milestone report

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Prepared by: AgInfo Pty Ltd

Team members: Peter Weeks (Weeks Consulting Services Pty Ltd), Winifred Perkins (Profaned Associates Pty Ltd) and David Warriner (DMGM Pty Ltd)

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Meat and Livestock Australia Limited

Locked Bag 991

NORTH SYDNEY NSW 2059

Assessment of price transparency in the beef supply chain

Milestone 2: Learning from systems in the US, Canada and other markets

Milestone 3: Assessment of cattle/beef supply chain transparency in Australia

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Abstract

Milestone 2 Summary price reporting systems overseas

A review was conducted of price reporting systems available in other comparable major beef producing / exporting countries, especially the US but also in a range of other countries.

The United States has a good wholesale and retail price transparency system as part of the Mandatory Pricing Reporting system, which is well accepted by the full cross section of producers, including cow calf producers and lot feeders.

Research into the background and operation of the US Mandatory Price Reporting System and responses from a range of industry and government operatives indicates that it has improved producer decision making and marketing options, though any direct impact on price is harder to find. However given the array of opportunities new information may present, this could change. US producers were not individually or specifically asked if they had personally gained financial benefit due to better information provided by MPR.

For the other countries examined, beef and cattle price transparency appears to be better in Brazil and Canada than in Australia, due to both the existence of reporting on direct-to-works cattle sale prices collected from producers and some wholesale price reporting.

However, in New Zealand, Great Britain or Ireland there was no evidence to suggest that the cattle and beef value chain have a higher degree of transparency compared to that which exists in Australia.

Milestone 3: Australian beef and cattle price transparency

The price transparency at every stage of typical cattle/beef supply chains in Australia was examined. This involved a review of existing market information sources and interviewing cattle producers, agents and cattle buyers. It was found that for a small group of producers who either knew how to obtain information through their network, or were experienced in business down the supply chain, they had access to a lot more information than the average. However, even these producers were not entirely satisfied with the quality of information that is public and relied on their networks more than anything. For cattle transactions, transparency is variable, with generally good transparency for cattle sold predominantly through auction markets, especially young ‘butcher’ steers and heifers plus cull cows and bulls.

However, transparency is sometimes poor for cattle sold direct to processors, live exporters or end users – notably for medium to heavy steers, northern live export cattle and supermarket cattle.

Hence, beef chain price transparency is poor for the beef export trade to Japan, Korea, EU and other specialised HQ beef markets (medium to heavy grown steers and heifers); for domestic supermarket programs of the two main retail chains; cattle for the European Union (HGP-free & other) and for the live cattle trade.

EXECUTIVE SUMMARY

Milestone 2 Summary price reporting systems overseas

The United States has a good wholesale and retail price transparency system as part of the Mandatory Pricing Reporting system, which is well accepted by the full cross section of producers, including cow calf producers and lot feeders. The North American Meat Institute, representing large and small beef packers and processors, has moved from an initial position of opposing mandatory price reporting to now stating that its members are generally favourable towards the system and its role in the marketplace.

Research into the background and operation of the US Mandatory Price Reporting System and responses from a range of industry and government operatives indicates that it has improved producer decision making and marketing options, though any direct impact on price is harder to find. It is also used by the Chicago Mercantile Exchange as a basis for the live cattle futures contracts and by buyers and sellers in cattle sale basis contracts or formula pricing.

There is a high level of support for the system, with a medium to high level of satisfaction with the integrity of the data under the system, its reliability, the detail and presentation of results by USDA (and others) and the USDA administration of the system, including confidentiality.

Its widespread use by both producers and processors suggests that the program's existence has improved the operation and stability of cattle and beef markets, probably to the benefit of all parties. It has also served to prove that packers are not cooperating with each other on prices against producers and has caused producer concerns about 'fair pricing' to recede.

Apart from the US, information was also collected on price transparency in the beef supply chains in Canada, Brazil, New Zealand, Great Britain and Ireland. None of these have mandatory price reporting. Producer sensitivity to fair value for cattle was identified in three of these countries in recent years: Ireland, New Zealand and Great Britain.

Overall, beef and cattle price transparency appears to be better in Brazil and Canada than in Australia, due to both the existence of reporting on direct-to-works cattle sale prices collected from producers and some wholesale price reporting.

However, based on information available, there is no evidence to suggest that the cattle and beef value chain has a higher degree of transparency in New Zealand, Great Britain or Ireland compared to that which exists in Australia.

Milestone 3: Australian cattle and beef price transparency

While there is a fair degree of transparency in cattle prices and transactions in Australia, there is poor beef price transparency in wholesale markets and retail markets. Beef price transparency, as it applies to wholesale, retail and export markets, is assessed to be unacceptably low from a cattle producer's perspective.

Beef chain price transparency is poor for medium to heavy grown steers and heifers for export markets; for domestic supermarket programs of the two main retail chains; cattle for the European Union and other specialised HQ beef markets (HGP-free & other) and for the live cattle trade. All these trades have limited transparency for cattle sales (as most are sold direct-to-works or live cattle exporter) and at the consumer or end user level, in addition to the non-existent transparency at the wholesale level that is a feature of all beef supply chains in Australia.

There is better transparency (though still only moderate overall) for cattle targeting domestic retail (other than the two main supermarkets) and foodservice pathways for chilled beef (MSA and non-MSA) and for cull cows/bulls primarily processed for manufacturing beef. These supply chains have well-reported cattle auction trades in most states and regions (by the National Livestock Reporting Service) providing good transparency at the cattle level and some price reporting at the exporter/butcher level.

While there is no price reporting for beef at wholesale, and little further down the chain, switched-on producers can obtain some feel for movement in export or domestic beef chain value by accessing the wide array of market reports provided mainly by MLA, ABARES, Beef Central, agents, rural radio and television programs, weekly rural newspapers and the handful of small commercial marketing service providers. In the main, however, these producers usually have networks that they use to accurately assess the veracity of this information.

However, even the provision of market information in Australia is seen as inferior to that available to cattle producers in most competitor countries, especially in the US, Canada and Brazil, and generally not at a good enough level to assist greatly with on-farm investment decisions. In part, this probably reflects the lack of forward contract and derivative markets in this country: these hedge tools directly assist in investment and marketing decisions in the US and Brazil and have given rise to vibrant commercial market intelligence communities in these countries.

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Abbreviations

ABBREVIATIONS	
ABARES	Australian Bureau of Agricultural & Resource Economics and Sciences
ABS	Australian Bureau of Statistics
AHECC	Australian Harmonized Export Commodity Classification
AMA	Alternative Marketing Arrangement (USA)
AMS	Agricultural Marketing Service, USDA
ASCII	American Standard Code for Information Interchange
AQIS	Australian Quarantine and Inspection Service
BA	Biosecurity Australia
BBC	Boxed beef cut-out - represents the estimated value of a beef carcase based on prices paid for individual beef items derived from the carcase
CEPEA	Centre for Advanced Studies in Applied Economics (Brazil)
CIF	Cost, insurance and freight included
CME	Chicago Mercantile Exchange
CW	Carcase weight
cwt	One hundred weight i.e. 100 lbs or approx. 45.3 kilograms
DA	Department of Agriculture
ESCAS	Exporter Supply Chain Assurance System
EU	European Union
FAS	Free alongside (consignment delivered to ship's side)
FOB	Free on board (consignment over the ship's rail)
GIPSA	USDA Grain Inspection, Packers & Stockyards Administration
HGP	Hormone growth promotants
HSCW	Hot standard carcase weight

ABBREVIATIONS	
IMPS	Institutional Meat Purchase Specifications
Kg	kilogram
LMR	USA livestock market reporting
lb	pound
LW	Liveweight
LIVEX	Live export
MERCOSUR	South American sub-regional trading bloc comprising Argentina, Brazil, Paraguay, Uruguay and Venezuela
MLA	Meat and Livestock Australia
MPR	Mandatory Price Reporting System (US)
mt	Metric tonnes
NCBA	National Cattlemen's Beef Association (US)
NLRS	National Livestock Reporting Service
OIE	World Organisation for Animal Health
OTH	Over the Hooks
QDAFF	Queensland Department of Agriculture & Fisheries
QSR	Quick Service Restaurant
USDA	United States Department of Agriculture

Acknowledgements

The study team gratefully acknowledge the cooperation and assistance of producers, processors and farming groups who provided information and perspectives about their section of the cattle and beef value chain in Australia or overseas.

1 Milestones 2 & 3 achievement criteria

1.1 Milestone 2: Price reporting systems overseas

Review price reporting systems available in other comparable major beef producing / exporting countries. In particular, investigate whether the US mandatory price and cut-out value information has improved producer decision making, marketing options, or prices through a review of any related studies and interviews with key buyers, sellers and their representatives and US livestock market intelligence providers. This will include review and assessment of USDA Packers and Stockyards Administration.

Obtain details on the regulations, cost and operational details of the US price reporting and competition regulations for use in detailed cost benefit analysis if required.

Submit report what can be learnt from systems in the US, Canada and other markets.

1.2 Milestone 3: Australian beef and cattle price transparency

Investigate the extent of price transparency at every stage of typical cattle/beef supply chains in Australia. This would involve reviewing existing market information sources and contacting existing information providers. It would also involve interviewing / surveying cattle producers (with the survey sample providing confidence that results are representative of producers as a whole), agents and cattle buyers (processors, live exporters, etc.) to analyse the current extent of transparency and likely benefits of improved transparency.

Submit report on assessment of cattle/beef price transparency in Australia.

2 Background

The Cattle Council of Australia (CCA) requested that MLA analyse possible options for increasing price transparency in the beef supply chain, including the benefits and costs of introducing mandatory price reporting arrangements in Australia, similar to those operating in the United States.

Currently a range of market information is provided to producers through MLA, ABARES and private service providers. Information currently available to producers includes saleyard prices and volumes, slaughter numbers, over the hooks prices and beef prices.

The CCA request also incorporated Recommendation 7 of Parliament of Australia Senate Committee Report on Grass fed beef levies of September 2014[1]:

“The committee recommends that the Department of Agriculture, in consultation with the cattle industry, conduct an analysis of the benefits, costs and consequences of introducing legislation

[1] The Senate Rural and Regional Affairs and Transport References Committee*, Industry structures and systems governing levies on grass-fed cattle,* September 2014

akin to the Packers and Stockyards Act 1921 and Livestock Mandatory Price Reporting Act 1999." (Page 86)

Under 'Transparency in pricing and trade practices' section of its report the Senate Rural and Regional Affairs and Transport References Committee[2] stated:

"6.27 Considerable evidence to the committee highlighted producers' concerns that they receive a disproportionately small margin of the end retail dollar for a beast. The inquiry brought to the fore the lack of information that producers have regarding profits and margins along the beef supply chain. Low producer returns, coupled with a concentration of retail and processor control, have encouraged debate on whether greater transparency in cattle pricing and processor profit margins is now required." (Page 73)

"6.40 Considerable evidence to the 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, there is little scope for producers to establish a clear line of sight along the supply chain. For a producer, the beef pricing system is opaque." (Page 75)

This project aims to assess whether there is a lack of price transparency in the beef supply chain and, if so, identify points in the supply chain where greater price transparency is needed to provide clear price signals to producers to inform their production and marketing decision making and improve farm gate returns.

It will explore the costs and benefits of options to improve price transparency, including mandatory price reporting.

3 Project objectives

3.1 Assess transparency

Assess the transparency of prices in the beef supply chain and identify any gaps in market information requirements of grass fed cattle producers, using ABARES publications, MLA reports, services provided by private operators and customer research where required.

3.2 Identify gaps

Identify specific points in the supply chain where price transparency could be improved to the advantage of producers. The project will identify how improved price transparency might impact on farm gate returns.

3.3 Outline options

Outline options to address any price transparency issues identified. Consider price reporting and competition regulation arrangements as they apply in the United States as one option.

[2] The Senate Rural and Regional Affairs and Transport References Committee, *Industry structures and systems governing levies on grass-fed cattle*, September 2014

Assess and advise on other possible mechanisms to improve price transparency, such as development of new marketing channels for producers, collection and reporting of new information and reporting of new analysis such as yield or 'cut-out' value estimates. This should include before sales and post sales options.

3.4 Recommend options for cost benefit analysis

In consultation with the project management committee, identify preferred options to conduct a cost-benefit analysis focused on potential change in farm gate returns. Regulatory, supply chain and industry levy costs of the options should be identified, as well as the positives and negatives of the system on price realisation and marketing options.

4 Methodology

4.1 Assessing transparency in Australian cattle/beef prices

An assessment of price transparency was made across a range of typical Australian cattle/beef supply chains. This was accomplished by:

- reviewing all current price data/price information services available in Australia and contacting information providers;
- comparing these to major services available in other major beef producing/exporting countries;
- interviewing participants in cattle/beef supply chains, particularly cattle producers; and
- from these interviews drawing conclusions on the extent and impact of any lack of price transparency.

The consultants assessed the degree of price transparency at different points along typical supply chains by interviewing buyers and sellers at each major stage. The crucial question posed was: are prices on offer and actual sales prices available to parties outside the transaction? In this instance, are they available in a form cattle producers could use to assess the state of demand and 'underlying' or 'real' value of their cattle (review of price availability)?

4.2 Systems operating in other countries, particularly the United States

Details were obtained on the regulations, cost and operational details of the US price reporting and competition regulations.

The consultant investigated whether the US mandatory price and cut-out value information has improved producer's decisions and prices through a review of related studies and interviews with key buyers, sellers and their representatives and US livestock market intelligence providers. This included review and assessment of USDA Packers and Stockyards Administration.

The project team also reviewed schemes such as CANFAX in Canada, plus corresponding systems in Ireland, Brazil, Great Britain and New Zealand.

4.3 Terms and definitions

This project is all about **price transparency**: is the actual price of cattle and the products derived from cattle (primarily beef and co-products) well known through every stage of the supply chain (from farm gate to consumer purchase)? As price means little without volume, weight, type and quality descriptors, the addition of these introduces the idea of "market transparency."

While this project is not about the efficiency of **price discovery** (the process by which the price of cattle, and the products derived from cattle, is arrived at), per se, price discovery needs to be discussed, as it is concerns over price discovery that has led to this research. Better price discovery through more transparent pricing is the desired outcome of this project (see Canadian paper entitled: *Price Discovery Task Force Price Discovery Report* July 31 2014).

However, it is not intended to research in any depth, or suggest solutions for, the factors behind these price discovery concerns (other than a lack of price transparency), which were regularly raised by respondents. These 'other' factors are likely to include market structure, market location, buyer competitiveness, concentration of buyer ownership, market behaviour, buyer collusion and futures/other risk management.

Price reporting can be defined as the collection, compilation and public release of prices that product is being sold for. It can, however, be prices on offer (offer prices) by a buyer or seller (e.g., cattle over-the-hooks or grid), in which case they may understate (buyer offer prices) or overstate (seller offer prices) the actual price that the product was transacted for.

MLA's National Livestock Reporting Service (NLRS) is a classic example of a price reporting agency, collecting, compiling and distributing publically both actual cattle prices in the case of cattle auction prices and offer prices in the case of over-the-hooks price quotes.

Market reporting can be defined as the collection, compilation, manipulation, analysis and public distribution of the influences on a market and market prices – such as the number and behaviour of buyers and sellers in the market, the strength of demand or volume supplies, the factors driving demand or supply for the product etc. In the Australian cattle industry, the MLA is the classic dedicated market reporting body, although ABARES and Beef Central also contribute to available cattle market reporting.

Market intelligence adds another dimension in combining data with analysis that is tailored to assist in company decision making. This need not be publically reported and can be limited to the company concerned. MLA aims to tailor its market reporting and analysis well enough to assist producer decision making, but its resources and industry-wide focus limits its ability and willingness to venture far into this field. It is commercial services that better provide such services, such as Mecardo.

Fair value is defined as producers receiving a fair share of the export or domestic retail price paid for beef – a share commensurate with the relative effort and costs of producing cattle relative to other stages along the supply chain. This term was prominent in the recent Senate hearings and in producer concerns about price transparency.

5 Review of existing price reporting systems in international markets

This section of the report looks at price reporting systems in several international industries that compete with Australian beef products in third country markets.

5.1 United States of America

Mandatory price reporting (MPR) was introduced in the United States (US) industry in 1999 largely as a result of pressure from the cattle and hog industries on federal lawmakers to investigate and respond to sustained low livestock prices which were evident across all categories and regions. It also followed an intensive period of consolidation in the slaughter sector which contributed to producers' unease about the low prices on offer and the lack of transparency about feeder and packer margins.

Approximately 32.4 million head of cattle were slaughtered under federal inspection (F.I.) in 2012 and the resulting information about prices and volumes of cattle purchases and boxed beef sales is readily accessible through the website of the Agricultural Marketing Service (AMS) of the USDA. In 2012 there were 627 beef plants under federal inspection..

The main driver behind the regulatory action taken through the introduction of MPR appears to have been the effect of structural change in the industry as well as an ongoing shift away from physical markets (or the spot market, where livestock are bought for cash and delivered immediately) to formula pricing (where the seller and buyer agree in advance on the price to be paid for a product delivered in the future, based upon a pre-determined calculation). The Federal Register notes on the MPR framework that, increasingly, "transactions between livestock producers and meat packers have occurred by way of private negotiations rather than through public trades." [3] Compared to prices established in public markets, prices established in private transactions are difficult for other parties to observe, collect, summarize or analyse and also to disseminate to other suppliers.

Data from USDA's Grain Inspection, Packers and Stockyards Administration (GIPSA) indicated that the total share of cattle purchased in public markets had declined during the period 1977-1997. This trend has been even more pronounced in the pork and lamb industries over the same period.

