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Hunt Blog Newsletter

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Grass Fed Cattle Levy Senate Inquiry Recommendations and Price Transparency in the Australian Beef Industry

Senate Inquiry Recommendations

The release of the Seven Recommendations arising from the Senate Inquiry into grass-fed cattle levy funded structures and systems last year was a watershed moment in the long debate over the changes that need to be made to the grass fed cattle organisational structures to meet the needs of the Australian grass-fed cattle industry in the 21st century.

All seven Senate Inquiry Recommendations can be accessed by clicking [here](#) or by visiting www.huntblog.com.au.

The Senators sitting on the grass fed levy funded structures and systems inquiry read the 450 submissions from all sectors of the red meat industry, listened to the evidence given by producers at the parliamentary hearings across Australia with a sensitive ear, and picked up and reported on the widespread producer concern about the functionality of the current grass fed cattle organisational structures in a true and perceptive way.

Almost every sector of Australia's red meat industry expressed dissatisfaction with some aspects of the red meat industry's current organisational structures

The adoption of all seven of the interlocking Senate Inquiry Recommendations would fundamentally address the widespread dissatisfaction with current organisational structures aired by the red meat industry during the Senate Inquiry and reshape and revitalise these current outdated structures to take the industry forward into the oncoming Asian "food bowl" century.

The Federal Government's Response

Unfortunately the Federal Government has thus far only picked up on and supported parts of three of those seven interlocking recommendations, namely:

Recommendation 1 – calls for the formation of a new grass fed cattle Peak Council ("Newco") that truly represents every Cattle Transaction Levy Payer in Australia with the authority to receive and dispense all the Cattle Transaction Levies

The Federal Government has thus far supported the Senate Inquiry's Recommendation for the formation of a new grass fed cattle representative body but

- has not yet endorsed implementation of that part of the Senate Committee's Recommendation that would allow the new body to receive and disperse all of the grass fed cattle transaction levies; although
- Agriculture Minister Barnaby Joyce has left the door open to at least part of the cattle transaction levy being allocated to Newco if at least 60% of cattle transaction levy payers vote in favour of that proposal.

The Cattle Council of Australia (CCA) the Australian Beef Association (ABA) the Australian Meat Producers Group (AMPG) and the Concerned Cattle Producers (CCP) representative bodies have all come together earlier this year in an historic consensus to agree on a new corporate structure for the grass fed cattle industry Peak Council, a corporate structure that will represent every grass fed cattle transaction levy payer in Australia and whose seven man producer board will be elected from representatives from 15 regions across Australia.

Still, it remains uncertain how the grass fed cattle industry will be able to secure the funding the establish Newco or obtain sufficient funds to carry out its functions under the current red meat industry organisational structure unless it receives some or all of the cattle transaction levy as recommended by the Senate Committee in Recommendation 1 of its Report into Grass Fed Cattle Levy Structures and Systems.

As a consequence of declining State Farm Organisation (SFO) membership, which in some states has fallen by 80% from historical levels, SFOs are all strapped for cash and the CCA, which is SFO membership fee funded, at its November 2015 AGM publically stated that

- its net reserves at the start of the current financial year were just \$276,813, almost \$300,000 below last year's already eroded figure;
- CCA had "hit rock bottom in terms of finances", and an alternative long-term funding solution was required if it was to be sustainable; and
- CCA was surviving but did not have the funds to pull any major fights off or to bring in consultants to manage a critical issue should it arise.

Recommendation 2 – calls for the identification of Grass Fed Cattle Transaction Levy Payers for the purposes of voting rights for the new Grass Fed Cattle Peak Council and Meat and Livestock Australia (MLA)

This review has been undertaken by MLA and the results and recommendations from that review can be found in the MLA Final Report on the process for registering and determining voting entitlements published in September this year. This can be accessed on www.huntblog.com.au.

Recommendation 7 – calls for an analysis be undertaken of the benefits, costs and consequences of introducing legislation in Australia akin to the Packers and Stockyards Act 1921 and Livestock Mandatory Reporting Act 1999 to ensure true market price transparency for Australia's Grass Fed Cattle Producers

The seventh and final Recommendation of the Senate Standing Committee on Rural and Regional Affairs and Transport arising from the Senate Inquiry into Grass Fed Cattle Levy Industry Structures and Systems seems to have garnered the least attention from the industry.

The Need for Reform of Australia's Mandatory Price Reporting Systems

Australia's current cattle price indices are derived from saleyard prices but currently less than 30% of cattle slaughtered in Australia each year are sold through saleyards. Indeed the largest meat processors are buying over 80% of their cattle through direct consignment from producers.

Consequently Australian producers or their service provider companies such as MLA, unlike their American counterparts, have no idea of the price that meat processors are receiving for Australian beef product and therefore have no real platform to assess and review the percentage of the retail dollar that Australian cattle producers receive from each carcass vis a vis their American counterparts.

