Rural and Regional Affairs and Transport Committee of the Senate.

Submission to the enquiry entitled "The effect of market consolidation on the Red Meat processing sector."

Submission prepared by John Buxton Cattle and Sheep producer

Dear Committee members,

My submission will cover the following issues.

1/ Post Sale weighing in Sale Yards.
2/The way in which Livestock Agents Operate.
3/The cost of doing business.
4/ Market consolidation of Meat Processors.

Post Sale Weighing.

Post Sale Weighing should be banned. No other product is allowed to be sold with out the weight or the volume of the product being displayed at the point of sale. Why should farmers livestock be different? We have recently seen that food products on the shelves of supermarkets have to have the price per unit of weight displayed as well as the price of the packet or container. This is to enable a purchaser to make a decision about which product represents the best value.

Post Sale Weighing puts the people with the least amount of market information at a disadvantage. I call it "*hide the weight and fudge the price.*" It puts the vendor at a significant disadvantage. If you do not know what you have to sell (the weight) how do value it. For example cattle over 550 kgs might be worth 20c more per Kg than cattle under 550 kgs because the export market is paying a higher price. A farmer has a group of 10 steers in the sale and they weigh 560 kgs. So on today's market if they weigh 500 kg they should be worth $2.00 kg. As they are over 550 they should be worth $2.20. If the farmer knows that his cattle weigh 560 kg he can very confidently put a reserve price of $2.20 on them. Knowing the weight also allows buyers to bid with confidence, in view of the fact these cattle weigh 560 Kg he can bid more than if he was not sure. Another buyer in the market might be looking to purchase cattle that are selling for less than their true value. So if the group of 560 Kg cattle are selling for less than $2.20 when he knows that they are really worth $2.20 there might be an opportunity to purchase them and pick up the other 20c some where else.

The market participants who operate in the market every day have the most knowledge. Those people are the meat processors. Hiding that knowledge from the participants who operate in the market from time to time (the farmers) is anti competitive.

So in the interests of having a transparent, efficient market place that can send reasonably accurate price signals and maximize the competition pre sale weighing is essential.

In Victoria we had a uniform Code of Practice for Live Weight Selling right across the State. The Live Weight Selling Code of Practice ensured that the procedures relating to time of arrival and time off feed were as uniform as possible right across the State. This meant that market reports between different Selling Centers were comparable and reliable. This was all designed to make the livestock market as transparent and competitive as possible. This is no longer the case. We now have different systems in different selling centers across Victoria.

We have seen Export Meat Processors use their market power to break down this code every time a new set of Sale Yards has opened. Opening of the new North Eastern Victorian Livestock Exchange at Barnawartha was the most recent example.

Post Sale Weighing should be banned.

The way in which Livestock Agents Operate.

Livestock Agents are commission agents. They take a commission from the sale proceeds from the vendor. Their real customer is the vendor and they are supposed to work for the best interests of the person who is paying them their commission.

Yet many Agents will tell you in private that their real customers are the buyers. Agents capitulating to pressure from buyers to change the rules in a selling system with no reference to their real customers (farmers who pay their commission) raises some serious questions as to their business ethics. This was the case at Banawartha and every other selling system in Victoria where the code of practice was over turned in the face of pressure from meat buyers.

I have also seen many instances where Livestock Agents represent people on both sides of the transaction. I had a case where an Elders agent came to my farm to buy some cows for a client of his and wanted to take commission from my proceeds. I refused point blank. This was a very clear case of an Agent operating on both sides of the transaction and this in my view is very unethical. Agents should be banned from operating on both sides of the transaction

The cost of doing business.

In the last 10 year farmers have seen the cost of running their business double and at the same time the returns for livestock and wool has remained constant or declined. The cost of doing business is our biggest problem. If Government wants us to be able to compete in world markets, make a profit and reinvest that in our business to generate wealth and employment in our country then reducing input costs should be a very high priority. Some areas that could be addressed very easily are as follows.

Fuel tax should be abolished. This is a tax that discriminates against the productive sector and people in regional and remote areas and is deeply embedded into the cost of every input and product.

Shire rates have doubled in the last decade for no increase in service provided. Shire rates on Farm Land is the most inequitable tax there is in this country and farm land should be exempt from shire rates because farm land does not use Local Government services.

Labour costs. Labour costs more than it's value. Once again this is a cost that is built into every input and product. We have work for a full time Labour unit on our farm but when it is going to cost us considerably more than what we can afford to pay our selves we are never going to hire someone. Add to that the huge risk that is associated with becoming an employer the business strategy is to avoid employing labour. Employment Law and pay rates need to be reformed.

The net effect of the massive increases in the cost of running the business is that big cuts have been made to productive inputs and capital investment. There are serious long term flow on from this in lower productivity less employment beyond the farm gate and less export income generated.

Farmers pay increases in input costs twice. Farmers pay higher labour and input costs then buyers of our livestock move to protect their margins by passing back to us the increases in their input costs. That is they drive down the price they pay for cattle. Meat exporters are price takers and have no ability to pass on high labour and other input costs to overseas customers.

Cattle prices in the USA are always considerably higher than in Australia because the cost of processing a beast in the USA is about half of what it is in Australia. This means that every time we sell a container of beef to the USA we export a considerable amount of the profit with it. That is capital that is not being re invested in the Australian industry.

The effect of Market Consolidation in the processing Sector.

The 2 biggest meat processors control 49% of the market post the JBS takeover of Primo. Such a big percentage of the market in the hands of only 2 players is not the way to maximize competition in the market place.

This might have something to do with the way processor margins have grown in recent years. I would like to refer to page 2 of the Victorian Farmers Livestock Group Stock Standard page 2. Data from Meat and Livestock Australia shown here demonstrates how the processor margin between the price paid for medium cows price index and the price for 90 CL (90% chemical lean beef mince) has risen from 70c a Kg in 2009 to 279c in 2014.

As a cattle producer it has been very frustrating and even insulting to be receiving very low prices when we know that the export demand and price for our beef is breaking new records. I would also like to refer to “The History of Cattle Prices since 1970” *MLA March 2015*. Figure 1 in this document shows a graph of real cattle prices since the 1970’s. The graph shows a long down term trend. While nominal cattle prices might seem high now with the Eastern Young Cattle Indicator at 438.75 cents on the 16th April 2015 it would have to be more like 700 cents to match the price in the 1970’s.

Agriculture is the growth industry of the future. Government policy should be designed so as to make Australian Farmers very competitive on the world market. This will lead to long term wealth creation and economic growth for our country.