At the same time, substantial consolidation has occurred in both the livestock production and meat packing industries since the 1970s. The four-firm concentration ratio for steer and heifer slaughter increased from 35.7 percent in 1980 to 81.1 percent in 2004. [4] Over the same period, the four-firm concentration ratio for cow and bull slaughter increased from 9.7 percent to 48.0 percent. By comparison, USDA data indicates that the number of cattle operations in the US declined from 1.6 million units in 1980 to around 729,000 holdings in 2012.

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[3] Federal Register. Final Rule. May 16, 2008. 7 CFR Part 59.

[4] American Meat Institute. *Meat and Poultry Facts*. 2011.

These factors were among those cited by farm lobby groups in insisting that the federal government introduce regulatory measures to ensure better price transparency for producers. Prior to the passage of the 1999 Act, some States had introduced legislation requiring packers to report market information on transactions of cattle, swine, and lambs. However, all these programs have been superseded with the national program implemented in 2001. As well there had been ongoing voluntary price and volume reporting by packers to the USDA in the previous decades, but some industry players were uncertain about the integrity of the data given that a high volume of purchases was not being recorded.

5.1.1 Price reporting background

The Livestock Mandatory Price Reporting Act was passed by the US Congress in 1999 and implemented on 2 April 2001. It has now been in force for almost 15 years, having been re-authorised in 2004, 2006 and 2010 and modified twice in those years. The current expiry date of the legislation is 30 September 2015 and the Act is expected to be re-authorised around that time. The Act covers the following categories: cattle, swine, lamb, boxed beef, boxed pork and boxed lamb: this report discusses cattle and boxed beef only.

MPR is administered through the Agricultural Marketing Service, a division of the USDA, whose mission is to facilitate the strategic marketing of US agricultural products in domestic and international markets, while also ensuring fair trading practices and promoting a competitive and efficient marketplace for the benefit of producers, traders and consumers.

AMS administers programs that enhance the marketing and distribution of agricultural products including a vast production and price reporting service covering a wide range of agricultural commodities and products; development of commodity grade standards; protection of producers from unfair marketing practices; statistical sampling and analysis of commodities for pesticide residues; development and enforcement of organic standards; and research and technical assistance aimed at improving efficiency of food marketing and distribution.

The current Department budget proposes $US34 million for Market News to support the continuation of data collection and reporting of commodity information.

The purpose of the MPR legislation as described in the Act was to:

- provide information that could be readily understood by producers, packers [processors], and other parties about pricing, contracting for purchase and supply and demand conditions for livestock and livestock products;
- improve the price and supply reporting services of the USDA; and
- encourage competition in the marketplace for livestock and livestock products.

5.1.2 Overview of the MPR

The 1999 Act and subsequent amendments provides for the mandatory reporting of specific market information by federally inspected livestock processing plants (termed “packers” in the regulations) that have an annual average slaughter rate over a five-year period of 125,000 cattle. New plants, or plants which had been shut for a time, might still fall into this category based upon AMS projections about the plant’s annual slaughter capacity; or if considered by the

Secretary of the Department to be a relevant packer based on plant capacity. In 2012 federally inspected (FI) plants were responsible for around 98.4% of all cattle slaughtering in the US.

5.1.3 Information required under MPR

Packers that are subject to MPR rules must provide information to AMS about their cattle purchases and about their boxed beef sales. Cattle included in the MPR comprise fed steers and heifers, cows, bulls and all categories of fed dairy steers and heifers. Electronic reporting is required under the scheme and involves the transfer of data from a packer's electronic record keeping system to a central AMS database. This data is then aggregated with other data and processed into market reports and released by AMS.

MPR requires packers to provide:

1. the prices for each type of cattle purchase (negotiated purchase, formula marketing arrangement, and forward contract, disaggregated by imported cattle and domestic cattle);
2. the quantity of cattle purchased on a live weight basis and the quantity purchased on a dressed weight basis; and
3. a range of the estimated live weights, the quality grades, and applicable premiums and discounts as well as the terms of trade (e.g. packer-provided financing agreements or arrangements).

Quality grades referred to in the regulations cover USDA Choice and USDA Prime (together these total 76% of total gradings). Packer-owned cattle are not included in the system (these are cattle that a packer owns for at least 14 days immediately prior to slaughter).

Packers must provide the information to AMS twice a day and the AMS is bound to report the results to the public in a summarised form at least three times a day.[5] This effectively provides a clear picture of the number of cattle moving through the slaughter system, the prices for the cattle and a means of reconciling the information against the type of purchase.

5.1.4 Relevant cattle purchases

The Act defines three types of cattle purchase which are subject to MPR:

1. Negotiated contract - this covers a cash or spot market purchase by a packer of livestock from a producer under which the base price for the livestock is determined by buyer-seller interaction and agreement on a day; livestock are scheduled for delivery to the packer within 15 days after the agreement. This method of purchase includes grid purchases, saleyards, online auctions, direct sales and the like;

[5] Earlier provisions for packers to provide weekly summary reports on livestock purchased and slaughtered in the previous week were removed in order to reduce regulatory burden on packers as this information could be inferred from other reports lodged by individual packers.

2. Formula marketing arrangement - this is defined as the advance commitment of cattle for slaughter by any means other than through a negotiated contract (see above) and using a method for calculating price in which the price is determined at a future date; and
3. Forward contract - an agreement for sale and purchase, exercised in advance of slaughter, wherein the base price is linked to prices quoted on the Chicago Mercantile Exchange (CME); or other publically available price series.

It should be noted that the price reported in method 2 above is linked to a price in the physical market (usually with a percentage premium on top); and that method 3 above is linked to a price in the futures market. .

5.1.5 Boxed beef sales

Packers must also report information to the AMS about boxed beef cut sales twice each reporting day (once before and once after 12 noon U.S. Central Time). ‘‘Boxed beef’’ is defined as fresh and frozen primals, subprimals, cuts fabricated from subprimals (with some exclusions), and fresh and frozen ground beef and boneless processing beef. This information must include the price per hundredweight (cwt), the quantity in each lot of boxed beef cuts sold, information regarding the characteristics of each lot (e.g., domestic vs. export sale, USDA Quality Grade, etc.), the corresponding Institutional Meat Purchase Specifications (IMPS)[6] reference number (3 or 4 digit), the type of beef cut and the trim specification. The AMS duly must report this information to the public twice each reporting day.

Administrative provisions in the MPR Act set out the requirements for maintaining confidentiality about proprietary information and also list the conditions under which Federal employees can release such information. In addition the USDA Secretary may make necessary adjustments in the information reported by packers and take action to verify the information reported. The Act also entails significant fines for prohibited violation of the Act, including failure to report the required information in a timely manner; failing to report accurate information; failing or refusing to comply with the requirements; and, significantly, reporting estimated information in a manner that demonstrates a pattern of significant variance when compared to the actual information that is reported for the same period.

Reporting requirements for cows and bulls were reduced somewhat in the 2008 revision of the Act and the obligation to provide summary reports on the previous week’s slaughter was abandoned as the same data could essentially be established using daily reports.

5.1.6 Industry Reporting Methods

There are two methods for meat packing plants to send the mandatory livestock data to the LMPR system. These are:

[6] Institutional Meat Purchase Specifications are a series of agreed beef, pork and lamb product specifications which are maintained by USDA and are used by large volume purchasers such as federal, state and local government agencies, restaurants, hotels, and other food service users to specify meat products.

1. LMPR Electronic Data Transfer

USDA has developed a software utility which transfers comma-delimited or ASCII data files containing mandatory livestock data directly to the USDA for aggregating into the LMPR system. Through this software, a packer creates the necessary data files using file formats built by USDA. The electronic data transfer allows the user to upload a comma-delimited data file to MPR through the plant site workstation browser, using a valid user ID and password certificate.

2. LMPR Industry Web Interface

This second method uses a web interface module and permits the meat packing plant to input and transfer mandatory price reporting data to the USDA directly through the web browser. It is available over the internet, however, the plant must have a valid user ID and password in order to upload data. (Both these systems use third party authentication and VeriSign technology.) This web interface is akin to the official USDA LMPR Livestock forms found on the MPR website. Copies of the form used to advise details of daily live cattle purchases and daily boxed beef sales are presented in this report at Appendix 11.1 and 11.2, respectively.

5.1.7 Report outcomes - cattle purchases

Having collected this pricing, quantity and quality data from packers, the USDA then must publish it in a form which does not compromise packer confidentiality and allows public users like cattle producers, traders, grain and livestock market analysts to efficiently access and read the results.

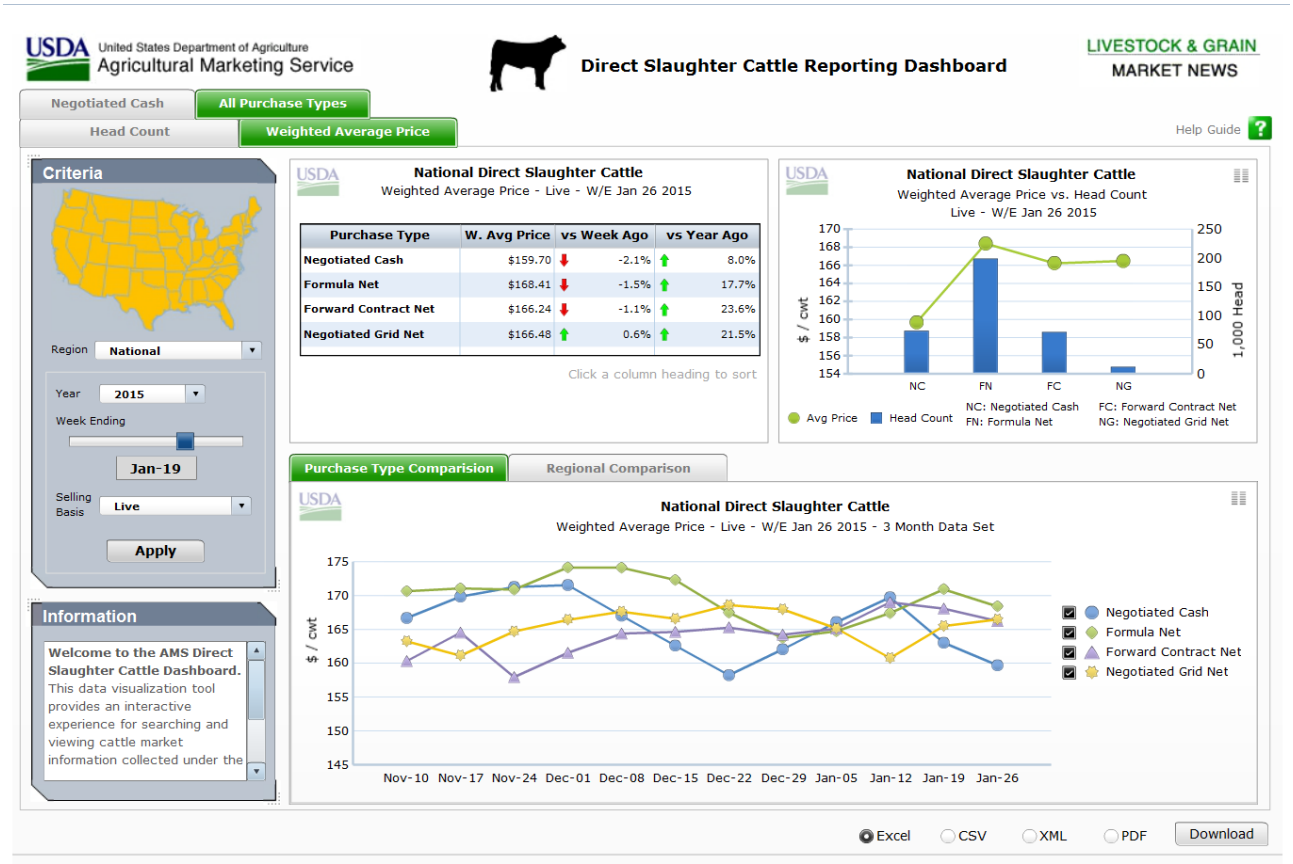
AMS updates its reports two-three times per day with purchase data received from packers. Users can go to the LMR Dashboard (http://mpr.datamart.ams.usda.gov/amsdashboard/cattle/) where a series of graphic interfaces present the key elements of the reporting system which can be browsed on a national and/or regional basis. The web interface also enables users to look at results according to the purchase type (see Figure 1).

Users can also download the data behind the visuals for further tracking and analysis in Excel, CSV (comma separated values) or PDF format. There is an historical search function for previous three years of data. Reports can be viewed on a national basis or disaggregated to major regions where feedlot and packer activity is highest e.g. Texas/New Mexico/Oklahoma; Nebraska; or Kansas.

Figure 1: Livestock Market Report Dashboard - purchase volumes for 19/1/15 by purchase type

Weighted average prices for live weight and dressed weight by purchase type can be viewed by selecting another tabsheet (refer to Figure 2 below).

Figure 2: Livestock Market Report Dashboard - weighted average price report for 19/1/15 by purchase type



5.1.8 Report outcomes -- boxed beef purchases

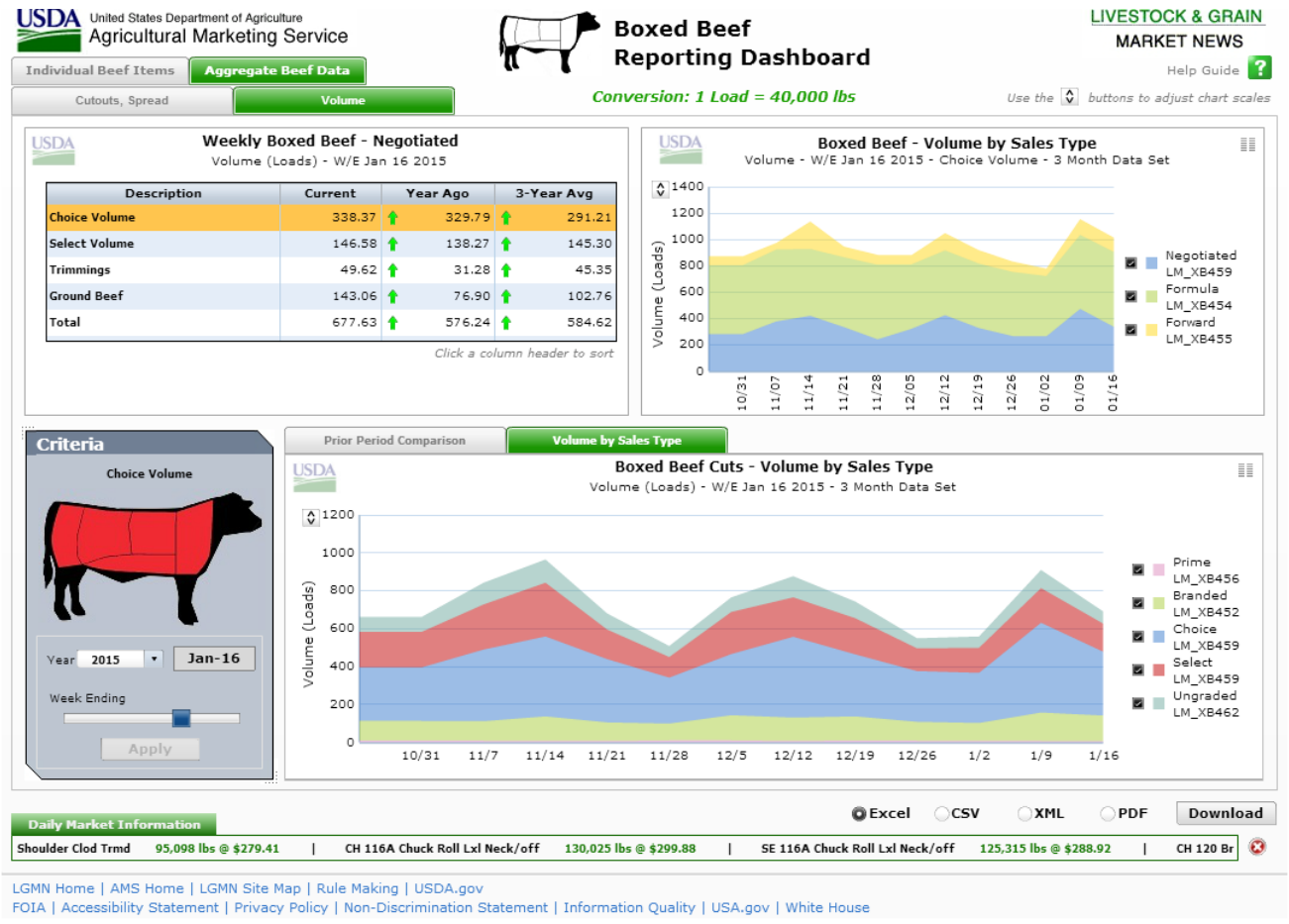
The Dashboard offers a similar interface for the public to check on boxed beef prices and to determine cut-out prices for Choice and Select carcase grades at the time of the report. The boxed beef cut-out (BBC) is the estimated value of a beef carcase based on prices paid for individual beef items derived from the carcase. Importantly, the processing costs (labour, packaging, etc) incurred by the packer are not deducted from the cut-out values. The items on the BBC are shown in the carcase diagram at Appendix 10.3 which is published by the (US) Beef Board and generally aligns with price data from retail scans of prices and volumes obtained for the Beef Board.

The BBC value is important because packers use it to determine how much they can pay for cattle and to gauge company performance against the reported price. In addition, some sectors of industry use the report as an impartial starting point on which to base contracts and formula prices, to determine their Quality grade discounts and premiums when buying cattle on a grade and yield basis.

The CME uses the cut-out price to calculate its Live Cattle contracts. The spread of prices between the Choice cut-out and Select cut-out is important because it is a key indicator as to relative level of supply against each beef grade. Prices in the BCC are reported as $US per cwt (hundredweight).

