia, *Submission 83*, p. 9.

29 Mr Andrew Hunter, *Submission 75*, p. [1].

30 Cattle Council of Australia, *Submission 83*, pp 8–9.

With value creation, the companies have to extract as much value from as many parts of that carcass as possible from a processing point of view. What areas of value-adding they do themselves may, in some cases, reflect the capital improvements they have to do. I am a strong believer that those additional bonuses that come from some animals in some cases are paid to producers. But, in most cases, it comes in a general mix of income that goes back out in a general mix of payments to producers. Again, whilst the processing sector has had an extremely profitable period for the last couple of years, I do not believe that those minor factors are contributing to that in a material way.³¹

4.27 Processing activities and costs include kill fees, boning, packaging and chilling. According to information provided by Coles to the ACCC's 2007 inquiry, the price it pays for a whole cow (including producer and feedlot costs) accounts for 53 per cent of the end retail price. Processing activities and costs account for an estimated 14 per cent of the end retail price while the retail activities and costs (slicing and trimming, packaging, labour, shrinkage, promotion and advertising, store costs and retail margin) account for about 30 per cent of the end retail price.³²

4.28 The Australian Beef Association (ABA) challenged these figures and suggested that MLA had determined that producers get 38 per cent of the retail dollar while Coles maintained that producers got 54 per cent of the retail dollar. ABA noted that one of the critical factors in assessing who gets what share of the retail dollar was that of carcass breakdown, what is fat and bone, and of course what is saleable meat. According to ABA, while Coles had suggested 60 per cent of the carcass is retail meat and 40 per cent is fat and bone, its own sources suggested that Coles insisted on a 70 per cent saleable meat yield from a carcass when getting contract boning done. At the same time, MLA suggested that the yield of the carcass was only 55 per cent of saleable meat.³³

4.29 Mrs Josie Angus informed the committee that, as a non-packer exporter, the costs of production have risen over three times in the last ten years. She explained that, for boxed beef:

At the moment we pay them [processors] roughly \$200 per animal. They retain the hides and the offals, which at current market prices are pushing the \$400 mark in terms of what we can gain as non packer exporters. Then on top of that we have seen our live-to-dead yield decrease, but we also lose an additional 25 per cent in that they retain all of the fat and bone from the carcass. Whilst we retain ownership and we are only paying a service fee, we retain about 38 per cent of a live animal weight to do a job with.³⁴

31 Mr James Maclean, Allied Beef, *Committee Hansard*, 4 August 2015, p. 59.

32 Competition and Consumer Commission, *Examination of the prices paid to farmers for livestock and the prices paid by Australian consumers for red meat*. A report to the Minister for Agriculture, Fisheries and Forestry, February 2007, p. 8, www.accc.gov.au/system/files/Examination%20of%20livestock.pdf (accessed 24 November 2015).

33 Australian Beef Association, *Submission 23*, p. 6.

34 Mrs Josie Angus, private capacity, *Committee Hansard*, 4 August 2015, p. 17.

4.30 The point was made by ABA that processors in Tasmania, as in most centres, prefer to buy over the hook because it permits them to discount what doesn't fit their specifications. These include fat cover, age and company specifications, which ABA argued, are designed to make sure even the best bodies can have some sort of discount applied.³⁵

4.31 The Gulf Cattleman's Association raised a different question about payment:

Meat processors pay less for females than males even if the carcass specifications are exactly the same (as the heifer and steer grids from the meatworks show). The top four grades on the heifer grid TH, Y6, Y7, & Y8 have the same fat, teeth and shape requirements as the top four grades on the steers grid YO, Y1, Y2 & Y3, yet producers get payed 10 cents per kg less for the heifers. Considering the consumer cannot go to a retail outlet and buy heifer meat cheaper than steer meat it makes this discounting unfair.³⁶

4.32 Many other submitters to the inquiry raised concerns about the price grid and associated kill sheets. The grid system was recognised as 'extraordinarily complicated' while the kill sheet is often set out in a way to confuse a client.³⁷ It was widely believed that this complexity provides the means to reduce the price.³⁸ Some of the concerns raised in this regard included that:

