



## **MILESTONE 5.**

# **Beef Price Transparency**

## **Options to address cattle and beef price transparency**

Project code: G.POL.1503

Prepared by: Brian Todd, agInfo Pty Ltd & Peter Barnard, Oliver and Doam Pty Ltd

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## Milestone 5 – Options to address cattle and beef price transparency

### **(A) INTRODUCTION:**

The Senate Inquiry (Rural and Regional Affairs and Transport References Committee) into Industry structures and systems governing levies on grass-fed cattle (September 2014) made seven recommendations. Recommendation Seven states “The committee recommends that the Department of Agriculture, in consultation with the cattle industry, conduct an analysis of the benefits and consequences of introducing legislation akin to the Packers and Stockyards Act 1921 and Livestock Mandatory Price Reporting Act 1999.

As of result of this recommendation and broader industry interest, Cattle Council of Australia (CCA) requested Meat and Livestock Australia (MLA) to:

“Assess options to increase 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. 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 transparency, including mandatory price reporting”.

This report (Milestone 5) provides an Executive Summary of the findings, suggested next steps for the Cattle Industry to pursue, key considerations taken into account of the complexities of the issue and a list of potential options in terms of increasing transparency.

### **(B) EXECUTIVE SUMMARY:**

- Issues associated with price transparency are multifactorial. They not only involve horizontal line of sight (knowledge of the actual prices at which cattle are being transacted), but also vertical line of sight (beef prices, margins at each stage along the chain) and confidence in payment systems.
- This suggests that a range of solutions are needed to address the issue, not a single solution.
- Reasonable amounts of cattle and beef price and market information already exist in Australia.
- Although it is the conclusion of this paper that, on balance, addressing gaps in this information and providing improved analysis is likely to result in producer benefits which exceed costs, these net benefits are likely to be reasonably small.
- Net benefits of a substantial level are only likely to arise if either one of two outcomes results from improved price and market information:
- Either improved price information over a period of time gives rise to an Australian futures market for cattle or beef
- Or better price information, in combination with other initiatives to instil confidence in payment systems, results in a move towards value based selling/marketing.

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### **(C) POTENTIAL NEXT STEPS FOR INDUSTRY TO CONSIDER:**

The following key questions could provide some guidance on the best way to bring the process to a finalisation.

- (1) Whether sufficient evidence is now available to conclude that Australian cattle producers would benefit on net from an increase in price transparency along the cattle/beef supply chain.
- (2) Whether Government intervention is required to secure increased price transparency (via the implementation of mandatory price reporting) or whether, at least in the first instance, industry should itself implement measures to secure this outcome.
- (3) A decision needs to be made on whether the cooperation of the processing sector should be sought in implementing initiatives to improve price transparency.
- (4) Finally, a decision needs to be made on whether services are provided to facilitate ready comparison of grids by producers and methods/education introduced to give greater confidence that cattle are being properly assessed against grids.

### **(D) GENERAL ANALYSIS:**

#### **(1) BENEFITS**

**On the balance of evidence it is a conclusion of this paper that producers are likely to benefit from increased price transparency in Australian cattle and beef markets.**

This conclusion is based upon consideration of:

- The findings from MLA Project G.POL.1503 and the Senate Inquiry into Grassfed Cattle Levies which revealed dissatisfaction with current levels of transparency
- The experience in the US with mandatory price reporting and studies which generally show small, but tangible, producer benefits from this legislation
- An examination of differences between the US and Australian industries leading to the conclusion that benefits from improved price transparency in Australia would likely be greater than in the US (NB. a strong live cattle futures market exists in the US and this represents the major source of price discovery for the US industry. In the absence of such a market in Australia, other mechanisms of price discovery are likely to assume greater importance).

**Notwithstanding, it is also found that the level of these benefits may be small.**

- Significant benefits are only likely to Australian producers if initiatives on transparency result in one of two outcomes:
  - As a result of improved market information and confidence in published price information efforts are successfully re-ignited to operate a cattle futures market in Australia. In this context it is noted that the source of 95% of cattle price discovery in the US is the Chicago cattle futures market.
  - As a result of greater price transparency, including increased confidence in, and understanding of, assessment of cattle against grids, increased numbers of cattle are transacted on the basis of their true value (value based marketing).

The objective for the industry in any implementation of greater price transparency must be to ultimately achieve at least one of the above two outcomes – otherwise net benefits will be marginal.

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## Comparing & Contrasting the US experience

Key findings include the following:

- Typically **over 95% of price discovery in US cattle markets emanates from the futures market**. This suggests that the biggest advantage that US producers who wish to discern trends in cattle prices have over their Australian counterparts is the existence of the Chicago live cattle futures market.
- The **methods processors use to set cattle prices in the US did not alter significantly pre and post the introduction of mandatory price reporting**<sup>1</sup>. As applied to Australia, this result suggests that if drought induced supplies drove cattle prices to depressed levels in 2013 and 2014, even if there was improved price transparency in Australia, the same result would occur.
- **Mandatory price reporting in the US had no effect on processors exerting market power** – indeed evidence exists that in some circumstances mandatory price reporting may have even aided processors in exerting market power.<sup>2</sup>
- Despite the above three points, although mixed, the majority of studies in the US<sup>3</sup>, including the latest evidence<sup>4</sup>, indicate that mandatory price reporting has been beneficial to US producers – **it has played a very small but detectible role in price discovery**.