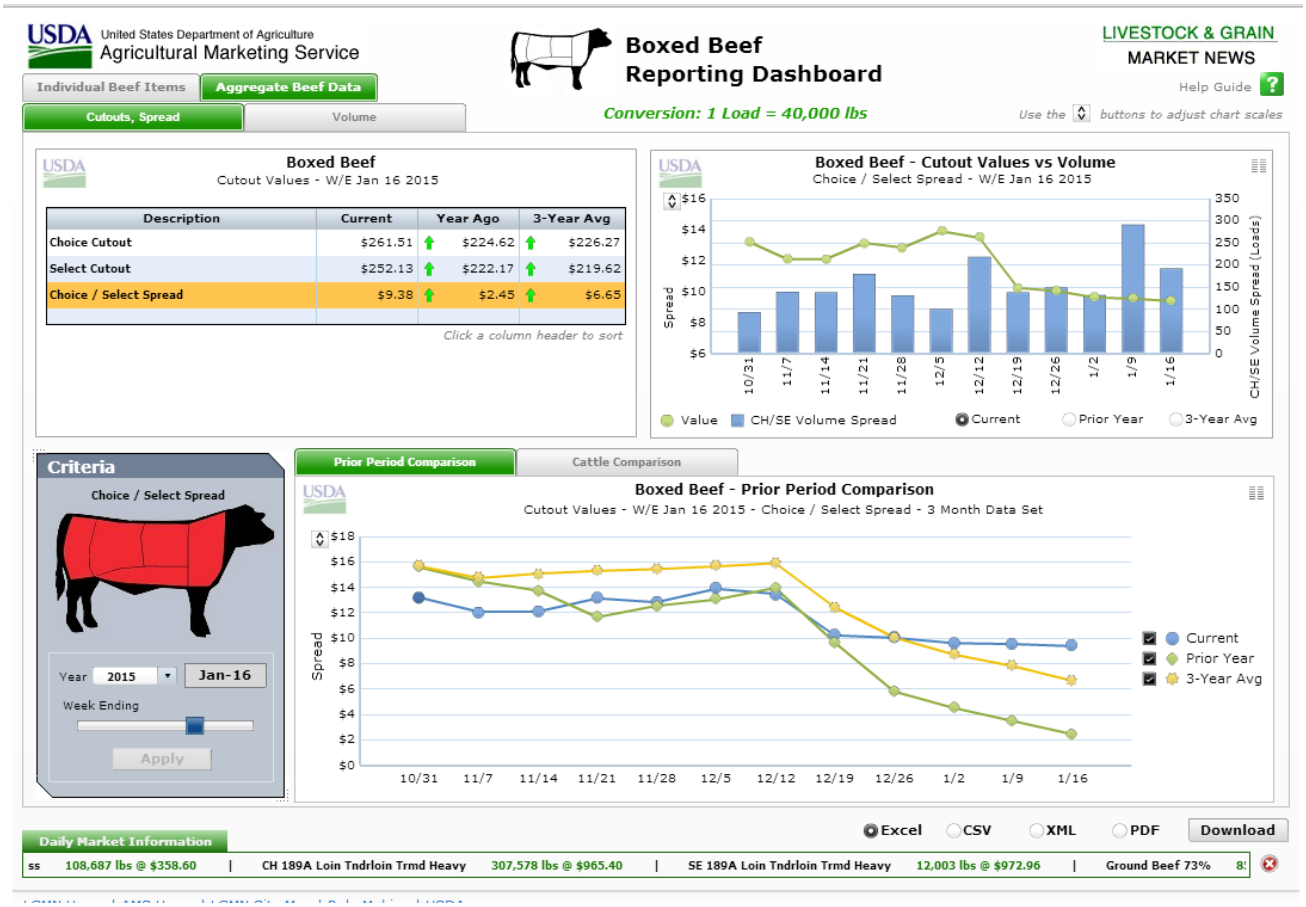
The screenshot at Figure 3 shows the daily volumes of boxed beef sales under the MPR system on 16/1/2015 and sets out year-ago and week-ago volumes (top left hand table); the volume by purchase type (top right hand chart); and the volume of sales by grade. It can be observed for example from the second graphic that formula purchases are currently the dominant type of transaction being reported, but that negotiated purchases i.e. cash and spot prices are also a major part of the trade and that there are peak periods associated with this trend over the past three months.

Figure 3: Boxed Beef Dashboard - weighted average price report for 16/1/15 by purchase type



Meanwhile the screenshot at Figure 4 indicates the cut-out price spread between Choice grade and Select grade sales (this can also be broken down by IMPS cut). It is apparent that the price spread between these two categories was around US$8 per 100 lb on 16/1/2015, a marked decline on the price spread which existed in Oct 2014 of around US$12 per 100 lb. Also the cut-out values are sharply higher than year-ago and three year average levels.

Figure 4: Boxed Beef Dashboard - Choice/Select cut-out value spread report for 16/1/15



At the top left hand side of the screenshot the tabsheet marked “Individual Beef Items” shows that it is possible to view cut-out values on the basis of the main IMPS cuts discussed above, to see the current prices being paid to packers for these primal items.

The MPR Dashboard graphics indicate the ease with which volumes and cut-out values can be determined across the industry for the two main carcase grades. The advent of good, fast software to enable these visuals to be generated and quickly understood has potentially contributed to the general level of acceptance of the MPR system overall. The BCC dashboard shows the cut-out value of a dressed carcase on a given day and this provides a high degree of price transparency for producers and other parties wanting information about the value chain.

In examining US prices shown in the Dashboard, Australian readers may take the $US/cwt (hundred weight) price, divide by 100 then multiply by 2.2046 to arrive at the equivalent $US/kg price.

5.1.9 Other report services

The desktop review also identified numerous market information and report services by a diverse range of private US beef industry consultancies and newsletter publishers as follows:

- Cattle Buyers’ Weekly
- Cattlefax
- Chicago Mercantile Exchange

- Informa Economics (incorporating Sparks Commodities)
- Rabobank
- Steiner Consulting Group
- Sterling Marketing Inc
- Urner Barry

5.1.10 US industry perceptions of MPR

Consultation was sought with a broad cross-section of the US industry to determine reactions to, and usefulness of, the MPR system in its current incarnation. Persons consulted included market analysts, groups that settle 'trades' for linked commodities, academics who have followed the MPR during its lifetime, cattle producers and lot feeders. The comments received were more uniform than expected as to the benefits and reliability of the LMR data; equally intriguing is the fact that satisfaction with the LMR has grown substantially over the 13 years of its operation.

During this period, as outlined earlier in the report, the LMR mechanics has changed in several respects. For example, twice in the past decade, because legislation lapsed and the scheme was no longer mandatory, only voluntary reporting was in place which effectively gave users the chance to assess the relative merits of the system and the effect of reduced amount of information flowing through the system. Other changes include the introduction of reporting about boxed beef sales; and a reduction in weekly reporting obligations for larger plants.

The most significant comment from sources consulted was the medium to high level of satisfaction with the integrity of the data under the mandatory system. The potential for selective reporting of price and volumes has been eliminated under the mandatory system. Moreover, in capturing a high percentage of the transactions which occur in the F.I. market, a very complete picture of volumes and values is available nationally and on a regional basis.

Respondents described the LMR system as being very reliable and of great value in their individual businesses for the following decisions:

- Seeing price trends in other parts of the country
- Choosing to sell cattle on a grid basis or other method
- Checking on meat sales volumes i.e. follow through demand from wholesale and retail sector

Second, the confidentiality of the data is high. AMS is credited with astute management of the reports so that, where necessary to protect confidentiality, it does not release certain information on a daily basis, or else it combines the information with other graphics and segments to make a larger overall report. It is then released into the marketplace but the source of the data is not identified and, importantly, it is difficult for other parties to take a trading or hedge position just off that data alone.

The timeliness of the data is also valued: AMS issues reports twice daily and are rigorous about adhering to this timetable. This in turn enables other industry participants and observers to

make their own decisions about feed, grains, prices and forward positions, knowing that the information is up-to-date and freely available to all parties.

The substantial depth of the data available through the LMR system is also highly valued: results can be disaggregated by purchase method; specific regions; historical search features are available; and the addition of the cut-out value has given the system far more relevance than previously when only cattle purchases for slaughter were recorded. It was also apparent from the consultation that the results of LMR reports are routinely used by third parties to settle livestock transactions, just as formula pricing is itself picked up in the LMR results.

Following on to the boxed beef aspect of the LMR, this reporting system is also highly regarded, providing as it does a twice-daily update on current wholesale price levels and volumes, including the beef cut-out value which is the compiled total of carcase sales. This is invaluable to packers and end-users alike as it can be used to anticipate possible gluts and shortages in specific products and also market corrections that could flow from fluctuating slaughter levels.

Under the earlier, voluntary reporting system, the market picture in regard to boxed beef volumes was incomplete on several levels and users were left to ponder who was reporting and who was driving the market and for what purpose. This has largely been eliminated with mandatory reporting, making it in the words of one contact, 'the best data in the world on wholesale [beef] prices.'

The consultation process also identified some perceived deficiencies with the system (packers may identify others). All groups consulted felt that the means of modifying the system in the future should be made more flexible. Currently, any change to the MPR Act or associated rules must be referred back to Congress which is a lengthy and expensive procedure. Mere 'tweaking' or modification of the day-to-day operation of the system is overall not an option for the AMS, the scheme must be administered as set out in the Act and the ensuing Federal Register provisions. Whether the Congress would allow this type of decision-making to devolve to the AMS, however, is open for conjecture, as the cattlemen's lobby is powerful and the inference could be made that packers, who are the parties reporting transactions to the Department, will be able to bend the modifications in their favour.

For their part, although initially opposed to the concept of mandatory price reporting when the legislation was first considered, the processor lobby group North American Meat Institute (NAMI) has come around to the position of offering in-principle support for the initiative.

"North American Meat Institute members are generally favorable towards Mandatory Price Reporting, and its role in the marketplace, which is slated to be reauthorized this year. They will participate in this process and monitor it closely."[7]

A disadvantage of the new electronic mandatory system which was identified by some in the consultation group was that the loss of the mechanical system means no human is 'eyeballing' the data collected and able to spot errors in price and volume entries. They felt that, formerly,

[7] Eric Mittenthal, Vice President, Public Affairs North American Meat Institute, Feb 2, 2015 via email.

reporters were able to establish positive and robust relationships with the various firms and packers and could exercise some judgment on occasion about what or what not to report, for a legitimate reason. Users do not necessarily get the intuitive 'feel' or insight into the market any longer, but it is made up for by the fact that all the major actors now use the system.

An important point coming through the consultation and the literature search is the increased volume of formula pricing purchases i.e. the waning of the physicals market. The LMR still captures this pricing information and the number of transactions done on a formula basis can be tracked, but the physical market or negotiated purchase for the spot market continues to be central to the market's movement and development over time. This fact may be a worry for cattle producers who might prefer to see this reconciled into the cattle purchases and boxed beef cut-out reporting formats. However, the USDA reports still use the cash market results as the benchmark for reporting and this is a prime part of the Dashboard reporting system.

It is also important to note that packer-owned cattle are not included in the price reporting system, although the consequences of this on report completeness are not well understood at this stage.

In regard to whether the system has helped to lift cattle prices, most of the consultation group were convinced that cattle prices have improved for other reasons than MPR, but that the program's existence has served to prove that packers are not cooperating with each other on prices against producers. Livestock prices have improved largely due to structural and cyclical factors: a declining cattle inventory; rationalisation and consolidation in the production sector, and also consolidation in the processing sector which has made that sector more competitive and, in theory at least, able to offer better returns.

In summary, the consultation group in the US felt the MPR has had a positive impact on understanding the cattle and beef complex in the US and provides all parties with useful and timely information. The system for modifying the structure is regarded by some as clumsy and inefficient, however, it may be difficult to wrest power back from Congress in this regard owing to the influence of the cattlemen's lobby. The integrity of the data is assumed, and the reporting functions largely match what industry requires. The opinion was offered that if mandatory reporting had not been introduced, there would be very little reliable pricing data available, and prices would inevitably have gone to an industry-based system that almost certainly would not have been accessible to the public or possibly even to a percentage of producers due to subscription costs.

5.1.11 USDA GIPSA

The USA has had legislation for The Grain Inspection Packers and Stockyards Administration (GIPSA) since 1994. Its main role is to supervise US meat packers and stockyards particularly in relation to fair dealing with livestock producers and including cattle producers and feedlots.

A detailed 6 page list is published of all regulated US packers, the Packers buying list.

United States Department of Agriculture
Grain Inspection, Packers and Stockyards Administration

Bonded Packers in the United States
Current as of May 21, 2014

Business Name	DBA	Address*		City	State	Zipcode	Phone	Bond Amount** ($)	Email
Bouvry Exports Calgary, LTD	Q&B Horses Export & Abattoir Richelieu 1986, li	Box 2024		Fort Macleod	AB	T0L0Z0	4032530717	110,000	
Dean Sausage		PO Drawer 750		Attalla	AL	35954	2565386082	45,000	deansausage@deansausage.com
Tyson Fresh Meats		2200 Don Tyson Parkway		Springdale	AR	727626999	6052352061	114,290,000	
Carefree Meats, LLC	McCary Meats	14425 N 7th St., #101		Phoenix	AZ	85022	4806480432	20,000	josh@carefreellc.com
American Beef Packers, Inc.		13677 Yorba Avenue		Chino	CA	91710	5702510744	875,000	Wade@abpackers.net
Bropack Enterprises, LLC		PO Box 6545		Pico Rivera	CA	90661	5626996884	340,000	anthony.meats@gmail.com
Central Valley Property Group, Inc.	MDM Meat Co.	PO Box 578565		Modesto	CA	95357	2095781748	60,000	
Clausen Meat Company, Inc.		PO Box 1826		Turlock	CA	95380	2096678690	45,000	
Coelho Meat Co, Inc. & Central Valley Meat (	Central Valley Meat Co.	PO Box 1339		Tulare	CA	93275	5596882839	1,765,000	
Ellensburg Lamb Co., Inc. d.b.a. Superior Fa	Mountain Meadows Lamb Corporation d.b.a. Suj	1480 Drew Ave	Suite 100	Davis	CA	95618-4889	5302973518	950,000	Lori.Hudson@superiorfarms.com
EROB, Inc.	EEL River Organic Beef	P.O. Box 146		Hydesville	CA	95547	7074991828	50,000	
EROB, Inc.	Pacific Pastures	P.O. Box 146		Hydesville	CA	95547	7074991828	50,000	
Extel Corporation		PO Box 246718		Sacramento	CA	95824	9164214441	20,000	
Harris Farms, Inc.	Harris Ranch Beef Co.	29475 Fresno Coalinga Rd	Route 1, Box 400	Coalinga	CA	93210-9699	5598842435	2,015,000	johnharris@harrisfarms.com
Islamic Meat & Poultry		1320 S Aurora St		Stockton	CA	95206	2094628022	20,000	wmesallem@gmail.com
Jim's Farm Meats, Inc.		PO Box 1098		Atwater	CA	95301	2093583535	115,000	
Juarez, Javier	J J Meats	6355 W. Ashlan		Fresno	CA	93723	5592840420	35,000	
Los Banos Abattoir Co.		PO Box 949		Los Banos	CA	93635	2098262212	70,000	
Macedo, Jr., William (Bill) L.		701 Georgetown Ave		Turlock	CA	95382	2096344072	10,000	
Marin Sun Farms, Inc.		PO Box 880337		San Francisco	CA	94188	4157171796	15,000	david@marinsunfarms.com
Mayar, Anisa	Mayar's Halal Meat Processing	22294 City Center Dr. #5204		Hayward	CA	94541	5102897060	10,000	info@mayarhalalmeat.com
Olson Meat Company		7301 Cutler Ave		Orland	CA	95963	5308654641	145,000	
Palace Market, Inc.		2447 W Church Ave		Fresno	CA	93706	5592331124	35,000	
Paso Prime Corporation		PO Box 2817		Newport Beach	CA	92659	8009894784	20,000	
Redwood Meat Company, Inc.		3114 Moore Ave		Eureka	CA	95501	7074423797	10,000	
San Jose Valley Veal, Inc.		1820 Richard Ave		Santa Clara	CA	95050	4087274404	40,000	
Sun Beef LLC		PO Box 161667		Sacramento	CA	95816	5307132501	20,000	
Teva Meats LLC		3450 East Vernon Ave		Vernon	CA	90058	6054210422	135,000	
Western Grasslands, Inc.	Panorama Meats, Inc.	PO Box 2095		Petaluma	CA	94953-2095	7077656756	100,000	
Xiong, Ge & Pai Her	Posawon Ranch	5200 Point Pleasant Rd		Elk Grove	CA	95758	9166842271	10,000	
Yosemite Meat & Locker Service, Inc.		PO Box 580008		Modesto	CA	953580001	2095245117	400,000	rlong@yosemitemeat.com
Yosemite Valley Beef Packing Company, Inc.		PO Box 1828		Duarte	CA	91009	2093834060	30,000	
Coleman Natural Foods LLC	Coleman Natural Products	1667 Cole Blvd., Suite 300		Lakewood	CO	80401	3034682500	235,000	
Good Food Concepts, LLC	Ranch Foods Direct	2901 N. El Paso		Colorado Springs	CO	80907	7194732306	15,000	info@goodfoodconcepts.com
Himat, Abdelwahab	Badeen Meat	PO Box 24924		Denver	CO	80224-0924	7202184848	15,000	
JBS Packerland, Inc.	JBS Green Bay, Inc.	1770 Promontory Circle		Greeley	CO	80634	8007537724	23,005,000	
JBS Packerland, Inc.	JBS Plainwell, Inc.	1770 Promontory Circle		Greeley	CO	80634	8007537724	23,005,000	
JBS Packerland, Inc.	JBS Souderton, Inc.	1770 Promontory Circle		Greeley	CO	80634	8007537724	23,005,000	
JBS Packerland, Inc.	JBS Tolleson, Inc.	1770 Promontory Circle		Greeley	CO	80634	8007537724	23,005,000	
JBS USA, LLC aka Swift Beef Company and	Swift Beef Company Lamb Division	1770 Promontory Circle		Greeley	CO	80634-9039	9705067797	59,265,000	
JBS USA, LLC. aka Swift Pork		1770 Promontory Circle		Greeley	CO	80634	9705067797	18,550,000	
Meyer Natural Angus, LLC		4850 Hahns Peak Dr	St 240	Loveland	CO	80538	9702925006	2,215,000	wattenberg@meyerfoods.com
Northern Beef Products, Inc.		625 E 8th St		Greeley	CO	80631	9703517364	70,000	sales@northernbeef.com
Sunnyside Meats, Inc.		253 County Road 216		Durango	CO	81303	9703850230	10,000	jenny@sunnysidemeats.com
Ali Meat International, LLC		1616 S. Dean Rd.		Orlando	FL	32825	4072779483	15,000	
Central Beef Ind., LLC		PO Box 399		Center Hill	FL	33514	3527893671	1,115,000	andy@centralbeef.com
Mary's Ranch, Inc.		16301 NW 122nd Ave.		Hialeah	FL	33018-1019	3058199086	40,000	
Nettles Sausage, Inc.		190 SW County Rd 240		Lake City	FL	32025	3867522510	30,000	
Sherif Quality Halal Meat LLC		505 Dean Still Road		Davenport	FL	33897	3215940509	10,000	
Daves Creek Meat Market, Inc.		1845 Edgemont Ct.		Cumming	GA	30041-8055	6786624563	10,000	
Florida Beef, Inc.		PO Box 1004		Alma	GA	31510	9126321183	230,000	pam.gunn@floridabeefinc.com
FPL Food, LLC		1301 New Savannah Rd.		Augusta	GA	30901-3843	7069225513	1,925,000	custserv@fplfood.com
Holifield Farms, Inc.		72 Holifield Rd.		Covington	GA	30016-4327	7707862086	10,000	
McAfee Packing Company, Inc.		PO Box 207		Wrightsville	GA	31096	4788643385	20,000	
Morris & Mary Lou, Inc.	Bartow Meat Processing	5900 Fairmount Hwy		Calhoun	GA	30701	7703827192	110,000	
Town & Country Packing Co., Inc.		PO Box 88		Thomson	GA	30824	7065954330	30,000	
White Oak Pastures, Inc.		PO Box 98		Bluffton	GA	39824	2296412081	150,000	
Hawaii Beef Producers, LLC		PO Box 388		Paauilo	HI	96776	8087761109	15,000	
Hawaii Food Products, Inc.		94-403 Ukee St		Waipahu	HI	96797	8085769100	20,000	hfpdelia@hawaii.rr.com
Kulana Foods, Ltd		590 W Kawailani St	#J	Hilo	HI	967203146	8089599144	15,000	
Maui Cattle Company, LLC		PO Box 331149		Kahului	HI	967322975	8088770044	15,000	info@mauicattlecompany.com
Wongs Meat Market, Ltd.		1200 Sand Island Parkway		Honolulu	HI	96819	8088455900	20,000	