- Processors pay the graders who oversee Aus-Meat and MSA standards.³⁹
- Graders grade on fat, teeth, butt shape and weight variation which allows for discounting and confusion on grid prices.⁴⁰
- Use of butt shape as a grading implement can be exploited.⁴¹

4.33 Producers questioned how they could check the measurements used particularly in relation to deductions for fat, colour and butt shape. Mr Gary Warren noted that:

This grading is done in house by the processors and even if the producer goes down to watch his cattle processed, it does not mean that he can get up and measure the depth of fat on the carcass.⁴²

35 Australian Beef Association, *Submission 23*, p. 3.

36 Gulf Cattlemen's Association, *Submission 41*, p. 4.

37 Mr P.J. McHugh, *Submission 73*, Attachment 2, p. [2]. See also Mr Craig Cross, personal capacity, *Committee Hansard*, 2 September 2015, p. 9.

38 Mr Peter Kennedy, Gulf Cattleman's Association, *Committee Hansard*, 4 August 2015, p. 12.

39 Mr P.J. McHugh, *Submission 73*, Attachment 2, p. [2] and Mrs Maureen Cottam, *Submission 25*, p. 4.

40 Mr P.J. McHugh, *Submission 73*, Attachment 2, p. [2] and Mr Craig Cross, private capacity, *Committee Hansard*, 2 September 2015, p. 11.

41 Australian Beef Association, *Submission 23*, p. 17.

42 Mr Gary Warren, *Submission 24*, p. 3.

4.34 One of the key issues of contention raised by producers was in relation to fat. When a producer sells to a processor, they can be penalised for an animal being too fat. Under such circumstances, the fat is removed and the producer receives a discounted price. According to the evidence before the committee, however, the processor is able to render this fat for sale or use as tallow.⁴³

4.35 The committee received considerable evidence from producers regarding fat scores and fat testing equipment.⁴⁴ As a case in point, Mr Atkinson raised concerns with the means by which fat depth is determined. He argued that this is the greatest 'discounting tool that has no constant reliability or integrity':

This is because when a hide puller removes the hide, fat is often torn from the carcass in varying degrees. 1mm of fat can mean the difference of up to \$1\kg carcass weight in some cases on meatworks grids. So a 320 kg carcass can be discounted by up to \$300 because it had 5mm fat at PH site instead of 6mm. If [sic] the meatworks employee moved the measuring device a few centimetres, many of these carcasses would have to be paid out without the discount.⁴⁵

4.36 ABA developed its own tool to calculate the value of a carcass because of its own concerns that MLA had 'no real idea of the actuals of a carcass bone-out.'⁴⁶

4.37 Mr Stephen Kelly, Chair of AMPC acknowledged that there could be improvements to the grading systems which have a 'level of interpretation'. Furthermore, he recognised that grids which animals are predominantly purchased on have become far more complex over the past 10 years.⁴⁷

4.38 Questions were asked regarding the manner in which the standard trim was applied. Mr Bradley Teys informed the committee that standard carcass trim was devised in the mid-1980s to provide a uniform trim across all processors. He argued that it provided producers with a means to get the best price per kilo for their cattle.⁴⁸

4.39 Mr Ian King, CEO of Aus-Meat informed the committee that the trim was 'virtually always part of the inspection process' undertaken by Aus-Meat auditors because it is a key component of the hot standard carcass weight. For this reason, he noted that the trim was regularly audited as part of the slaughter floor process.⁴⁹

4.40 JBS Australia CEO, Mr Brent Eastwood explained its role in relation to trim:

43 Mrs Jo-Anne Bloomfield, *Submission 31*, p. 7.

44 Mr Tom Hunt, *Submission 3*;

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

46 Australian Beef Association, *Submission 23*, p. 7.

47 Mr Stephen Kelly, Australian Meat Processor Corporation, *Committee Hansard*, 27 August 2015, p. 32.

48 Mr Bradley Teys, Teys Australia, *Committee Hansard*, 27 August 2015, p. 4.

49 Mr Ian King, Aus-Meat, *Committee Hansard*, 2 September 2015, p. 61.

We administer the AUS-MEAT trim according to the rules. We have our graders who are grading cattle at the scale. They have no idea what the grid price is or anything else. They have no idea. They are grading the AUS-MEAT grid. We have nine beef plants and five lamb plants, every day we go our QA department audits them three times a day by pre and post the scale. We audit our own graders, and AUS-MEAT comes as well and audits those graders. We apply the AUS-MEAT trim. We take total exception to people suggesting that we trim beyond AUS-MEAT.⁵⁰