In a range of submissions to the Grass Fed Cattle Levy Funded Systems and Structures Senate Inquiry and the Processor Power Senate Inquiry, Australian cattle producers have broadly expressed concern that they receive a disproportionately small margin of the end retail dollar for a beast partly as a result of the lack of information regarding profits and margins along the beef supply chain.

Most of the evidence which was presented to the Senate Committee highlighted the lack of transparency in relation to cattle pricing and the need for a level market playing field. In light of factors including the diversity of product coming out of the farm gate, increasing focus on export markets, consolidation of the processing sector and the extent to which there is genuine competition at stockyards, producers are unable to clearly follow the path of the supply chain.

The view was put to the both the grass fed and the processor power Senate Committees that a legislative mechanism to require disclosure of the farm-to-wholesale as well as wholesale to retail prices could improve competitiveness in the livestock market. Supporters of price transparency argued that a system which establishes the true price of the cattle market by requiring transparency in market reporting, underpinned by the prospect of investigation into anti-competitive behaviour, has the potential to improve industry profitability.

The U.S. *Packers and Stockyards Act* and *Livestock Mandatory Price Reporting Act*

U.S. Packers and Stockyards Act

According to the U.S. Federal Government, the purpose of the *Packers and Stockyards Act* is to ‘assure fair competition and fair trade practices, to safeguard farmers and ranchers... to protect consumers... and to protect members of the livestock, meat and poultry industries from unfair, deceptive, unjustly discriminatory and monopolistic practices.’

The *Packers and Stockyards Act* was introduced in 1921 after decades of openly anti-competitive behaviour by the five largest American meat processors, which controlled and manipulated the beef processing market. However, market concentration continued to increase in the U.S. beef packing industry throughout the rest of the 20th century. *U.S. Livestock Mandatory Price Reporting Act*

The increase in processor concentration and the trend towards producers selling to processors through forward contracts caused the U.S. Congress to pass the *Livestock Mandatory Price Reporting Act* in 1999. The *Livestock Mandatory Price Reporting Act* establishes a program of information regarding the marketing of cattle and other livestock products that:

- provides information that can be readily understood by producers, packers, and other market participants, including information with respect to the pricing, contracting for purchase, and supply and demand conditions for livestock, livestock production, and livestock products;
- improves the price and supply reporting services of the U.S. Department of Agriculture (USDA); and
- encourages competition in the marketplace for livestock and livestock products.

USDA Mandatory Price Reporting

Once the packers inform the USDA of the prices they pay livestock producers for cattle, hogs and lambs as well as the prices they receive for wholesale meat cuts, the USDA then publishes reports that detail the dealings between livestock producers and meat packers to highlight to producers exactly where the money flowing through the industry’s supply chain is going. The *Livestock Mandatory Price Reporting Act* was reauthorised by Congress in September of this year as the *Mandatory Livestock Reporting Act of 2015* under a process in the United States whereby existing legislation is subject to review after five years.

U.S. Mandatory Price Reporting Benefits

The benefits of the U.S. *Livestock Mandatory Price Reporting Act* are regular and transparent price reporting. In the United States, processors are required to report on a daily basis – or sometimes more often than a daily basis – prices both for livestock and for beef, adding to the market’s knowledge on price discovery.

The Government's Review of Supply Chain Price Transparency

Agriculture Minister Barnaby Joyce acknowledged the importance of supply chain price transparency in his opinion piece which was published in Beef Central on 15 July 2015, following the publication of the Senate Committee's findings.

In 2014 MLA commissioned the consultancy firm AGINFO to investigate the issue of price transparency in the beef supply chain. AGINFO published a shortlist of options for achieving greater price transparency in August 2015, which fall into three broad categories:

- mandatory price reporting;
- voluntary price reporting; and
- enhancement of existing market intelligence services.

The Applicability of U.S. Mandatory Livestock and Beef Price Reporting Legislation to the Australian Beef Industry

Arguments For and Against the Introduction of Mandatory Price Reporting Legislation in Australia

Australia's two largest beef processors, Swifts and Teys/Cargill, are subject to the U.S. *Packers and Stockyards Act* and *Mandatory Price Reporting* legislation in their U.S. operations and presumably would not object to complying with similar legislation in Australia. At least one other Australian-owned major beef processor has also publically indicated that it would have no objection to mandatory beef and livestock price reporting in Australia.

On the other hand, MLA CEO Richard Norton raised a number of potential issues regarding the introduction of livestock and beef price transparency legislation in Australia when he spoke to 300 cattle producers at the producer forum in Biloela, Central Queensland on 13 October 2015.