* These are mailing locations; please contact the business to verify physical address.
** Firms with multiple plants may be listed only by headquarters location; if multiple DBAs are listed, bond amount shown is generally the firm total coverage.

All major USA packers (meat processors) must be registered and remain in good standing with GIPSA and it includes all major packers down to local packers.

The USA National Cattlemen's Beef Association (NCBA) commented in 2007[8] that the market system worked, referencing the GIPSA livestock and meat marketing study 2007[9] conducted by RTI consultants for GIPSA.

The study was also addressed in a factsheet in November 2007.[10]

A key focus of the study was Alternative Marketing Arrangements, such as contracting and packer owners of cattle in feedlots.

Among the conclusions of the study were:

[8] GIPSA study says market-driven system works by Colin Woodall, Executive Director, Legislative Affairs and Gregg Doud, Chief Economist – NCBA MARCH-APRIL 2007

[9] January 2007 GIPSA Livestock and Meat Marketing Study Contract No. 53-32KW-4-028 Volume 3: Fed Cattle and Beef Industries Final Report Prepared for Grain Inspection, Packers and Stockyard Administration U.S. Department of Agriculture Washington, DC 20250 Prepared by RTI International Health, Social, and Economics Research Triangle Park, NC 27709 RTI Project Number 0209230

[10] Alternative Marketing Arrangements in the Beef Industry: Definition, Use, and Motives LM–2 November 2007

"The beef producers and packers interviewed believed that some types of Alternative Marketing Arrangements (AMAs) helped them manage their operations more efficiently, reduced risk, and improved beef quality. Feedlots identified cost savings of $1 to $17 per head from improved capacity utilization, more standardized feeding programs, and reduced financial commitments required to keep the feedlot at capacity. Packers identified cost savings of $0.40 per head in reduced procurement cost."

"Eighty-five percent of small producers surveyed used only the cash market when selling to packers, compared with 24% for large producers, and pricing methods also differed by size of operation."

"Ten percent of large beef packers surveyed reported using only the cash or spot market to purchase cattle, compared with 78% of small beef packers. Large packers relied heavily on direct trade and less on auction barns and dealers or brokers for their cattle procurement compared with small packers.

“Conversely, small packers used AMAs for approximately half as much on a percentage basis as large packers. Both large and small packers used multiple pricing methods when buying cattle, including individually negotiated prices, formula pricing, public auction, and internal transfer pricing. While nearly all packers bought some cattle on a liveweight basis, 88% of large packers purchased cattle based on carcase weight with grids, while almost no small packers used this type of valuation."

While the respondents to the study indicated they could not see the share of AMAs increasing, the volume of formula pricing, forward contracting and grid purchases has continued to rapidly increase and USDA frequently do not have enough cash or negotiated prices to report a market at the present time.

However US agricultural economists continue to promote AMA’s as the benefits exceed costs in the studies conducted. [11]

Since 2010 Stephen Koontz has continued to study the area and one recent paper outlined findings of work for the NCBA in February 2014.[12] US cattle producers and their organisation the NCBA have continued to have concerns with the constant “thinning” of the cash market in live cattle in USA.

It would seem that some of the alternatives canvassed in the Koontz paper may be part of the process of negotiations over the reauthorisation of the Mandatory Price reporting regime in September 2015 in the USA. The issue remains of price discovery and lack thereof.

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[11] Koontz, Stephen R., *What Does the RTI Study Say About Captive Supplies in the Cattle and Beef Industry?,* Department of Agricultural and Resource Economics, Colorado State University, 9 July 2010.

[12] Koontz, Stephen R., *Price Discovery Research Project – Policy Recommendations Summary – Stephen.Koontz@ColoState.Edu – 970/491-7032*, Department of Agricultural and Resource Economics Colorado State University, 3 February 2014.

5.2 Canada

Canada's cattle inventory stabilised at approximately 12.3 million head in 2012 following several years of declining herd numbers. Around 40 percent of Canada's beef cattle herd is located in the western province of Alberta which also produces around 65 percent of fed cattle annually (cattle finished to market weight). Slaughter averaged 2.3 million head per annum in the past five years. There is a close trading relationship with the US beef industry which takes around 70 percent of Canada's beef exports- roughly 200,000 tonnes in 2013-14 (although more Canadian product is now being diverted to Asian markets). Canada also imports approximately 300,000 tonnes of fresh and frozen beef from the US annually.

5.2.1 Livestock categories and grading

Carcase grading criteria, cutting lines and beef product descriptions in Canada are all distinct from those used in the US which makes it difficult to compare prices along the value chain, even though nearly 1 million slaughter cattle entered the US last year from there. Cattle marketing in Canada is organised into different liveweight ranges under four groups: slaughter steers, slaughter heifers, bulls and cows. Importantly these series do not indicate conformation or fat cover.

5.2.2 Price reporting

Agriculture and Agri-food Canada (AAC) publishes weighted average prices (C$ per 100 lbs) for eastern Canada markets on its departmental website each month. These are broken down by the above categories and weight range; the series covers 14 auction markets. There is no price reporting series for direct livestock sales from the eastern region.

Meanwhile, Alberta's Ministry of Agriculture and Rural Development publishes a weekly livestock market report which includes the following:

- number and category of carcases graded
- slaughtering and average carcase weights
- CME futures prices
- USDA cut-out values
- Live animal prices to/from US
- Alberta auction market prices for cows, steers and heifers
- Eastern province prices for some categories

It is understood that these prices are collected by Canfax which is a division of the Canadian Cattlemen's Association. This is a subscription-only service available online to all parties which offers a range of other price and volume series as well under the Canfax banner. Producer subscriptions cost in the order of $US200 per annum; non-producers cost approx. $US500 per annum. The Canfax site also gives subscribers a daily roundup of auction, online and export prices for major regions; and a weekly roundup report on slaughter and production data, live export volumes (but not values) and feeder cattle prices by province.

Importantly, the Canfax service also looks at average retail prices for seven popular beef categories, sourced from Statistics Canada, which lends further transparency to cattle prices

being reported. Lastly, there is a monthly report on trends and breakevens for cattle feeders using up-to-date grain and livestock costs. Canfax does as a rule provide price projections one week out for fed cattle prices.

Canfax also publishes information supplied from the Canadian Meat Council in the form of the Canadian Boxed Beef Report daily. This is produced in the Canfax non-subscriber section along with cattle-on-feed reports. It aligns values for Canadian graded cuts with US standard cut-out items where feasible. Total sales volume information is published in this report but not for individual items. The report data is provided on a voluntary basis.

AAC also sources through the Canadian Food Inspection Agency the Montreal Wholesale Prices series which are average prices for beef primals delivered to end users. Volumes are not recorded.

It is clear that in the Canadian industry there is wide price reporting and a reliable system for distributing some information to public users e.g. cattle producers. For producers to access much more than basic information series which are prices at auction and wholesale prices (which don't correlate closely) with US cut-out price series, is more problematic. It is relevant to note that the US industry has been in herd decline mode for some years and that shortages of cows in particular have fuelled big increases in cow prices over the past two years. The Canadian industry has generally benefitted from this situation due to the prices observed over the past three years.

In conclusion, price transparency in the Canadian industry is relatively good due to the reporting systems in place not only at farm gate but also at wholesale through the cut-out reports and the domestic wholesale graded beef reported through market services. In addition, publication of beef retail prices assists observers in arriving at a more complete picture of farm to retail price spreads, although the pathways for all major value chains may not be fully detailed.

5.3 New Zealand

New Zealand (NZ) has approximately 10.1 million cattle: the dairy industry accounts for around 60% of total holdings. The beef cattle component is estimated at 3.8 million head. Total cattle slaughtering averaged 2.2 million head per annum over the past five years. Cow and bull slaughter comprises over 58% of total slaughtering and NZ is an important supplier of frozen lean manufacturing beef to the North American market, often at a premium over Australian product.

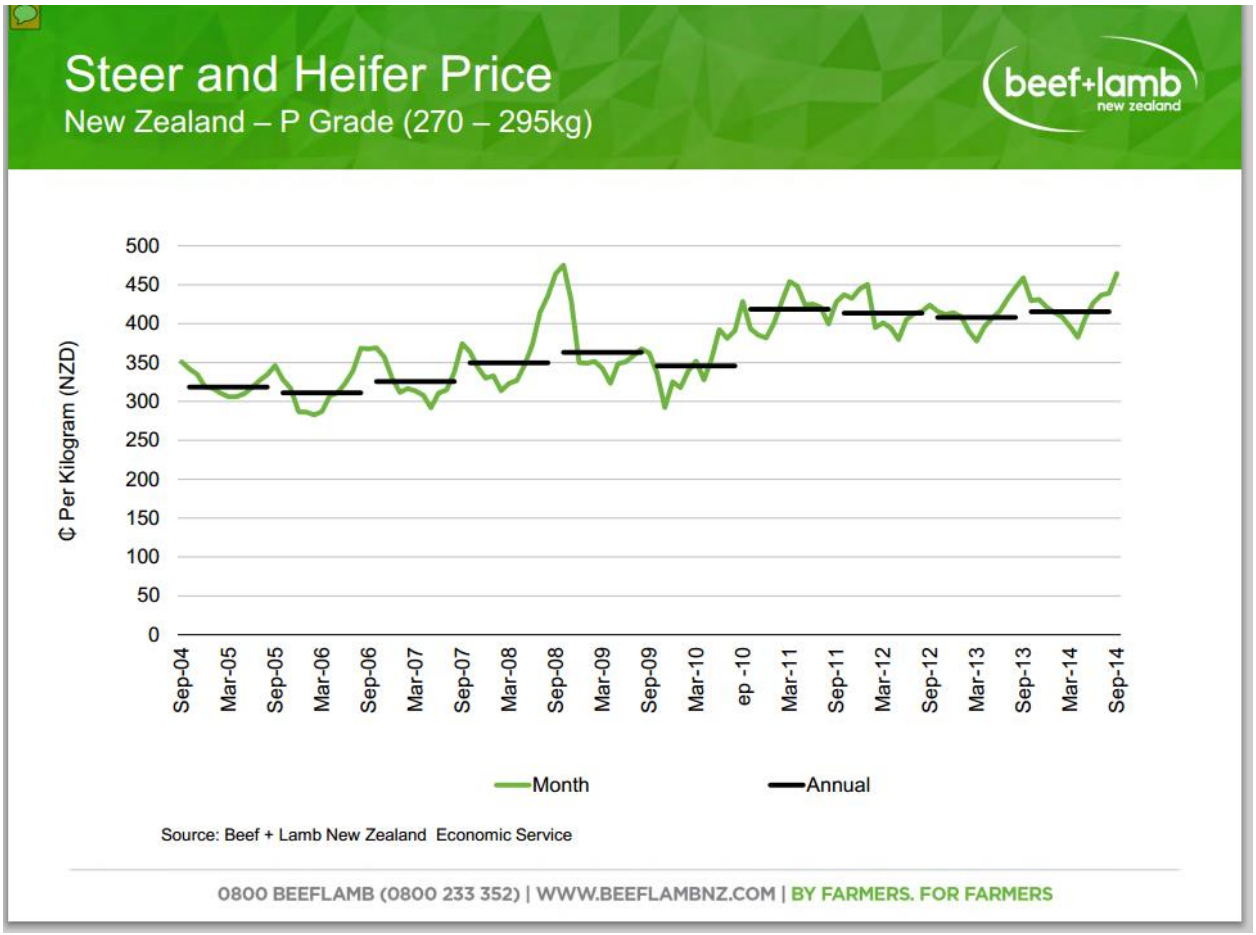
Beef + Lamb New Zealand (BLNZ) is a farmer-owned industry organisation which operates through a slaughter levy, representing New Zealand's beef, sheep and deer farmers. BLNZ provides a price reporting and economic analysis service for these three livestock industries. In 2013-14, NZ exported approximately 410,000 metric tonnes of beef (shipped weight) to world markets, the US taking approximately 55 percent by volume. There are approximately 30 export-approved beef plants in New Zealand with four major players, including a producer-owned cooperative, and a range of mid-sized companies. There has been ongoing consolidation and restructuring of the slaughter sector with the closure of some older plants and mergers between other enterprises, ostensibly reducing the number of buyers for cattle.

At numerous times over the past two decades, NZ producer groups have levelled the criticism that meat companies were not returning fair value on livestock purchases, nor sharing the proceeds of a bullish market, including during times of currency devaluation, when returns from export sales increase. An opinion piece in the NZ rural press in 2007, written in response to recent price falls for sheep and cattle, noted as follows:

> *[Producers] can form their own mini-co-operatives or supply companies to co-ordinate supply, and [to] put market pressure on the processing companies.*[13]

While NZ processors shared the boon in prices for imported beef in the US during 2014, prices for cows, steers and heifers were relatively stagnant, as indicated in Figure 5. This has been compounded by dry conditions at the end of 2014 and higher cow turnoff figures owing to the dramatic deterioration of NZ dairy prices worldwide.

Figure 5: New Zealand steer and heifer prices, farmgate



5.3.1 Marketing and price reporting services

Cattle are marketed through a range of pathways, including regional saleyards, processor grid, online sale (stores and restockers), agents' sales and private sale. The national carcase

[13] Keith Woodward, Meat Industry Woes: can we do better?. 12 March 2007. Accessed at http://dspace.lincoln.ac.nz/bitstream/10182/5842/1/Woodford_meat_industry_woes.pdf on19 January 2015)

classification system assesses on maturity, sex, fat content and muscling. As noted earlier, BLNZ collect and publish cattle prices through its website on carcase weight and live weight basis. It also publishes data on export slaughter levels on a regional basis. BLNZ prices are also picked up and reported through rural press services and online services, covering volumes, values, weighted averages and general market conditions.

There are several online market report and commentary services available to producers which provide general market commentary and short term outlooks, including the following:

- www.agrihq.co.nz
- www.interest.co.nz
- www.nzfl.info

Cattle price series published include bull, cow, steer and heifer prices (carcase weight basis), however, no export price series for beef cuts could be identified nor wholesale beef cuts.

The website interest.co.nz which presents a series of financial management tools and advice columns for numerous industries, recently released a smart phone app which delivers sales information for deer, lamb and cattle producers in the form of carcase weight prices from saleyards and processor grid prices for the current week. The app is free. However, it does not give information on yardings or weighted average prices so the content may be of limited value to the on-farm sector.