4.41 Generating value out of the trim is one of the key challenges for processors.⁵¹ Trim is most often used for sausages, hamburgers and other processed meat products. According to Mr Sweeting, obtaining market premiums for the trim and non-carcass parts is a particular challenge, with premium products such as certified grass-fed and organic where processors have paid a premium for the entire animal and may lose money if they can only get a premium for the prime cuts.⁵²

4.42 However, concerns were raised to the committee in relation to the application of the standard rather than its definition. Many producers held the view that the current standard carcass trim far exceeded the intention of the definition.⁵³ Evidence suggested that there had been discounting in relation to the trim where a millimetre of fat was missing but which could have been torn off when the hide was pulled off.⁵⁴ It was also suggested that grain-fed steers currently average less than 52 per cent dressed yield and that trimming of the carcass in conjunction with fat penalties amount to 'double dipping'.⁵⁵

Non-meat parts and co-products

4.43 Processors sell all parts of the animal. Indeed, according to evidence, the contribution of non-meat parts including bones, skins, offal and tallow are crucial to a processor's business.⁵⁶ Mr Sweeting noted that non-beef products have created value for processors but are 'frequently not directly paid for when cattle are sold on a carcass weight basis'.⁵⁷ He concluded that:

When producers are paid on a carcass weight basis, which is increasingly the case there is a misalignment between how processors pay growers and how processors make money.⁵⁸

50 Mr Brent Eastwood, JBS Australia, *Committee Hansard*, 27 August 2015, p. 22.

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

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

53 Mr Ian McCamley, *Submission 90*, p. [3].

54 Mr Robert Atkinson, private capacity, *Committee Hansard*, 4 August 2015, pp 8–9.

55 Mr Blair and Mrs Josie Angus, *Submission 80*, p. [8].

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

57 Mr Ashley Sweeting, *Submission 1*, p. 13.

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

4.44 Mrs Jo-Anne Bloomfield made the point that with over the hook prices, the producer is only paid the carcass weight of the meat component and not the co-products despite their significant value. It was put to the committee that in some instances, foetal blood from heavily pregnant cows could cover the cost of some animals with the meat effectively free to the processor.⁵⁹ According to the VFF, foetal blood can be worth \$600 per litre.⁶⁰

4.45 While costs vary, according to evidence before the committee, the value derived from the non-meat parts includes that from offal, intestines and foetal blood. However, at the end of the process, producers suggest that they derive a return of only 38 per cent of the live animal weight.⁶¹ The VFF noted the substantial gap between the Australian saleyard price, retail beef price and the impact of sale by processors of by-products. In this regard, at least 22 per cent of the price that processors pay to buy a steer is returned to them when selling the by-products (exclusive of foetal blood).⁶²

4.46 According to Teys Australia, while it includes offal as part of its revenue complex along with hides, meat meal, bone meal and yield of the meat, service kills are different. Mr Bradley Teys explained:

When they service kill them, because they may be slaughtering only, say 50 cattle a week, they charge the company that they service a fee to kill their cattle and debone them. The company keeps the hides and offal because this party has no way of selling that or does not have a market for that.⁶³

Booking system

4.47 While a booking is made weeks or even months in advance, processors will usually put out a grid on a Friday night for the following week.⁶⁴ Sometimes, producers are given the price a week before the kill and therefore just prior to loading. A producer will have one of two choices – knock back the price and run the risk of rebooking a new kill date which may be months or weeks ahead – or to accept the price and potentially take the hit.⁶⁵

4.48 An example was provided by Mr Blair and Mrs Josie Angus who explained that in 2014, kill slots were booked more than six weeks in advance without pricing indicated at the time of booking. In their view, such a practice removes a degree of

59 Mrs Jo-Anne Bloomfield, *Submission 31*, p. 6.

60 Victorian Farmers Federation, *Submission 87*, p. 17.

61 Mrs Josie Angus, *Committee Hansard*, 4 August 2015, p. 18.

62 Victorian Farmers Federation, *Submission 87*, p. 17.

63 Mr Bradley Teys, Teys Australia, *Committee Hansard*, 27 August 2015, p. 6.

64 The committee was informed that in northern Australia, such as Townsville, bookings can be three and four months out from the kill. Mr Robert Atkinson, private capacity, *Committee Hansard*, 4 August 2015, pp 6–7.