Relevance of Export or Domestic Market Focus on Mandatory Price Reporting

Mr Norton argued that the American system of livestock mandatory price reporting may be difficult to implement in Australia due to the fact that the U.S. beef market is heavily domestically-focused, being about 85% dependent on its domestic market while Australia exports about 70% of its beef product. This comment however does not seem to be relevant for the purpose of the discussion on introducing livestock mandatory price reporting in Australia. From a producer's perspective, cattle prices paid by processors are cattle prices irrespective of whether the product from those cattle is sold onto the domestic or export market, and beef prices are beef prices irrespective of whether the processor sells the beef on the domestic market or the export market.

Mr Norton has also pointed to the fact that the requirement for US processors to report on export beef prices is voluntary but the reporting deficiency does not fundamentally undermine US mandatory reporting price indices because the US only export about 15 % of their beef production and all domestic livestock and beef sale prices are subject to mandatory reporting.. Conversely there is no mandatory or voluntary reporting of Australian beef prices and Australian livestock price reporting is limited to price information collated from a limited number of saleyards and less than 30% of cattle slaughtered in Australia each year are purchased through saleyards.

Effect of Mandatory Price Reporting on Current Market Price Indices

Richard Norton also expressed concerns that to meet the budgetary constraints that would apply if a truly comprehensive livestock price transparency reporting model was introduced in Australia, traditional market reporting, based on prices received from 60 Australian saleyards and indices such as the Eastern Young Cattle Indicator (EYCI), may need to be cut. However, the reality is that a comprehensive livestock and beef mandatory price transparency model would provide sufficient comprehensive market information coverage to producers and the current market information provided by MLA would no longer be required.

Who Should Pick Up the Tab for Australian Mandatory Livestock Price Reporting?

Richard Norton's concerns about the potential budgetary constraints arising from the introduction of livestock mandatory price reporting legislation in Australia does however raise a more valid point. The costs of the price

reporting mechanisms in the United States run into the millions of dollars, but these costs are picked up entirely by the U.S. government. Based on the trend in the regulation of the Australian cattle industry and the additional government-imposed costs which have been placed on producers since 2001, it is probably not realistic to expect that the Australian Federal Government will pick up the costs of such a system if it is implemented in this country.

Cost Benefit of Mandatory Price Reporting

Even if an Australian livestock mandatory price reporting system is implemented for the Australian cattle industry on a 'user pays' basis, it would however most likely result in a net benefit to the sector in this country. A cost-benefit analysis conducted by the USDA to assess the effects of mandatory market information reporting on the operation of U.S. agricultural markets found that the mandatory reporting system resulted in substantial cost benefit gains to livestock sellers, meat packers, and – ultimately – consumers, all of whom benefit from having more information on prices.

Further, the costs of operating a mandatory price reporting system in Australia would be substantially less than the cost of the American system. The Congressional Budget Office has estimated that the cost of the *Mandatory Livestock Reporting Act of 2015* over the 2016-2020 period will be US\$36 million, or an average of US\$9 million for each year. At current exchange rates, this is equivalent to approximately AU\$12.63 million per year. The value of U.S. cattle and calf production was US\$48.5 billion in 2013, compared to US\$7.4 billion in the same year in Australia. On a proportionate basis, the cost per year of implementing such a system in Australia would be only around AU\$1.93 million, which would more realistically be rounded up to \$2.5 million to account for the reduced economies of scale of the smaller Australian market.

Ongoing costs in Australia could be further reduced by reducing the mandatory price reporting requirement from once or twice per day to only once per week. The monies saved by MLA by abolishing the existing sale yard and EYCI reporting mechanisms (which, as explained above, would no longer be needed) could be applied by MLA to the publishing of the market information collated by the Department of Agriculture under the mandatory price reporting legislation.

Competitive Advantage of Price Transparency

Other stakeholders have also expressed concerns that a price transparency mechanism could put the Australian beef industry at risk of losing its competitive advantage by giving away commercially confidential information about how much product the country is producing and at what cost. This does not seem to be a major issue that would hinder the effectiveness of a price transparency initiative as information on the export price of Australian beef is currently freely obtainable by prospective overseas buyers and the market price information would not include information with respect to the cost of production from individual processors.

Further, the Department of Agriculture would be the recipient of all price reporting from individual processors which would then be collated by the Department into a whole of industry report that would ensure commercial in confidence of particular abattoir pricing information.

Transfer Pricing and Tax Avoidance

In addition to presenting benefits for cattle producers, information obtained from a mandatory livestock price reporting system could also be used by the Australian Taxation Office to investigate transfer pricing tax avoidance.

Conclusion

It seems to HuntBlog that the evidence suggests that the introduction of a mandatory livestock price reporting system could be highly beneficial for all participants in the Australian beef industry. We encourage all HuntBlog readers to write to their Federal Member of Parliament and the members of the Senate Committee on Rural and Regional Affairs and Transport and encourage them to voice support for the implementation of Recommendation 7 of the Senate Inquiry.

Please visit www.huntblog.com.au for further information and commentary on Australian cattle reform issues.