The Red Meat Sector Strategy, a joint project of BLNZ and the Meat Industry Association (representing the processing sector) was released in 2010/11. This report highlighted that the industry could only remain sustainable if the two sectors increasingly worked together and made productivity improvements that all parties could benefit from. It particularly noted the need for "transparent pricing for suppliers" to become the norm. In addition, it challenged growers to "build better relationships with processors, either through contracts or a less formal commitment where the key is greater transparency and trust. Farmers must ask the right questions and processors must respond by providing the right information." Bringing about this transparency however, has been rather more difficult and the same reservations about the equity of livestock pricing is evident among producer lobby groups in NZ currently.

Based on this information, there is little evidence to suggest that the NZ cattle and beef value chain has a higher degree of transparency compared to that which exists in Australia.

5.4 Brazil

Brazil's cattle industry is extensive and its products compete directly or indirectly with Australian beef products in most markets around the world.

The national cattle herd is approximately 205 million head and it is estimated that up to 80 percent of total beef production is destined for the domestic consumer market.

Brazil is the main beef supplier to neighbouring Mercosur members, Chile and Venezuela. Moreover, Brazil routinely supplies large quantities of frozen grassfed product to opportunistic buyers like Egypt, Iran and Russia. In 2012-13, these three markets accounted for around 55

percent of total shipments of almost 820,000 tonnes. Hong Kong is also an important market. Live exports total around 500,000 head per year.

The grainfed portion of the industry produces around five million head per year.

The devaluation of the Brazilian currency since 2012 has given the industry a tremendous boost in export markets worldwide and this has underpinned the industry's renewed expansion and development.

Cattle price transparency in Brazil is reasonably good, owing mainly to the extensive commodity data collection and analysis conducted by Centre for Advanced Studies of Applied Economics (CEPEA, co- partners with the University of Sao Paulo). CEPEA looks at a total of 12 key commodities, including pork, veal and beef. This price series is published daily on the CEPEA website and is widely used by commerce and investor groups. [14]

5.4.1 Live cattle price reporting

CEPEA uses physical market data, but also data from producers who sell direct to processors in the key beef processing states. This is the published cattle price series on the CEPEA website on a liveweight basis.

The price index for grass fed cattle is based on the following criteria.

- Grassfed cattle prices are sourced from processors in four major regions of São Paulo state which is the country's principal beef state.
- Prices are also collected from physical markets and producers in the seven other major beef states such as Mato Grosso do Sul and Goiás as well as the wholesale market in São Paulo.
- The ranking of these prices is weighted by the slaughter volume of the relevant export-registered slaughterhouses and updated.
- Price gaps from a regular data supplier are distributed across other suppliers proportionately. Standard deviations are used in data collection to exclude 'outliers'.

The CEPEA price series is freely available and is used in settlement of live cattle futures on the Brazilian Securities, Commodities and Futures Exchange, the second largest exchange in the Americas after CME in terms of market value.

5.4.2 Wholesale price reporting

Prices from the Sao Paulo wholesale market are reportedly collected but these are not found on the CEPEA website. Information on this price series has been sought from CEPEA under separate cover.

[14] http://www.cepea.esalq.usp.br/

In conclusion, based on the information collected, Brazilian cattle price transparency is high, and better than that in Australia, due to the extensive collection of direct cattle sale prices from producers (by CEPEA), supplementing auction sale records. This is probably assisted by the prices needed for Brazil live cattle futures market, and the strong commercial demand for price information from players (including speculators outside the industry) in this highly active derivatives market.

Overall, beef price transparency in Brazil is probably better than in Australia, as Brazil has some access to wholesale meat prices collected voluntarily by their meat association, as well as retail prices.

5.5 Great Britain

EBLEX (formerly UK Meat and Livestock Commission) is a producer-funded organisation designed to enhance the profitability and sustainability of the English beef and lamb sector.

The EBLEX website contains a range of price and volume information for producers' use. These include auction sales (results updated daily); as well as dead weight (carcase weight) prices collected from a sample of abattoirs for prices they paid for stock in the preceding week (bulls, cows, young bulls, steers and heifers). These are available by region and an indication of volumes is also provided but it is not clear what percentage this is of total cattle killed in the period. This result is shown in Figure 6.

Figure 6: EBLEX - Processor prices paid for cattle (pence/kg cw)

All Steers [Show charts]

Prices p/kg	Great Britain		Southern		Central		Northern		Scotland	
	3	4L	3	4L	3	4L	3	4L	3	4L
-U	378.7	378.6	377.2	378.0	378.2	376.1	376.6	377.2	382.1	382.6
R	371.4	374.9	367.3	368.9	369.4	367.8	370.2	379.3	377.0	378.1
O+	361.0	366.6	353.2	357.7	355.4	357.0	361.8	372.8	370.1	369.5
-O	335.4	338.1	331.1	334.9	328.2	330.7	323.1	330.9	353.6	353.2
Overall Average	**365.1**	**+0.2**	**354.1**	**-2.8**	**357.2**	**+2.9**	**367.9**	**-0.6**	**375.7**	**+0.5**
Numbers	13888	+0.1%	2618	+5.9%	3447	-3.1%	4193	+3.9%	3630	-4.5%

The EBLEX site also provides details of the farm gate/retail spread as shown in Figure 7.

Figure 7: EBLEX – Farm gate/retail spread

(p per kg) select report month: Dec 2014

		Oct 2013	Nov 2013	Dec 2013	Oct 2014	Nov 2014	Dec 2014
Beef	Ave farm price	391.3	387.1	382.9	349.0	351.9	354.5
	Ave retail price	687.6	674.3	671.7	686.9	697.6	679.0
	Actual price spread	296.3	287.2	288.7	338.0	345.7	324.4
	Per cent price spread	43.1	42.6	43.0	49.2	49.6	47.8

Source: eblex.org.uk

The scale of the current farm gate/retail spread suggests that providing the data which underpins sales and volumes is largely pointless, as it does little to help the producer work out the costs and margins in between these stages.

Based on this information, there is little evidence to suggest that Great Britain's cattle and beef value chain has a higher degree of transparency compared to that which exists in Australia.

5.6 Ireland

5.6.1 Background

The Irish beef industry is one of the most significant in the European Union (EU) and regularly places among the six or seven largest beef exporting countries. More than 85% of total Irish beef production is exported in the form of grass-fed, quality assured product to the UK, Italy and other EU member states. Great Britain took approximately 53% of Irish beef exports in 2014 and retail prices for Irish beef in Britain, which Irish cattle producers can readily monitor, are often a flashpoint in the discussion about lack of price transparency and processors not paying a fair price for livestock.

In 2013 total cattle numbers in Ireland were estimated at 6.3 million head. In addition about 200,000 head are exported live each year to markets including Spain, Northern Ireland and Netherlands. The combined value of beef and live exports in 2013 was in the order of Euros 2.5 billion.

The Irish Food Board (Bord Bia) has oversight for beef promotion and market development domestically and abroad, along with other food and beverage products. Over the past five years the Board has worked with all facets of industry to drive a campaign of environmental sustainability and quality assurance which underpin its export marketing strategy.

In January 2015, the US Food Safety & Inspection Service (FSIS) announced that Irish beef products, which have been locked out of the US market since 2003 due to BSE, may again be eligible for import. This is a significant development as the major growth trend in the US beef market currently is that of grass fed beef, which aligns well with Irish beef production characteristics.

Producer prices in Ireland were depressed throughout 2013-2014 with average prices paid by processors for the R3 steers category (finished grassfed steers under 30 months of age, liveweight of approx 420 kg) down more than 10 percent in 2014 compared to year-earlier prices. This was a direct reflection of weak demand in the domestic market and of improved availability of local beef supplies in key European markets.

5.6.2 Concern about price inequities

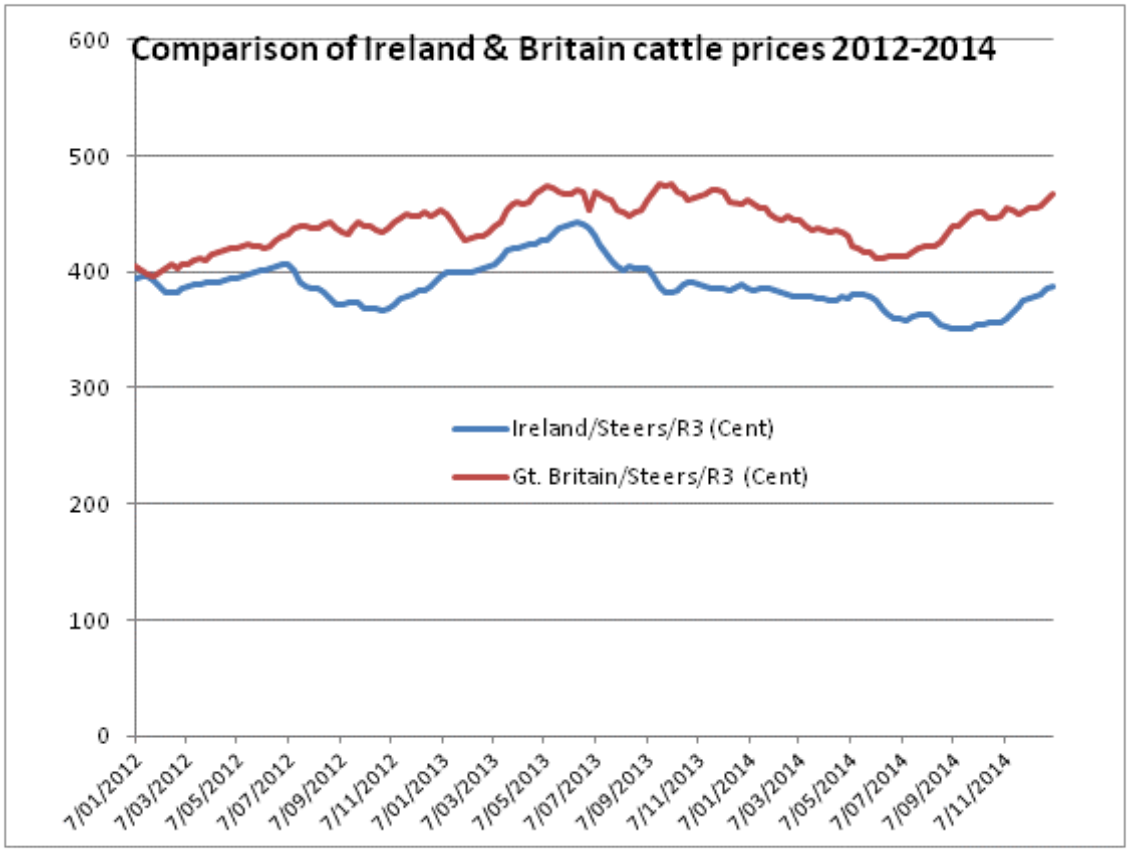
Against this background there was widespread dissent with Irish beef producers in 2014 about the perceived gaps in farm gate prices for cattle and the easily-discovered retail prices for Irish beef in UK supermarkets.

The Irish Farm Association (IFA), representing growers, claimed there was a noticeable and growing divergence between the beef farmers' incomes and consumer prices, claiming this gap

was evidence of collusion between processors and retailers to cream off high margins. Nationwide protests underpinned producers' demands that processors should not continue to withhold higher market returns to beef farmers. In July 2014 this gap was estimated to be in the order of €350 per carcase.

The IFA specified that a key element of addressing the beef price question must be full transparency and independent verification of wholesale and retail prices for the information and benefit of all parties. As well as the gaps discovered in retail prices of Irish beef, producer groups also pointed to the major discrepancy between prices for Irish cattle and British cattle, stating this made their industry completely unsustainable and confirmed the fact that Irish processors were paying too little for cattle (see Figure 8).

Figure 8: Comparison of Ireland & Britain cattle prices



Source: IFA

5.6.1 Cattle price reporting system

By way of background, accusations of unfair pricing by processors have erupted before in the Irish industry, however, the producer strike of 2000-2001 brought matters to a head. After months of protesting that processors were paying too little and that price collusion was occurring, producer representative groups organised a strike among producers who refused to market cattle and which shut the country's processing plants for several weeks. Eventually the relevant government minister called a meeting with the main processors and insisted that they voluntarily enter into a price reporting system which is still in existence today in the form of Beef PriceWatch.

Each week, processors provide volume and price information to the Irish Farmers' Association and the Minister's office broken down by carcase grade for steers, heifers, bulls, young bulls and cows. This information is then published on the internet including the processing company's name and plant location. Although retrospective, it gives a clear picture of weight and price trends along with the level of processor slaughter activity on a weekly basis. It is of interest that although this system has prevailed for over a decade, it has still not stopped the claim that processors do not pay fair value for cattle. This is a situation which is currently playing out in Ireland and led to the recent formation of the Beef Roundtable to continue discussions with processors and government about issues such as sudden changes in prices and specifications, anti-competitive practices designed to manipulate price, and strong discounting of animals which do not meet the standard carcase trim criteria (roughly equivalent to the out-of-spec discounts on processor price grids here in Australia).

5.6.2 Publication of cattle price "App"

In December 2014 Ireland's Department of Agriculture issued a smart phone App called *Beef PriceWatch* which draws information from the reporting system discussed above so that producers can refer to prices paid while away from their base. It includes the average price paid for animals by the country's export beef plants. Bord Bia publishes weekly data on per kg dressed weight basis prices paid by processors for four main livestock categories (Steer, Heifer, Cow and Young Bulls) along with prices for comparable livestock categories in the four largest EU markets. In spite of good price transparency, there is not currently a view that price reporting has led to higher prices.

5.6.1 Price transparency in Ireland

Ireland appears to have a similar level of beef chain transparency as in Australia, with adequate transparency at the cattle transaction level, but little down the chain (mainly overseas markets). The current situation whereby all processors advise the government of weekly price and volume information about cattle purchases retrospectively, which are subsequently published, is striking as this is done without legislation. This has not, however, prevented current rancour among Irish producers about low prices and pricing practices on the part of meat companies.

5.7 Summary price reporting systems overseas (milestone 2)

5.7.1 US

Research into the background and operation of the US Mandatory Price Reporting System and responses from a range of industry and government operatives indicates overall a high level of support, with a medium to high level of satisfaction with the integrity of the data under the system, its reliability, the detail and presentation of results by USDA (and others) and the USDA administration of the system, including confidentiality. Even the meat processing sector supports the current system and processors are avid users of the data according to the official advice of its national representative body.

Respondents described the MPR system as being of value in their individual businesses for the following decisions:

- seeing price trends in other parts of the country
- choosing to sell cattle on a grid basis or other method
- checking on meat sales volumes i.e. follow through demand from wholesale and retail sector

The MPR has also become used by the CME as a basis for the live cattle futures and in cattle sale basis contracts or formula pricing.

The consultation group in the US felt the MPR has had a positive impact on understanding the cattle and beef complex in the US and provides all parties with useful and timely information. The main criticism is that the system for modifying the structure (through Congress) is regarded by some as clumsy and inefficient. In addition, some observers felt it would be beneficial for reports to include some level of standard deviation to negate the impact of 'outlier' prices and for AMS to organise periodic audits of both the cattle and the boxed beef reports to ensure they are in fact working as intended.

The opinion was offered that if mandatory reporting had not been introduced, there would be very little reliable pricing data available, and prices would inevitably have gone to an industry-based system that would offer much less price transparency. In previous years, voluntary reporting worked well insofar as it was supported, however, no one was aware of the actual level of participation by packers and the potential cost to industry of unpublished cattle purchases and beef sales.

In regard to whether the system has helped to lift cattle prices, evidence points to US cattle prices having improved for reasons other than MPR, and there was no direct evidence or examples proffered of the system having directly improved cattle prices.

However, its widespread use by both producers and processors suggests that the program's existence has improved the operation and stability of cattle and beef markets, to the benefit of all parties. It has also served to prove that packers are not cooperating with each other on prices against producers and the improved level of confidence about the total proportion of purchases and sales being reported makes most parties believe they have a more complete picture of market factors and behaviours.

5.7.2 Literature review

A survey of literature was conducted in relation to producer benefits and use of the MPR. One of the prominent authors in the literature, Stephen Koontz of Colorado State University, was also interviewed in the survey. Koontz believes that market information which is transparent to a large group of buyers and sellers benefits the user.

In any mandatory information supply program initiated by government, there will always be pluses and minuses. While Dakotas cow calf producers interviewed in one study by Fausti, et al, (2007) noted some dissatisfaction in relation to quality of public price reports, price discovery and ability to negotiate price, the majority of cow/calf operators express a mildly positive view of MPR for the beef industry in general and the cow/calf industry in particular. There has also been a loss of information in regional markets, however, the evidence is that because of MPR the

regional market integration has improved. There has been new information on non-cash terms of trade – forward contracts and marketing agreements.

Earlier work by Ward (2004) found comparing prices paid by packers across procurement methods was facilitated by MPR. Thus, transparency was enhanced.

Fausti (2010) found that MPR increased information on beef carcass price dispersion and substantially increased price transparency. Azzam (2003) concluded that the increased transparency improved packer competition, increased output, reduced consumer prices, and increased feeder cattle prices. This was achieved by forcing packers to pool information at negligible marginal cost and increasing the derived demand for livestock. Koontz and Ward (2011) found that with MPR the transparency improves for prices, but whether this leads to higher prices for livestock producers is not certain.

Koontz (2007) found that MPR did not alleviate the case of slowness in price changes in the cash market. However, the presence of the futures market helped to improve the situation for producers. Research reported that the industry would benefit from MPR, but benefit-cost analysis was not done adequately before or after MPR to definitely state if the investment in MPR was cost effective. Certainly, MPR does more than report the cash market. In addition to complete reporting of cash transactions, terms of trade – prices – and volumes are also obtained for non-cash market transactions: forward contracts, and marketing agreements. Also the volumes, but not prices, of packer owned cattle are reported. So MPR involves the collection of all cash market transactions and new information on non-cash market transactions. This array of information was beneficial.