65 Mr Gary Warren, private capacity, *Committee Hansard*, 4 August 2015, pp 6–7 and Mr Robert Atkinson, private capacity, *Committee Hansard*, 4 August 2015, pp 6–7.

competition from the over the hook market as producers are unable to compare pricing at booking.⁶⁶ Therefore:

[I]f a producer did not like the price offered when it was finally disclosed at a date close to the slaughter date, the only remaining option was to make another future dated kill slot booking with no price offered once again.⁶⁷

4.49 Mr Gary Warren informed the committee that the price may be given weeks ahead in some instances to lock the producer in early. He provided the example of one occasion when he received the grid price 14 days ahead of the kill, because the processor knew that the market price was about to go up.⁶⁸

4.50 However JBS Australia argued that livestock is often booked into more than one company with farmers able to choose to book space in a 'multitude of meat processing companies'. Mr Eastwood upheld the view that cattle were never priced against the grid a day or two out, but rather five to 15 days out. Thereafter, producers can choose to take the price or pull their cattle out of the booking, which, he noted 'happens all the time'.⁶⁹

4.51 Mr John Berry, Director and Head of Corporate and Regulatory Affairs at JBS Australia suggested that producers have full information on the various modes and they may book cattle in to a number of processors at the same time to ascertain the best price.⁷⁰ He continued:

[L]ivestock is often booked into more than one company. Farmers may choose to book space in a multitude of meat processing companies and wait. It is never a day or two out. It is normally five, 10 or 15 days out front that the cattle get priced against the grid. They may then choose to take that price or pull them out of that booking, and that happens all the time.⁷¹

4.52 Mr Eastwood further noted that all processors have cattle priced and committed a certain amount of time out from slaughter (or more than seven days) in order to ensure continuity of supply. Once a contractual price has been agreed, the cattle are committed and the booking is locked. Prior to that point, however, it remains only a booking space.⁷²

4.53 The contention of many producers was that, being informed of a price 48 hours in advance of a sale did not allow them time to make any informed decision about whether to sell or not. If the offered price was not acceptable, the problem for

66 While a booking is made weeks or even months in advance, processors will usually put out a grid on a Friday night for the following week. In effect, producers are given the price a week before the kill and therefore just prior to loading.

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

68 Mr Gary Warren, personal capacity, *Committee Hansard*, 4 August 2015, p. 7.

69 Mr Brent Eastwood, JBS Australia, *Committee Hansard*, 27 August 2015, p. 17.

70 Mr John Berry, JBS Australia, *Committee Hansard*, 27 August 2015, p. 17.

71 Mr John Berry, JBS Australia, *Committee Hansard*, 27 August 2015, p. 17.

72 Mr Brent Eastwood, JBS Australia, *Committee Hansard*, 27 August 2015, p. 18.

producers would be that they may not be able to re-book the same slaughter-ready cattle, for at least three months into the future.

4.54 Mr David Evans noted that during periods of oversupply, there were long waiting times to book cattle for direct sale with up to six weeks generally quoted. As local abattoirs are unable to cope with supply during these periods, local auction prices were often severely depressed.⁷³

Lack of formal complaints mechanism and independent review

4.55 Hermit Hill Pastoral Pty Ltd informed the committee that its lambs were weighed prior to dispatch, and based on quoted prices, an estimate of return was made. However, when the kill sheets were received, the final weights were less than expected. The stock agent then declined to provide an analysis of each beast to Hermit Hill which was eager to investigate the discrepancy. Hermit Hill made the following observations about its experience:

The kill sheet only shows numbers of beasts in weight range. We suspect that beasts could be "trimmed" to fit into various categories that could benefit the processor, penalise the farmer.