Grunewald, Schroeder, and Ward (2004) conducted interviews of cattle feeders on their opinions on the effect of MPR. They surveyed 1,504 feedlots and had a 22% response rate. Opinions varied widely. One key question was whether mandatory price reporting benefited the industry. Among respondents, 49% expressed some level of disagreement on a nine-point scale while another 28% expressed some level of agreement that MPR did benefit the industry. Areas of large commercial cattle feeders (Kansas and Texas) were more apt to disagree compared with an area characterized by smaller farmer feeders (Iowa). Also, feeders were asked if mandatory price reports increased information on fed cattle prices, base prices in grids, and boxed beef prices. Again, there was rather sharp disparity among respondents. Fifty-seven percent disagreed to some extent and 20% agreed. These reactions could have been affected by several factors: reduced reports for some regions, reduced timeliness of certain reports, and confidentiality problems immediately after implementing the MPR. The survey addressed a major reason for MPR -- whether MPR increased information leads to price discovery. Feeders were asked whether mandatory price reports enhanced their ability to negotiate cash market prices, base prices for grids, formulas, or premiums/discounts with packers. Nearly three-fourths (¾'s) of responses disagreed to some extent while only 10% agreed. Results indicated feedlots in Texas and Kansas were more likely to respond negatively to questions regarding the benefits of MPR. The authors conclude expectations about the potential benefits of information from MPR may have been unrealistic.

Post-MPR data were available on fed cattle purchases by negotiated trading, formula trading, forward contracting, and packer owned cattle, and analyzed by Ward (2004 a, b). This enabled

comparing prices paid by packers across procurement methods, something which had only been possible after special data collection efforts by the Grain Inspection, Packers and Stockyards Administration (GIPSA) or using annual average data released by GIPSA with about a two-year delay. Thus, transparency was enhanced.

5.7.3 Selected other countries

Apart from the US, information was collected on cattle and beef industries in Canada, Brazil, New Zealand, Great Britain and Ireland, of which all but Great Britain compete directly with Australia. All of these industries are major beef exporters, which means that the producer returns can be potentially affected by exchange rate movements and subsequent corrections and adjustments by other parties in the value chain.

Producer sensitivity to fair value for cattle was identified in three of these countries in recent years: Ireland, New Zealand and Great Britain. It is likely that the same issue is highly relevant in the other two markets, Brazil and Canada, but it has not been documented here.

All the markets have some level of price reporting available to outsiders, although none is mandatory.

- The exception is the Irish industry whereby processors have an unwritten commitment to provide price and volume details weekly into a system and to have their prices published retrospectively.
- This price reporting in this case applies only to live animal purchases and not to beef sales. This has not prevented enormous resentment over the past 18 months on the part of Irish producers about returns for their livestock.
- The Brazil market has extensive price collection at the farm gate level while export price information is more generic. There is no equivalent to the carcase cut-out value which is published or other comprehensive wholesale price series.
- In Canada, part of the enormous North American beef and pork complex, basic price reporting is conducted for cattle purchases, wholesale beef sales and some retail prices. It is argued however that the MPR reports generated in the US would be of equal or greater relevance in price discovery for the Canadian market given the high volumes of cattle and beef traded between the two.

6 Price transparency in the Australian cattle/beef industry[15]

6.1 Background

Unlike the US, fully-transparent auction sales still make up around half of cattle sales in Australia (and a share that has increased in recent years) and are well reported by NLRS. According to ABARES[16], auction sales made up 41% of cattle sales in northern Australia in

[15] This section covers Project Milestone 3. See project background, objectives, achievement criteria and methodology in sections 1-4.

[16] Thompson, T. and Martin, M., *Australian beef: Financial performance of beef producing farms, 2011-12 to 2013-14*, Australian Bureau of Agriculture and Resource Sciences (ABARES), Research Report 14.7, August 2014.

2012-13 (over-the-hook 31% and paddock 27%) and 66% in southern Australia (less than 20% over-the-hook and the same for paddock sales).

However, around one third (but fluctuating according to seasonal conditions) of all cattle sales in Australia are of store or feeder cattle sold to other producers, primarily through auction and paddock sales. This implies that the majority of slaughter cattle are probably sold direct to processors either OTH or paddock, though still with a substantial proportion through auctions.

Hence, the argument for greater cattle price transparency including possibly mandatory price reporting, revolves around categories of cattle (e.g. Japan ox), supply chains (e.g. to Woolworths or Coles) or regional markets such as northern Australia live trade, WA, Tasmania, where almost all cattle meeting specifications are sold direct, with no robust auction alternative, and where access to alternative markets involves a large cost such as long distance transportation and/or alteration of product.

The lack of transparency for beef and co-products at wholesale and further down the chain has long led to suspicions by producers that they are not receiving a fair share of the Australian retail dollar.

This has also been fuelled by data indicating that the Australian cattle producer share of the retail dollar is smaller than in other like countries and is trending downwards over time.[17] While it is impossible to obtain corresponding data using the same methods overseas, the cattle producer share of the retail dollar has recently been quoted in the Australian press as 47%-53% in the US, 46% in Britain and 30%-50% for all commodities in Canada[18] .

This has been heightened over the last two years by the simultaneous export boom and record cattle turnoff (forced by severe drought), which has seen the producer's share of export (and, to a lesser extent, domestic retail dollar fall significantly and left Australian cattle prices and farm profits well below those of competitor producers overseas[19]. The widespread practice in some regions of booking cattle in for sale to a processor without an agreed price is a clear sign of the imbalance that has existed between supply (high due to drought) and demand (limited by killing capacity) for cattle over the last few years.

Producers have little knowledge of the workings, operating costs and marketing strategies of meat processors, wholesalers, exporters, retailers or foodservice operators. The dearth of information emanating from these segments of the beef chain only adds to suspicion and

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[17] The producer share is calculated by taking the average national saleyard carcase weight trade steer price for the quarter, collected by MLA's National Livestock Reporting Service, adjusting for a yield conversion from carcase weight to retail weight (68.7pc), and dividing this by the average retail price, collected by the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES).

[18] *Producer retail share slips in spring*, The Land, 3 November 2014; *Why is finding out who is taking the profit in the cattle supply chain so difficult?,* ABC Rural 3 November 2014; and Jon Condon *Producers' share of retail dollar slides, but is it a relevant indicator?,* Beef Central, 11 December 2013.

[19] See MLA, *How are global and Australian beef and sheepmeat producers performing? Global agri benchmark results 2014*, November 2014.

distrust and does little to galvanise the supply chain together or promote trust and vertical partnerships.

6.2 Results of consultation about transparency

Consultation was sought with a broad cross-section of the Australian cattle and beef industries to determine their views on price transparency in the beef supply chain and the adequacy of price and market reporting. Persons consulted included the peak producer and processor organisations, state farmer organisations, cattle producers across all states, processors, supermarkets and major information service providers.

These consultations, along with reports and research, form the basis of the findings contained in the following sections. Following is a general summary from the Australian interviews conducted.

6.2.1 Producers' views

All but some of the largest producers interviewed believed that producers generally are not receiving 'fair value' for their cattle from processors. Fair value is defined as a fair share of the export or domestic retail price paid for beef given the relative effort and costs of operation along the supply chain. Reasons suggested for this varied, with secrecy, buyer concentration and the transfer of profits overseas were mentioned as prime suspects. Few mentioned outright collusion between buyers.

A number of respondents reported difficulty in booking cattle in for sale with processors last year. Cattle booked in for sale without a price in an extreme 'buyers market' was a recipe for payment of below 'fair value'.

There was general consensus among producers interviewed, with some notable exceptions, that while there is a measure of price transparency for cattle in Australia, price transparency does not generally exist in any other part of the supply chain. Crucially, it is non-existent for processor sales to exporters, agents, wholesalers or renderers.

Producers generally gave cattle price transparency a rating of between 5/10 and 8/10, with a moderate level of satisfaction regarding MLA's NLRS reporting of auction sales around the country. There is a gap in Queensland.

Most producers felt that they achieved the going market price for cattle, except where excessive and unfair discounts and downgrades were applied against the grid. This has been more prevalent recently because of oversupply. The opinion was expressed that processors, on occasions, unreasonably penalised cattle they deemed "boners" when clearly, from weight and carcase description, they were not.

In this context, some producers felt that the Aus-Meat language leaves too much scope for buyer downgrades, especially the major ciphers, such as *S* and *A*. A call was made for the current review of the language (Australian beef language White paper[20]), to consider the

[20] : http://www.beeflanguagereview.org/

capture of as much detail as possible, in order to enable better cattle price transparency and provide more detailed and valuable feedback to producers. Price transparency requires details on the qualities, descriptions, volumes and weights of the item transacted.

While most producers supported the need for better price reporting on direct sales (mainly OTH), some respondents, especially larger producers and producer representatives, felt that there is plenty of cattle price information to be had if producers take the time to look, and that there is no substitute for producers forging close relationships with buyers and learning more about the real value of their cattle.

Interestingly, producer support for mandated cattle price reporting was not uniform, as some saw it as a further government intrusion into industry affairs – yet another branch of government regulation in the industry and a whole new bureaucracy and industry cost. Cattle producers feared that it would cause the premiums for custom bred or finished cattle which meet processor needs to disappear (what one large producer called ‘socialised marketing’).

For beef, there was an almost uniform view among producers that transparency is absent. Most rated it between 0/10 and 3/10, leaving those all along the chain with little knowledge of prices at any other stage of the beef chain. However, there was generally a recognition that some valuable beef market reporting and market intelligence exists, especially from MLA.

Producer views on the adequacy of market reporting and information and analysis on supply and demand, not just price reporting, were varied, with most respondents describing it as average to good. Those producers who spent significant time looking or who were part of supply chain partnerships were generally pleased with the amount of market reporting. Most producer respondents reported spending only 2-4 hours per week on obtaining price and market information.

The majority of producer respondents felt there was inadequate market reporting and intelligence available to assist on-farm investment decisions. This is hardly surprising, given that there are few significant suppliers of market analysis tailored to individual producer decisions, (one being Mecardo/Ag Concepts). A number pointed to the lack of forward cattle or beef selling options in Australia as a major negative for investment planning and marketing especially when compared with our overseas competitors. This is apparent when compared with the options available to other Australian producers of other commodities (e.g., grains) and to competing cattle and beef producers overseas (e.g., in the US and Brazil).

There was a general view among Australian cattle producers interviewed that US producers had much better access to price information due to mandatory reporting and market intelligence. This was also seen by those who felt able to proffer a view, that market intelligence is better in New Zealand and Europe, but that Australia has better market intelligence than Asia.

6.2.2 Available price information to make marketing, business management and planning decisions

Respondents were asked a question to determine both their rating of information currently provided and their suggestions in relation to current market information.

Question: How do you rate the Australian meat and cattle industry market intelligence?

- "Not too bad if you know where to look. Many don't have the experience and know how."
- "Market intelligence is pretty good for cattle."
- "There is a lot of market data available from a cattle perspective. No idea regarding beef, processing costs or anything else."
- "Ordinary. Not readily available and in a form that is relevant to the investment."
- "Average to poor/good/competent"
- "Feels that overall there are good sources of price information available to producers.
- "Difficult unless one is up to speed with comparables. We may think we are getting enough market information but what would it be like with a lot more? Opportunities may present themselves."
- "There is a good system of information available for producers who are interested."

Question: Is there enough market information when making investment decisions for cattle operations and sales planning?

A range of responses are below:

- "Probably adequate but could be better."
- "Yes, if you are prepared to and know where to look and find it."
- "No. ABARES and MLA are historic records that are not good enough to base forecasts on."
- "As there is no ex works revenue line it is impossible to ascertain value chain metrics. Therefore investment decisions are made discounting this. Therefore there is no forward pricing mechanism and no price transparency. There is no way to compare different grids accurately even on core and consistent turn off. "
- "Not really. OK for his organic business as able to book cattle in under contract or minimum price basis a year or two out. Delivers financing advantages. Conventional selling tools certainly need to be improved. Any commodity without alternatives to spot price is compromised."
- "Livex price index needs improving. Currently based on one agents input. Forward selling mechanisms needed"
- Senate submissions Sub 14 Ptolemy: what do cattle producers require from industry organisations?
- "I believe the essential requirement is to have access to accurate and honest information about the day to day state of the industry, particularly in relation to market demand across the board, both domestic and export.
- Producer response: "Currently it appears that the bulk of market information supplied to producers is based on the Eastern Young Cattle Indicator (EYCI). Whilst in years gone by, when the majority of cattle would have been marketed through the auction system, this may have been of some use. Today with vast numbers of cattle sold direct to processors, particularly those at the higher quality end, this indicator is of little use and can even be misleading." Over reliance on the EYCI index was referred to by the largest

retail supermarket chain. The EYCI index also rated poorly by live exporters in relation to their market information needs.

- "With the technology now available much more accurate information of market conditions could and should be made available to levy payers."

6.2.3 Cattle processors views

In general processors believed there was good transparency in cattle prices due to the freely available OTH grids that are published weekly. There is also the survey conducted by MLA in relation to OTH price grids by state with weight ranges and specifications. Processors also commented on the copious amount of market intelligence distributed by MLA.

Regarding beef price transparency, AMIC and processors consider there is no one beef price and pricing is related to supply and demand. Also, processors and exporters continue to favour working with producers and developing their own brands and believe branding is a better means of translating consumer and end user wants and needs into the beef wholesale and export markets in Australia.

6.3 Major beef supply chains

6.3.1 Identification

Australian cattle producers sell their cattle to a variety of buyers for a wide variety of uses and produce a very wide number of beef products and co-products. As a result, there are numerous supply chains and a large number of different price transactions involved.

In order to narrow down the task of examining price transactions along these distinct supply chains, it is necessary to first narrow the supply chains to a few major ones, but still with the aim of covering around 80% of all cattle sold.

6.3.2 Market Pathways

The key cattle/beef supply chains in Australia are:

- Grass fed heavy steers to export markets for chilled and frozen steer beef
- Domestic supermarket programs for the two main retail chains
- EU and other specialised HQ beef markets (HGP-free & other)
- Other domestic retail and foodservice pathways for chilled beef (MSA & non-MSA)
- Cows/Bulls primarily processed for manufacturing beef (CL grading)
- Live cattle exports

Cattle pathways derived from beef export statistics

The cattle pathways below indicate the estimated volume handled through the main export channels including all manufacturing trimmings and the component of that which is derived from

lean cows and bulls. It also illustrates that volumes of fullsets are declining in the main export stream.

Figure 9: Estimated cattle pathways, 2014

2014 Calendar Year - Beef Exports - Tonnes

All Steer beef cuts

Grain fed	Grass fed	Total
170,675	268,770	439,444

includes PR, YG, S

All manufacturing trimmings all CLS

Grain fed	Grass fed	Total
38,453	464,089	502,542

Manufacturing beef lean CLS, cows, bulls (incl in all manufacturing trimmings all CLs)

Grass fed	Total
175,642	175,642

All fullsets

Grain fed	Grass fed	Total
11,228	5,670	16,898

All carcase and forequarters

Grain fed	Grass fed	Total
16	7,674	7,690

SOURCE: AGINFO - DERIVED FROM DEPT AG. DATA

Narrowing these categories further is difficult, particularly as there are significant sub-categories, such as MSA and non-MSA and HGP-free to consider. An estimated three million cattle were graded through the MSA system in 2014, or approximately one-third of all adult cattle slaughtered. While the majority of these would be domestic grade cattle, this number suggests that there are also significant numbers of export grade cattle (probably mainly medium and heavy steers) passing through the MSA system.

For almost all these supply chains there would be a further prior segment feeding into the grassfed cattle supply chain in the sale of weaners or store cattle to finishers (not included in this analysis).

Many of these chains share similarities at the cattle or wholesale transaction level. For example, heavy steers, cattle for the EU and other specialist markets and live export cattle are predominantly sold direct to processors or live exporters.

6.4 Price transactions

There are a wide range of price transactions along the supply chain owing to the large array of products derived from each animal when processed. The key ones (excluding producer to producer or cattle producer to feedlot sales) are:

Cattle transactions[21]

- Cattle producer to processor (whether at auction, in the paddock or direct)
- Cattle producer direct to retailer or foodservice operator
- Cattle producer direct to live cattle exporter

Beef transactions

- Cattle processor to export broker/importer
- Cattle processor to domestic wholesaler
- Cattle processor to retailer or foodservice operator
- Beef wholesaler to retailer or foodservice operators
- Beef retailer to consumer
- Beef foodservice outlet to consumer

Co-product transactions

- Hides: cattle processor to hide processor or exporter
- Edible offal: cattle processor to offal processor, exporter or wholesaler
- Edible offal: wholesaler to domestic retailer or foodservice operator

There are, of course, many other products transacted which are derived from cattle, including inedible offal, blood, tallow, which are not listed above. There are also some smaller transactions with alternative middle men and processing stages (e.g. stand alone boning rooms) that are not listed above.

[21] Livestock selling agents can be, and often are, involved in any of these cattle transactions.

6.5 Current grassfed cattle and beef transaction price information available and gaps

6.5.1 Grassfed cattle transaction information and gaps

Transaction	Transaction method	Available price information, source & coverage	Distribution of information/ease of access	Coverage & other comments
Cattle producer to processor[22]	Auction	MLA's NLRS report prices of cattle sold through almost all major prime cattle auctions by key cattle categories, fat scores and weight ranges. Reporters cover over 90% of cattle sold at markets covered. Only major gap is north Queensland as Townsville is not in the system.	NLRS information on average prices (and price range) at individual markets or by state and national is readily available to grassfed producers for free, on-line or by email, providing they apply for MLA membership (available free to all cattle producers) and detailed customised data can be obtained free from NLRS.	No significant gaps for saleyard prices of grassfed cattle. This data provides free access to adequate, readily available and timely prices for all categories of grassfed cattle that are sold through prime auction markets (65% of cattle sold in southern states and 40% in the north). However, some categories (eg medium and heavy steers and EU cattle) are generally sold direct and are not well represented in auction markets.

[22] There is also a small proportion (around 2%) of grassfed cattle that are sold electronically through Auctions Plus, though most are probably store animals. This proportion appears to have expanded considerably in 2014.

Transaction	Transaction method	Available price information, source & coverage	Distribution of information/ease of access	Coverage & other comments
	Direct-to-works over-the-hook	Processors generally provide grid prices and offers to producers on demand. MLA's NLRS obtains direct-to-works or over-the-hook offer or grid prices from most cattle processors on a weekly basis and distributes State-based averages (not NT).	As for auction reports, MLA's NLRS make average weekly OTH prices available to grassfed cattle producers for all major cattle categories, by state and nationally, free on-line or by email.	These price reports are from information volunteered by processors on offer or grid prices, which are not the actual prices paid. It leaves a major transparency gap for cattle sold direct-to-works, particularly for medium and heavy steers and heifers (eg Japan ox)[23], cattle for the EU and other HQ overseas and HQ domestic beef markets. Saleyard prices cannot alleviate this gap for cattle categories which are predominantly sold direct – especially Japan ox, EU cattle, MSA cattle and other specialised HQ market cattle. Some processors also only provide OTH offer prices monthly. The availability of grid prices on demand alleviates this price information gap only if the relationship between actual prices paid OTH and grid prices is stable both through time and between producers. Differences between processors in their grades and grids causes some problems for producers in trying to compare offers and forces NLRS to apply a 'best fit' specification to average quotes. While south east Queensland is well covered by quotes, NSW is a state average, hiding significant differences between northern and southern works. Good lines of cattle meeting processor grades could be expected to exceed these price quotes, with this premium increasing as cattle supplies become more plentiful relative to demand and narrowing when

[23] All major Australian processors use the country descriptor Japan and most use Ox to describe heavy steers in their OTH grids. Jap Ox also used by Livestock Data Link.

Transaction	Transaction method	Available price information, source & coverage	Distribution of information/ease of access	Coverage & other comments
				supplies are tight. Some producers claim that excessive and unfair discounts and downgrades are often applied against the grid, essentially disconnecting the price received from the offer or grid price (more prevalent in times of oversupply, as recently). Producers can obtain some feel for actual prices being paid through payment for the commercial advisory services or Cattlefacts.
	Paddock and direct to live exporter	No price reports		A major price transaction gap, given that around 15% of southern cattle are sold in the paddock and 30% in the north.
Cattle producer to retailer or foodservice operator	Direct negotiation or through agent	No price reports	No price reports	A significant gap, as both Woolworths and Coles obtain a significant proportion of their grassfed beef through direct contracts with producers – estimated to be at least 10,000 cattle per week each for Coles and Woolworths and a total of around 30,000 per week for all supermarkets (over 20% of total weekly eastern states cattle kill - for all export and domestic categories). Producers supplying these chains claim to be receiving a premium.

6.5.2 Beef price transaction information and gaps

Transaction	Transaction method	Available price information, source & coverage	Information distribution & ease of access	Coverage & other comments
Cattle processor to export broker/importer	By direct negotiation	MLA's NLRS collects export prices for a limited range of export cuts to Japan only (none for Korea or China) direct from exporters. Also,	Average prices for a limited range of cuts to Japan and prices for	Currently very limited and inadequate coverage of cuts

Transaction	Transaction method	Available price information, source & coverage	Information distribution & ease of access	Coverage & other comments
		manufacturing export beef prices to the US are converted from import prices from Steiner under contract to MLA (largely from Yellow Sheet). Customs Department collects volume and price information by cut, but only volume is made available at the cut level (through DAFF) - & value data collected not entered into primary database. ABS only releases the AHECC code data with beef cuts grouped together.	manufacturing beef to the US made available weekly by MLA free of charge on-line.	prices to provide guidance on demand back to cattle producers.
Cattle processor to domestic wholesaler	By direct negotiation	No prices available	No prices available	No price data available
Cattle processor to retailer or foodservice operator	By direct negotiation	No prices available	No prices available	No price data available
Beef wholesaler to retailer or foodservice operators	By direct negotiation	Up until December 2014 MLA had collected a limited set wholesale beef prices direct from cooperating wholesalers in NSW only, This was discontinued due to both problems in maintaining respondents and apparent inaccurate responses.	No price data available	No price data available
Beef retailer to consumer	Retail outlet pricing	An average beef retail price is calculated quarterly by ABARES based on ABS retail price collection. Monthly butcher (250 respondents rotated) retail prices for a list of 18 cuts (11 cuts for MSA beef) provided to MLA by Millward Brown. MLA also subscribes to part of the data from the Nielsen panel survey of 10,000 household which scans the weekly shopping basket. Beef items are grouped into steak prime, mince,	Quarterly beef prices made ABARE quarterly data and average butcher price data available to producers by MLA on-line database and through regular publications and analyses. Monthly butcher prices reported	Butcher beef cuts prices available on a monthly basis. No supermarket data available.

Transaction	Transaction method	Available price information, source & coverage	Information distribution & ease of access	Coverage & other comments
		diced/casserole etc No supermarket data available.	on monthly in MLW articles. Nielsen price data used by MLA for internal tracking and analyses.	
Beef foodservice outlet to consumer	Foodservice outlet pricing	BIS Shrapnel foodservice outlet survey (with customised questions for MLA) provides updates on beef volume and value trends on an annual basis. It provides the average price of beef items on the menu by type of outlet and region.	Data reported on annually, in MLW analyses on release and occasional in-depth Red Meat Market Reports	

6.5.3 Cattle co-product price transaction information and gaps

Transaction	Transaction method	Available price information, source & coverage	Distribution of information/ease of access	Coverage & other comments
Cattle processor to hide, offal, tallow etc merchant	Direct negotiations	An extensive set of prices received are collected from 20-25 processors, traders and renderers for all major beef offal, pharmaceutical products, rendered products and hides on a monthly basis by Dennis King (Southern Downs Management Services). The recent change in provider has provided the opportunity to strengthen price quotes for hides and skins.	Prices are available from MLA monthly and reported on twice a year.	Prices are comprehensive and collected monthly. Given estimates on yield, this data would provide a sufficient basis for a cattle value calculation (beef cut-out with co-products added).

6.6 Degree of price transparency within each beef supply chain

Unlike most other countries (especially the US), a significant proportion of slaughter cattle in Australia are still sold via fully transparent and well-reported auctions. Furthermore, producers can obtain some price information for sales of cattle direct to processors, supermarkets and live exporters through obtaining grids from processors and watching NLRS average weekly OTH state price reports, live export price quotes and auction sales of similar cattle.

Hence, the severity and producer impact of the cattle price transparency gap in Australia is hard to gauge – being in part dependent on how far these other price indicators go to addressing the gap – particularly how well available auction prices and processor grid prices match actual prices paid OTH.

According to many of the producers interviewed, the complexity of grids, lack of comparability between grids, poor processor feedback and the frequency of unexpected discounts, downgrades or condemns (more frequent in times of high supply) make grids of little value in alleviating this lack of OTH price transparency. There has also been slow take up of the feedback facility using NLIS via Livestock Data Link according to the MLA person interviewed.

With the variety of selling methods in Australia, the degree of price transparency within individual beef supply chains will depend on the mix of the transactions outlined above common to that chain.

Generally, any chain that sees the vast majority of cattle sold direct to processors or end users (eg. supermarket) is likely to have poor transparency as few of the transactions along the chain are reported.

6.6.1 Grass fed heavy steers to export markets for chilled and frozen steer beef

This is one of the cattle/beef supply chains with the poorest price transparency throughout, with only limited numbers of auction sales reported (as the majority are sold direct to works over-the-hook) or for beef (as beef is sold privately to exporters or importers overseas).

Cattle transactions are generally conducted by direct negotiation with processors over-the-hook. There is no available recording of actual prices, only average offer prices distributed by MLA's NLRS from price quotes and grids supplied to it by co-operating processors voluntarily. While some are sold through saleyards, these can often be those that did not make processor specifications or were stragglers. Furthermore, as stock numbers in the saleyards are thin for this category and processor buyer interest variable, saleyard prices can often be more volatile and not always representative of changes in direct prices.

6.6.2 Domestic supermarket programs for the two main retail chains

This is another beef chain with poor price transparency at any stage. Cattle are sold by direct negotiation with Woolworths or Coles and there is no information on Woolworths or Coles beef retail sale prices (both collect scan data but do not make it publically available). Coles will sell their Nielsen scan data to approved organisations. Woolworths do not release any retail scan data. Data is not collected for other chain supermarkets.

Producers can obtain alternative prices for cattle by approaching the rival supermarket, watching recorded saleyard prices for similar cattle or obtaining processor offer prices or grids, or even by occasionally placing lots through these alternate channels as they are similar to some butcher and foodservice specifications.

6.6.3 EU and other specialised HQ beef markets (HGP-free & other)

This supply chain is similar to that for grassfed heavy steers for export markets, with poor transparency throughout.

Again, cattle transactions are generally conducted by direct negotiation with processors over-the-hook. There is no available recording of actual OTH prices, only average offer prices distributed by MLA's NLRS from price quotes and grids supplied to it by co-operating processors voluntarily. While some are sold through NLRS-reported saleyards, these can often be those that did not make processor specifications or were stragglers.

6.6.4 Other domestic retail and foodservice pathways for chilled beef (MSA & non-MSA)

Of all the major Australian beef supply chains, this is the one with the most cattle and beef price transparency.

A significant number of these cattle are sold through NLRS-reported saleyards in NSW and Victoria to provide a good level of cattle price transparency in those states, both for MSA and non-MSA cattle. However, transparency is less in Queensland, SA, WA and Tasmania, where many of these cattle are sold direct and saleyard selling is thinner.

As with all beef supply chains, transparency is non-existent at the wholesale level, but at the retail level there is a degree of retail price reporting from butcher sales.

6.6.5 Cows/Bulls primarily processed for manufacturing beef (CL grading)

Along with the butcher chain, this is the other major supply chain with above-average transparency.

Cows and bulls are mainly sold through saleyards, with a good level of NLRS-saleyard reporting, except in northern Queensland. Indicative cow/bull beef sale prices at the export level are derived from US price reporting for imported Australian manufacturing beef– this data is collected by Steiner & Co for MLA North America and reported weekly by MLA.

Up until recently, MLA was also collecting weekly export prices for a limited set of cuts to Japan (from a small group of co-operating processors and exporters) but this has recently been reduced to only monthly.

The impact of closed supply chains, including those operated by major quick serve restaurants (QSR's), reduces the beef price transparency of transactions between exporters and importers.

6.6.6 Live cattle exports

The Australian component of the live cattle export chain is the shortest of any of the supply chains, as it commonly only entails only two transactions – from producer to live exporter and from live exporter to importer (CIF).

Live export cattle are sold almost exclusively by direct negotiation with little price reporting. MLA collects and publishes weekly export prices from one export broker only.

Also, ABS cattle export data provides an average per head price by month at port of export and country of destination, though where cattle specifications vary to a country (e.g., slaughter and breeder cattle, dairy and beef cattle, heavy and light weights, cows and steers) this average is of little use for price transparency. Also, this data is not timely, as it is only published five weeks after the end of the month concerned.

Northern live cattle producers can obtain a feel for prices of similar cattle from reported store markets in southeast Queensland, after adjustment for cattle transport costs (which are well known to northern producers).

There is essentially no price transparency at the import or end user level in the markets for live cattle, except for some limited and sporadic retail price reporting in Indonesia. Indonesia is the largest market for live beef cattle exports, and feedlot purchase prices are by direct negotiation between exporter and importer/feedlot/abattoir and are not reported (not transparent). However, there are some wet market prices reported in Indonesia (obtained and distributed by MLA) for beef cuts from Australian cattle fed locally.

6.7 Market reporting and market analysis

While there is a lack of beef price transparency (price reporting), cattle producers can still obtain some idea of the state of, and changes in, the demand for beef along their beef supply though available market reporting or market intelligence[24].

The principal provider of market reporting for Australian beef producers is through the MLA and its overseas offices and connections. This operation compares well with those available overseas, including the Cattlefax in the US, Canfax in Canada and Cepea in Brazil. Hence, the volume and quality of market reporting is significant, though limited by the extent of voluntary processor, exporter, supermarket, butcher and foodservice contributions either direct to MLA or via commercial information collectors (eg Nielsen).

As noted above, most producers interviewed recognised the value of available market reporting in Australia, through the MLA, ABARES, Beef Central, Mecardo and state rural papers.

However, market reporting and especially commercial market intelligence is more limited in Australia than overseas, as it lacks the basis provided by mandatory price reporting in the US and by the operations of derivative markets (especially cattle and beef futures) as in the US, and Brazil. Active derivatives markets (which are sustained by mandatory pricing in the US) give rise to a strong demand for commercial market intelligence services.

Hence, it is no surprise that producers interviewed felt that there is little market intelligence available of relevance to their investment decisions. Of the major services, there are few sources that provide true market intelligence (i.e. tailored for company decision making).

6.8 Summary and conclusions for Australian beef and cattle price transparency (milestone 3)

The primary price transparency gap along the beef supply chain is at the wholesale/export stage, with no data currently available. This is also the beef price stage closest to, and of most relevance to, the value of cattle sold by producers. If wholesale or export prices were available it would enable the calculation of an indicative cattle value on a monthly basis, as robust co-product prices are already collected monthly.

[24] As defined in section 4.3, **market reporting** is the collection, compilation, manipulation, analysis and public distribution of the influences on a market and market prices while **market intelligence** is data and analysis that is tailored to assist in company decision making.

Very limited beef cut prices are available at the retail level (Nielsen Homescan for MLA & ABARES), together with some indication of trends in the prices of beef items at foodservice outlets (BIS Shrapnel for MLA).

For cattle transactions, auction prices are generally transparent owing to the fact that (unlike in the US and most other big beef producing countries) the majority of cattle in Australia are still sold via the transparent auction system (though probably not the majority of finished grassfed cattle). MLA's NLRS service provides very detailed prices for almost all major prime cattle selling centres in Australia, with the data made available to producers free of charge.

These auction prices ensure that cattle sales for the domestic butcher trade are generally transparent, and it provides some transparency for almost all other major cattle categories (e.g. EU, China, MSA, Japan ox, supermarket), as a sizeable sample of each category are seen through auction markets.

Direct producer to processor cattle sales over-the-hook (OTH) or in the paddock are much less transparent, with NLRS distributing average OTH offer or grid (as against actual) prices provided by processors on an average weekly basis, at the state level.

This means that cattle sales for major beef supply chains involving primarily direct to processor or exporter or paddock sales are not very transparent. This particularly applies to good quality grown steers (especially Japan ox), HQ cattle for specialised markets (eg EU, China and domestic foodservice), domestic supermarket cattle and live export cattle.

Producers perception of OTH grids is that they vary greatly, they are inconsistent and there appears to be no standard format. It is becoming increasingly difficult for producers to compare or interpret OTH grids. Both processors and corporate pastoral company respondents indicated there was a need for processors to do more to communicate meaningful information in grids and then to provide timely and business like feedback. There is suspicion from producers that in a falling market and oversupply situation like 2014 Q3 and Q4 that it was more about non transparent and arbitrary grid penalties being applied. Sale by weight and grade requires feedback. It is essential to improve beef production efficiencies.

Complexity of grids are illustrated by the matrix of grid cells in the one OTH grid of 11/12/2013 where there are 104 values for cattle in the Ox category alone. Another OTH grid of 14/1/2013 has 34 values for cattle in the Steer Japan category. A Japan specialist processor grid of 17/12/2014 has 24 values for cattle in the Jap Ox category.

The commercial Livestock Exchange service[25] and Cattle Facts provide subscribing producers with a measure of transparency (the knowledge of prices paid to other

[25] http://www.livestockexchange.com.au/marketplace/locations/qld

producers) for direct sales. Mecardo provides limited insight into OTH or paddock sale prices, being principally a provider of price analysis and cattle sales advice.

Considering transparency for all stages along the beef chain from cattle producer to consumer, transparency is very poor for medium to heavy grown steers and heifers for export markets; for domestic supermarket programs for the two main retail chains; cattle for the EU and other specialised HQ beef markets (HGP-free & other) and for the live cattle trade. All these trades have limited transparency for cattle sales and at the consumer or end user level, in addition to the low transparency at the wholesale level that is a feature of all beef supply chains in Australia.

There is better transparency (though still only moderate overall) for cattle targeting domestic retail (other than the two main supermarkets) and foodservice pathways for chilled beef (MSA & non-MSA) and for cull cows/bulls primarily processed for manufacturing beef (CL grading). These supply chains have well-reported cattle auction trades in most states and regions (except northern Queensland) providing good transparency at the cattle level and some price reporting at the exporter/butcher level.

While there is no price reporting for beef at wholesale, and little further down the chain, switched-on producers can obtain some feel for movement in export or domestic beef chain value by accessing the good wide array of market reports and market intelligence, provided mainly by MLA, ABARES, Mecardo, Beef Central and weekly rural newspapers.