This lack of transparency over final kill weights for lambs makes it impossible to reconcile records kept on-farm, and the resultant lamb final dressed weight.

The processor would have this detailed information to enable running an efficient business, but the farmer can't obtain this beast by beast information.⁷⁴

4.56 There is no current mechanism available for producers to contest grades.⁷⁵ Therefore, producers have to take their concerns directly to the processors.⁷⁶ When they do complain, they don't have any recourse.⁷⁷ Therefore, one of the concerns raised to the committee was that of a lack of a formal and independent complaints mechanism. The VFF's Mr Shahriar Mofakhami explained the context for producers:

In that type of situation you cannot even bring the misleading and deceptive conduct action in relation to false certification, because all the fat trimmings are subjective. What are you going to objectively look at and say, 'Is this really the right fat content over here?' The fact that there is no recourse means that, by the time you go with an objection to them to try and see the evidence of it, the carcass has left the abattoir. There is no dispute resolution mechanism to do that. That is why regulatory intervention is

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

74 Hermit Hill Pastoral Pty Ltd, *Submission 7*.

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

76 Mr Derek Schoen, NSW Farmers' Association, *Committee Hansard*, 2 September 2015, p. 6.

77 Mr Shahriar Mofakhami, Victorian Farmers Federation, *Committee Hansard*, 2 September 2015, p. 22.

required before you can hand it to the industry for them to start regulating themselves. It is like stockbrokers and the stock market.⁷⁸

4.57 While producers continue to get inconsistent results under a grading system for which carcass trimming is subjective, the graders are company employees and there remains no recourse to a third party. Moreover, producers may decline from making any complaint or raising any concerns in the first instance for fear of jeopardising their relationship with processors.⁷⁹

4.58 CCA explained that while technological advances create the possibility that the results of the cattle assessment could be readily available to producers, this is not possible at present for a number of reasons, including the time delay between the assessment, meat being identifiable and the producer receiving the grading. Therefore:

Increasing the accountability and transparency of the beef supply chain is essential in ensuring that producers receive the correct market signals. The whole of the beef sector needs to examine methods to improve the transparency and accountability, to ensure that activities which detrimentally impact upon members are identified and effective corrective actions are taken.⁸⁰

4.59 In response to questions regarding a complaints mechanism, Teys Australia informed the committee that it wanted to establish a third-party dispute mechanism to handle grading disputes.⁸¹

Online sales

4.60 AuctionsPlus began operating in 1987 as a means of selling livestock by description. Under the system, livestock are assessed prior to sale by an accredited assessor who enters a description of the livestock into a public electronic catalogue. Potential buyers register to participate in the auction with the results displayed on the website immediately after the sale is completed. The department highlighted some of the benefits of the system:

AuctionsPlus provides some of the benefits of saleyard auctions—access to a wide range of buyers—while allowing direct consignment to the buyer. Livestock are sold on-farm on the basis of dollars per head, cents per kilogram liveweight, cents per kilogram carcass weight or according to a pricing matrix. Transport costs are paid by the purchaser.⁸²

78 Mr Shahriar Mofakhami, Victorian Farmers Federation, *Committee Hansard*, 2 September 2015, p. 25.

79 Mr Mark Richie, Victorian Farmers Federation, *Committee Hansard*, 2 September 2015, p. 26.

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

81 Mr Thomas Maguire, Teys Australia, *Committee Hansard*, 27 August 2015, p. 5.

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

4.61 According to AuctionsPlus, online saleyards have an additional benefit over physical saleyards of 'removing any opportunities for buyer collusion as buyers cannot see who they are purchasing against'.⁸³

4.62 Furthermore, the advantages of purchasing 'direct' on farm through an online auction system reduces the costs involved in saleyards and limits the impact of animal welfare issues (which can occur when transporting livestock).