However, even the provision of market intelligence in Australia is seen as inferior to that available to cattle producers overseas, especially in the US, Canada, and Brazil, and generally not at a good enough level to assist greatly with on-farm investment decisions. In part this probably reflects the lack of forward and derivative markets, which can directly assist in investment and marketing decisions and give rise to a vibrant commercial market intelligence community.

7 Success in meeting the milestones 2 and 3

The report meets Milestones 2 and 3 by providing detailed reviews of:

- Price reporting and price transparency systems in Australia for a number of key value chains
- Guidance as to level of transparency currently around those value chains and where gaps were identified
- Desktop review as required in TOR in important overseas markets
- Detailed treatment of US mandatory price reporting arrangements and collection of data about costs for future use if needed

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Brazil Beef Exporters Association

www.abiec.com.br

Canada Beef

www.canadabeef.ca

Canfax

www.canfax.ca

CEPEA, Brazil

www.cepea.usp.br

Eblex UK

http://www.eblex.org.uk/

Statistics Canada.

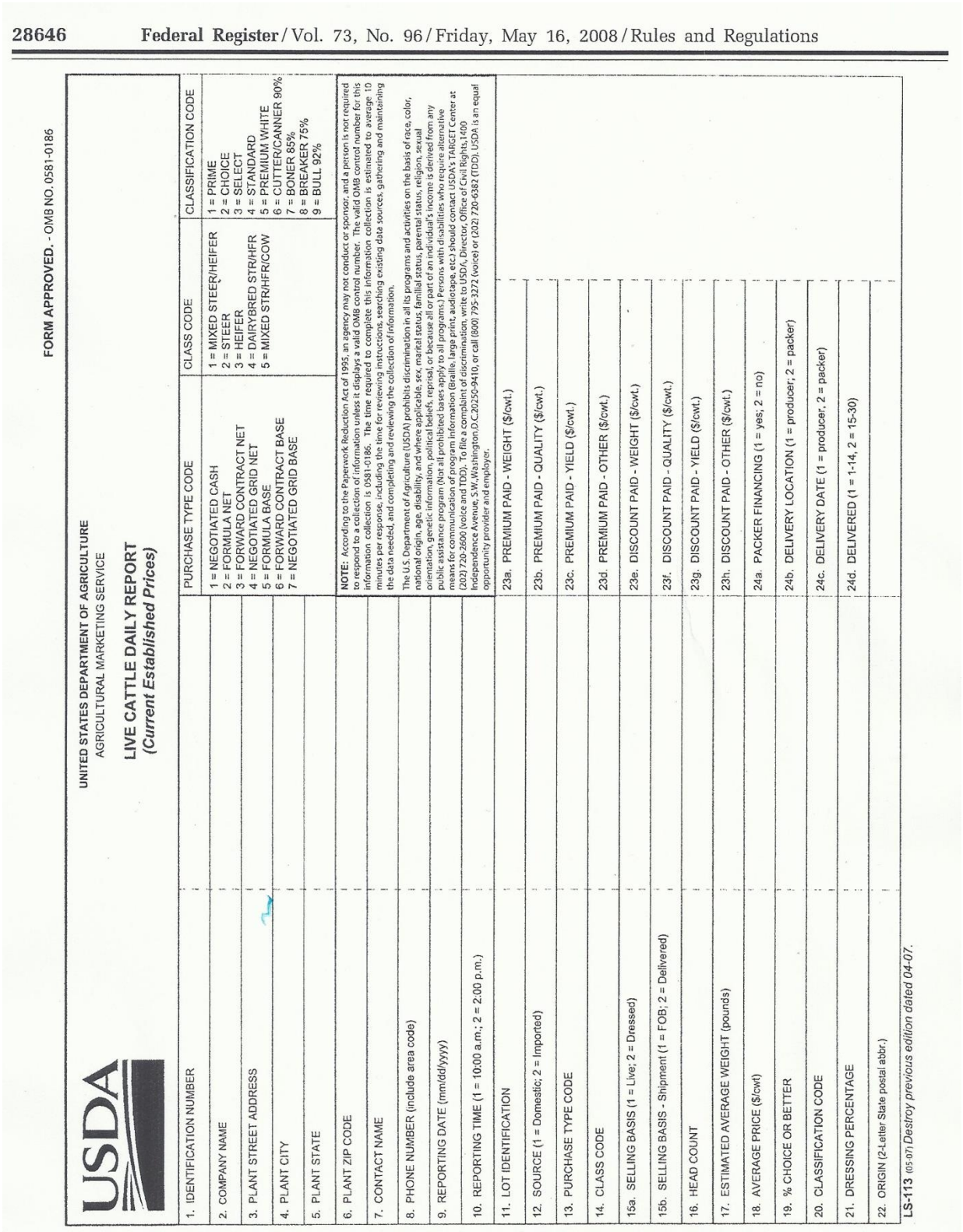
www.statcan.gc.ca

USDA - Mandatory Price Reporting on AMS

http://mpr.datamart.ams.usda.gov

9 Appendix

9.1 USDA Live Cattle Purchases Daily Report



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USDA

UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE

LIVE CATTLE DAILY REPORT
(Current Established Prices)

1. IDENTIFICATION NUMBER		PURCHASE TYPE CODE	CLASS CODE	CLASSIFICATION CODE
2. COMPANY NAME		1 = NEGOTIATED CASH 2 = FORMULA NET 3 = FORWARD CONTRACT NET 4 = NEGOTIATED GRID NET 5 = FORMULA BASE 6 = FORWARD CONTRACT BASE 7 = NEGOTIATED GRID BASE	1 = MIXED STEER/HEIFER 2 = STEER 3 = HEIFER 4 = DAIRYBRED STR/HFR 5 = MIXED STR/HFR/COW	1 = PRIME 2 = CHOICE 3 = SELECT 4 = STANDARD 5 = PREMIUM WHITE 6 = CUTTER/CANNER 90% 7 = BONER 85% 8 = BREAKER 75% 9 = BULL 92%
3. PLANT STREET ADDRESS				
4. PLANT CITY				
5. PLANT STATE				
6. PLANT ZIP CODE		**NOTE:** According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0581-0186. The time required to complete this information collection is estimated to average 10 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.		
7. CONTACT NAME				
8. PHONE NUMBER (include area code)		The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or part of an individual's income is derived from any public assistance program (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, or call (800) 795-3272 (voice) or (202) 720-6382 (TDD). USDA is an equal opportunity provider and employer.		
9. REPORTING DATE (mm/dd/yyyy)				
10. REPORTING TIME (1 = 10:00 a.m.; 2 = 2:00 p.m.)				
11. LOT IDENTIFICATION		23a. PREMIUM PAID - WEIGHT ($/cwt.)		
12. SOURCE (1 = Domestic; 2 = Imported)		23b. PREMIUM PAID - QUALITY ($/cwt.)		
13. PURCHASE TYPE CODE		23c. PREMIUM PAID - YIELD ($/cwt.)		
14. CLASS CODE		23d. PREMIUM PAID - OTHER ($/cwt.)		
15a. SELLING BASIS (1 = Live; 2 = Dressed)		23e. DISCOUNT PAID - WEIGHT ($/cwt.)		
15b. SELLING BASIS - Shipment (1 = FOB; 2 = Delivered)		23f. DISCOUNT PAID - QUALITY ($/cwt.)		
16. HEAD COUNT		23g. DISCOUNT PAID - YIELD ($/cwt.)		
17. ESTIMATED AVERAGE WEIGHT (pounds)		23h. DISCOUNT PAID - OTHER ($/cwt.)		
18. AVERAGE PRICE ($/cwt)		24a. PACKER FINANCING (1 = yes; 2 = no)		
19. % CHOICE OR BETTER		24b. DELIVERY LOCATION (1 = producer; 2 = packer)		
20. CLASSIFICATION CODE		24c. DELIVERY DATE (1 = producer, 2 = packer)		
21. DRESSING PERCENTAGE		24d. DELIVERED (1 = 1-14, 2 = 15-30)		
22. ORIGIN (2-Letter State postal abbr.)				

LS-113 (05-07) *Destroy previous edition dated 04-07.*

9.2 USDA Boxed Beef Sales Daily Report

FORM APPROVED. - OMB NO. 0581-0166

UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE

BOXED BEEF DAILY REPORT

1. IDENTIFICATION NUMBER		DELIVERY PERIOD 1 = 0-21 DAYS 2 = 22-60 DAYS 3 = 61-80 DAYS 4 = 81/UP DAYS	CLASS CODE 1 = MIXED STEER/HEIFER 2 = STEER 3 = HEIFER 4 = DAIRYBRED STR/HFR 5 = MIXED STR/HFR/COW 6 = DAIRY COW 7 = BEEF COW 8 = MIXED COW 9 = BULL	CLASSIFICATION CODE 1 = PRIME 2 = CHOICE 3 = SELECT 4 = PREMIUM WHITE 5 = CUTTER/CANNER 90% 6 = BONER 85% 7 = BREAKER 75% 8 = BULL 92% 9 = UNGRADED	TRIM SPEC CODE 1 = 3/4" AVG; 1" MAX 2 = 1/4" AVG; 1/2" MAX 3 = 1/8" AVG; 1/4" MAX 4 = PRACTICALLY FREE; 1/8" MAX 5 = PEELED/DENUDED; 1/8" MAX 6 = PEELED/DENUDED SURFACE MEMBRANE REMOVED; 1/8" MAX 7 = GROUND BEEF 8 = TRIMMINGS 9 = BONELESS PROCESSING BEEF
2. COMPANY NAME					
3. PLANT STREET ADDRESS					
4. PLANT CITY		SALES TYPE CODE 1 = NEGOTIATED 2 = FORMULA MARKETING ARRANGEMENT 3 = FORWARD CONTRACT		BRANDED PRODUCT CODE QUALITY 1 = PRIME 2 = UPPER 2/3 CHOICE 3 = LOWER 1/3 CHOICE 4 = SELECT	YIELD 1 = YIELD GRADE 1-3 2 = YIELD GRADE 4
5. PLANT STATE					
6. PLANT ZIP CODE					
7. CONTACT NAME		NOTE: According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0581-0186. The time required to complete this information collection is estimated to average 8 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or part of an individual's income is derived from any public assistance program (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Director, Office of Civil Rights,1400 Independence Avenue, S.W.,Washington,D.C.20250-9410, or call (800) 795-3272 (voice) or (202) 720-6382 (TDD). USDA is an equal opportunity provider and employer.			
8. PHONE NUMBER (include area code)					
9. REPORTING DATE (mm/dd/yyyy)					
10. REPORTING TIME (1 = 10:00 a.m.; 2 = 2:00 p.m.)					
11. LOT IDENTIFICATION OR PURCHASE ORDER NUMBER			18b. BEEF CUT - Description (if IMPS not applicable)		
12. DESTINATION (1 = Domestic; 2 = Export Overseas, 3 = Export NAFTA)			19. TRIM SPECIFICATION CODE		
13. SALES TYPE CODE			20. WEIGHT (1=Light; 2=Medium; 3= Heavy; 4=Mixed)		
14. DELIVERY PERIOD CODE			21. TOTAL PRODUCT WEIGHT (pounds)		
15. REFRIGERATION (1 = Fresh 1-14; 2 = Frozen; 3 = Fresh 14+)			22. FOB PLANT PRICE ($/cwt.)		
16. CLASS CODE			23. USDA CERTIFIED SCHEDULE CODE (if applicable)		
17. CLASSIFICATION CODE			24a. BRANDED PRODUCT CODE - Quality		
18a. BEEF CUT - IMPS Code			24b. BRANDED PRODUCT CODE - Yield		

LS-126 (05-08) *Destroy previous edition dated 12-07.*

9.3 The US boxed beef cut-out value as published by US Beef Board

2/5/2015 Wholesale Pricing: Choice Grade Beef Primals

Wholesale Pricing: Choice Grade Beef Subprimals

Week ending: January 30, 2015

CHUCK

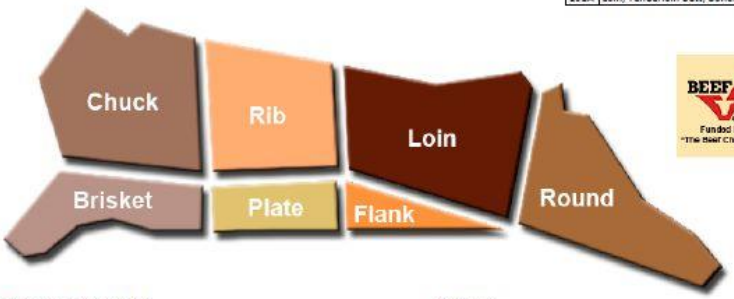
IMPS #	Description	Curr Week Price	Prev Week Price	Prev Year Price
113C	Chuck, Square-Cut, Neck-Off, Semi-Boneless	2.62	2.75	2.73
114	Chuck, Shoulder, Boneless	2.66	2.89	2.74
114A	Chuck, Shoulder, Boneless, Trimmed	2.80	2.94	3.03
114E	Chuck, Shoulder, Arm Roast	3.71	3.74	3.86
114F	Chuck, Shoulder Tender, IM	4.15	4.05	3.64
115	Chuck, Square-Cut, Boneless	2.85	3.13	2.71
116A	Chuck, Roll, Boneless	3.00	3.25	3.35
116B	Chuck, Tender, Boneless	3.21	3.29	2.99
130	Chuck, Short Ribs, Bone In	3.13	3.32	3.42

RIB

IMPS #	Description	Curr Week Price	Prev Week Price	Prev Year Price
109E	Rib, Ribeye, Lip-On, Bone In	5.77	5.84	5.30
112A	Rib, Ribeye Roll, Lip-On, Boneless Heavy	6.41	6.46	5.89
112A	Rib, Ribeye Roll, Lip-On, Boneless Light	6.74	6.63	6.00

LOIN

IMPS #	Description	Curr Week Price	Prev Week Price	Pr Yr Pr
174	Loin, Short Loin, 0x1, Bone In	5.40	5.58	4
174	Loin, Short Loin, 2x3, Bone In	5.18	5.24	4
175	Loin, Strip Loin, 1x1, Bone In	4.92	5.07	4
180	Loin, Strip Loin, 0x1, Boneless	5.80	6.17	5
180	Loin, Strip Loin, 1x1, Boneless	5.23	5.74	4
184	Loin, Top Sirloin Butt, Boneless	3.90	3.91	3
184	Loin, Top Sirloin Butt, Boneless Heavy	3.38	3.75	2
185A	Loin, Bottom Sirloin, Flap, Boneless	5.16	5.04	4
185B	Loin, Bottom Sirloin, Ball Tip, Boneless Heavy	3.47	3.46	2
185C	Loin, Bottom Sirloin, Tri-Tip, Boneless	3.81	3.87	3
185D	Loin, Bottom Sirloin, Tri-Tip, Boneless, Defatted	5.23	5.22	4
189A	Loin, Tenderloin, Full, Side On, Boneless, Defatted	9.66	9.91	9
191A	Loin, Tenderloin Butt, Boneless, Defatted	9.78	10.07	9



BRISKET, PLATE, FLANK

IMPS #	Description	Curr Week Price	Prev Week Price	Prev Year Price
120	Brisket, Deckle-Off, Boneless	3.40	3.56	2.33
120A	Brisket, Flat Cut, Boneless	6.01	5.97	4.10
123A	Plate, Short Ribs, Bone In	5.39	5.24	4.98
193	Flank, Steak, Boneless	5.49	5.57	4.15

ROUND

IMPS #	Description	Curr Week Price	Prev Week Price	Prev Year Price
160	Round, Shank Off, Partially Boneless	3.11	3.20	2.75
161	Round, Shank Off, Boneless	2.96	3.07	2.71
167A	Round, Tip, Boneless, Peeled	3.10	3.29	3.24
168	Round, Top, Boneless, Trimmed	2.76	2.77	2.68
168	Round, Top, Boneless, Untrimmed	2.67	2.69	2.62
169	Round, Top (Inside), Boneless	3.18	3.29	3.18
170	Round, Bottom (Gooseneck), Boneless	2.77	2.87	2.76
171B	Round, Outside Round, Boneless, Trimmed	2.95	3.22	3.17
171C	Round, Eye of Round, Boneless	3.45	3.53	3.25

Notes:

1. Prices in red are down from the previous year.
2. Prices shown are based on USDA weighted average prices from the previous week. Prices reflect average and not actual market prices.

Source: USDA Market News, categorized by the VMMeat® System.

9.4 Consultation List

ABARES
Agforce Queensland
ATRON Pty Ltd
Australian Agricultural Company
Australian Country Choice
Australian Meat Industry Council
Beef Producers SA (PPSA)
Cattle Council of Australia
Consolidated Pastoral Company
DAFWA
JBS Australia Pty Ltd
McDonald's Asia Pacific Consortium Pty Ltd
Mecardo – AGConcepts
MLA various including Market Information, NLIS
PIRSA SA
Processors operating in Queensland, NSW, Vic, South Australia.
Producers including feedlots, live exporters and suppliers to livex. NT, WA, Qld, Vic.
Queensland DAFF
TFGA Tasmania
WA Beef Industry Council
Woolworths

USA

Cattle Buyers Weekly
Chicago Mercantile Exchange
Colorado Livestock Association
Feedlot owner and part of the NCBA working group
Informa Economics (incorporating Sparks Companies)
Len Steiner, Steiner Co
Livestock Market Information Center
Meat Importers Council of America
NAMI (North American Meat Institute)
NCBA (National Cattlemen's Beef Association)
Nebraska Cattlemen Assn
Rabobank
Stephen Koontz Professor Colorado State Univ.
Ted Schroeder, KS State University Dept of Ag Economics
Texas and Southwestern Cattle Raisers Association
Texas Cattle Feeders Association
USDA Agricultural Market Service
Individual cattle producers, feedlots, Kansas, Texas, California, Colorado