Support for change

4.63 The VFF – Ovens Valley Branch recommended that a standardised killing process which is both fair and equitable, be investigated.⁸⁴

4.64 Mr Hunter suggested that, while regulating processor practices in terms of the trim and sale of skins would not be realistic, reporting on yield results, relative to the livestock type/feeding regime would give producers a basis to assess processors. He suggested that under such a regime, when lambs are sent for processing, a standard electronic form could be completed by the submitting stock agent which could be sent to an industry website. While not a compulsory system, Mr Hunter suggested that under such a system, the results should only be made available to participating agents/producers.⁸⁵

4.65 However, many producers made the point that there needs to be structural reform. That is, changes to the process by which cattle are sold in order to improve operational transparency, support the market and value add.⁸⁶ The VFF noted in this regard that:

The Government has achieved significant foreign investment in our agricultural sector, however this has been advanced without first establishing proper structures for the protection and guided growth of our agricultural markets. As a result, unchecked horizontal and vertical consolidation has created tight oligopolies/oligopsonies and the emergence of overly powerful players at critical stages in agricultural supply chains, creating choke points. Consolidation in the processing and retail grocery markets has led to fundamental shifts in economic power. Vertical coordination has strategically enhanced the market power of the processors and retailers within our agricultural markets without any corresponding regulatory protections at the farm gate source of these critical supply chains.⁸⁷

4.66 The VFF argued in favour of a transparent market trading structure, increasing the power of farmers using market conduct and integrity rules, and empowering and

83 AuctionsPlus, *Submission 65*, p. [1].

84 Victorian Farmers Federation – Ovens Valley Branch, *Submission 62*, p. 5.

85 Mr Andrew Hunter, *Submission 75*, pp [2–3].

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

87 Victorian Farmers Federation, *Submission 87*, p. 5.

investigation functions.⁸⁸ It made the point that the first step in creating an effective market for trading of livestock and red meat is transparency, which is of benefit to all stakeholders:

Transparency through revealing rapid and complete trade, order and volume information enables farmers, processors and end-users to manage risk by forecasting price movements and in so doing creates another dimension to our livestock and red meat markets, being futures prices. Futures prices in turn leads to collection and dissemination of information to improve and enhance spot market price discovery.⁸⁹

4.67 The VFF also argued that the solution is not to restrict the ability of producers to use contracts or mandate a minimum amount of livestock to be purchased at saleyards, but rather processors should report all contracts as a pre- and post-trade, (whether they be spot or forward) and the data be used for the wider price discovery of the market. Furthermore:

Standardisation of the grid premium/discount factors and limiting the proportion of the base price that can be paid as premiums or discounts will assist in ensuring that processors have limited ability to deflate base prices and increase premiums to distort the base price.⁹⁰

4.68 Under a transparent system, processors would be regulated to provide a live weight just before and just after the killing process. According to the VFF, such a system would provide a live weight standard in relation to every processor with a report on carcass yield against live weight.⁹¹

4.69 The point was also made that an objective rather than subjective grading system was required. The VFF noted a distinct lack of innovation on the part of processors to determine scoring measurements. Yet, given the significant impact that grid premiums have to the price discovery process, it is critical that mechanical mechanisms are used and for the 'grading system to be structured around available methods of objective assessment rather than subjective visual appraisal'.⁹²

4.70 To this end, the Shire of Campaspe suggested greater transparency in relation to weighing mechanisms including the expanded role of electronic animal tracking systems to assist with traceability through the processing chain.⁹³ It recommended a uniform and consistent method for determining animal weight given the options available and the power differential between buyer and seller in different scenarios.⁹⁴

88 Victorian Farmers Federation, *Submission 87*, p. 6.

89 Victorian Farmers Federation, *Submission 87*, p. 8.

90 Victorian Farmers Federation, *Submission 87*, p. 10.

91 Mr Mark Ritchie, Victorian Farmers Federation, *Committee Hansard*, 2 September 2015, p. 26.

92 Victorian Farmers Federation, *Submission 87*, p. 13.

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

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

4.71 Mr John Carpenter argued that for all cattle sales made on a direct to work/over the hook basis, appointment of a single government agent to independently weigh, assess and grade carcasses should be made.⁹⁵ He suggested that weight should be determined after slaughter without any trimming.⁹⁶ Mr Carpenter further argued that processor or retailer discounts levied against the hook sale should only apply to carcasses that:

- fall outside the weight range;
- fall outside the fat coverage range; or
- fail to grade MSA.⁹⁷

4.72 A number of submitters also recognised the need for greater competition in the processing sector. The point was made that producers should have opportunities to sell cattle outside the current systems by way of online auctions and direct sales to the public. Nanthes' Park British White Cattle Stud noted the 'burdensome and restrictive regulation' concerning the sale of meat to the public required reconsideration so that alternatives could be found to allow for flexible but safe operational models.⁹⁸

4.73 One such option is to allow for a licenced butcher to carry out the kill and approve the meat for sale with the meat sold under contract to clients. According to Nanthes' Park British White Cattle Stud, buying under contract conditions allows for clients to be fully informed of the process and for them to agree to purchase via that process.⁹⁹ Whereas in the past, butchers would operate at saleyards, now they source most of their beef directly from beef packers because there are few service kill slaughter facilities left.¹⁰⁰

4.74 The Gulf Cattleman's Association argued in favour of new abattoirs in Queensland, 'fit for purpose' regulations for smaller boutique abattoirs and an investment in the training of graziers to use the online auction tool – AuctionsPlus – to improve competition.¹⁰¹ It also made the point that greater focus should be given to the use of electronic marketing and on-line selling which would provide for greater opportunities for on-farm sales.¹⁰²

4.75 Emphasis on online auction opportunities would not only go some way to addressing producers' concerns regarding the health and welfare of cattle transported considerable distances (without water and feed) but also provide greater surety in relation to the sale price. In this regard, AuctionsPlus, the online auction system, was

95 Mr John Carpenter, *Submission 9*, p. 8.

96 Mr John Carpenter, *Submission 9*, p. 8.

97 Mr John Carpenter, *Submission 9*, p. 8.

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

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

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

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

102 Mr Peter Kennedy, Gulf Cattleman's Association, *Committee Hansard*, 4 August 2015, p. 16.

recognised as a success by some producers on the basis that it enables cattle to remain on the vendor's property and provides an easy option for the vendor to pass in if their value is not achieved.¹⁰³ Mr Rob Atkinson argued that AuctionsPlus offers the most buyer competition. However, he noted that few, if any, slaughter cattle are marketed in this way – at least in Queensland.¹⁰⁴

4.76 Mr Peter Gregory argued in favour of small, regional abattoirs which can process local animals without transporting them to 'mega plants which pay next to production cost for the animals'.¹⁰⁵ This would assist in providing more competition in areas where producers have limited options on how their animals are processed.

4.77 The Department of Industry and Science argued that mobile slaughter units, small scale slaughter facilities in regional areas, and small scale meat processing and packaging facilities could provide the avenue for more innovation, new entries and competition within the sector.¹⁰⁶

4.78 However, the point was made that all options should be grounded on a mechanism of pricing transparency as the Sheepmeat Council of Australia explained:

Producers need diversity in methods to sell their livestock. However, these systems need to be open, robust and allow free-market forces to work honestly. Uncontrolled consolidation in markets and prices generally reduces competition, reduces options for the producer and, ultimately, reduces farm gate returns. Currently the range of selling methods in the sheep industry include saleyard auctions, online auctions, paddock sales or property sales, over-the hook-sales and forward contract selling. All these pricing mechanisms have a place in maintaining demand, competition and can enhance transparency in the sheep industry.¹⁰⁷

4.79 Mrs Jo-Anne Bloomfield argued in favour of greater competition as well as final product market availability and variability:

Increasing the opportunity of entry for buyers into the livestock markets overall increases the ability of a fair and competitive price for animals offered for sale through Australian meat processing and live export channels. Government regulations and cost impost in both meat processing and exporting creates barriers to entry by new businesses. There is no doubt that some regulations and service fees are necessary but consideration should be given to the duplication of some of these costs that could be lowered.¹⁰⁸

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

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

105 Mr Peter Gregory, *Submission 10*

106 Department of Industry and Science, *Submission 39*, p. 4.

107 Mr Alexander MacLachlan, Sheepmeat Council of Australia, *Committee Hansard*, 27 August 2015, p. 74

108 Mrs Jo-Anne Bloomfield, *Submission 31*, p. 4.