Significant differences exist between US and Australian cattle markets. These differences mean that the findings from the US cannot simply be transferred to Australia.

Despite these differences, however, the author is of the view that very small, but tangible, price discovery benefits might accrue to Australian producers from increased transparency.

### Benefits to Australian producers would be small for the following reasons:

- **Considerable market information is already available in Australia**. About 45 auction markets are reported on a weekly basis as are over-the-hooks offer prices. Auction markets in Australia continue to be an important selling method, unlike in the US. Furthermore, Australian producers on their own initiative can readily obtain OTH offer prices.
- As noted previously, **further price information is not unlikely to change the market conditions**, including those that arose in 2013 and 2014, nor will it change the market power and knowledge equation.

There are reasons to believe, however, that benefits from increased price transparency, although relatively small, may be greater for Australian producers than US producers:

- US producers have always enjoyed a wealth of market information, including:
  - producer run services, such as CattleFax;
  - data on beef markets, such as the Urner Barry report;
  - independent services, such as those provided by the Steiner Consulting Group and Global AgriTrends; and
  - The very extensive market reporting and research services provided by the USDA.

The extent of market information available to Australian producers is less than for US producers, suggesting that an increase in this information may be of greater marginal value in Australia.

- In a number of areas the amount of market information available to Australian producers has deteriorated in recent times:
  - Wholesale beef prices are no longer collected in Australia due to apparent unreliability/thinness of market at point of collection.

<sup>1</sup> Perry, J., J. MacDonald, K. Nelson, W. Hahn, C. Arnade, and G. Plato. 2005. "Did the Mandatory Requirement Aid the Market? Impact of the Livestock Mandatory Reporting Act", United States Department of Agriculture, Economic Research Service, Report LDP-13501, September.

<sup>2</sup> Cai, X., K.W. Stiegert, and S.R. Kooz. 2011. "Oligopoly Fed Cattle Pricing: Did Mandatory Price Reporting Increase Meatpacker Market Power?" Applied Economic Perspectives and Policy 33(4):pp606-22

<sup>3</sup> See, for example, Ward, C.E. 2006. "An Assessment of the Livestock Mandatory Reporting Act", Proceedings of the NCCC-134 Conference on Applied Commodity Price Analysis, Forecasting, and Market Risk Management, St. Louis, MO. [http://www.farmdoc.illinois.edu/nccc134/conf\\_2006/pdf/conf04-06.pdf](http://www.farmdoc.illinois.edu/nccc134/conf_2006/pdf/conf04-06.pdf) and Kooz, S.R., and C.E. Ward. 2011. "Livestock Mandatory Price Reporting: A Literature Review and Synthesis of Related Market Information Research," Journal of Agricultural & Food Industrial Organization 9(1): pp1-33.

<sup>4</sup> Boyer, C.N., and B.W. Brorsen. 2013. "Changes in Beef Packers' Market Power After the Livestock Mandatory Price Reporting Act: An Agent-Based Auction," American Journal of Agricultural Economics 95(4):pp859-76 and Mathews, K.H., Brorsen, W., Hahn, W.F., Arnade, C., and E. Dohman. 2015. "Mandatory Price Reporting, Market Efficiency, and Price Discovery in Livestock Markets, United States Department of Agriculture, Economic Research Service, Report LDP-254-01, September.

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- Export beef prices to Japan are now being collected by MLA on a monthly basis, instead of weekly.
- No export beef prices are collected for expanding markets such as China and Indonesia (although there are some retail and wholesale beef prices available from these markets).
- A survey of processor shares of beef production was last conducted in 2007. Before 2007 this survey was conducted on a regular basis. Without such information producers and Government have very little data on which to assess questions of processor market power, including the impact of takeovers / mergers.
- The above data used to be considered valuable to collect, with collection mostly being abandoned due to lack of cooperation / thinness of responses. This suggests that there could well be value now in this data if a commitment to greater market transparency allowed collection to recommence<sup>5</sup>

### (2) **COMPLEXITY:**

#### **Greater collection of cattle and beef prices by itself will not solve the price transparency issue.**

There is another complication in Australia - It is that Australia's beef production system is much more diverse than that of the US and has much more complicated payment systems.

- In the US when cattle are sold on a grid basis typically payment is made on three factors:
  - the dressed weight of the animal;
  - the USDA grade achieved; and
  - The yield grade achieved.
- Furthermore, in the US the USDA grade and the yield grade is determined independently (by a USDA inspector), not by the processor (i.e. the buyer).

In Australia, Project G.POL.1503 Milestones 2&3 Report points to instances where grids contain 104 values for the Ox category alone<sup>6</sup>.

Australian producers justifiably complain that grids are complex and impossible to compare even on core and consistent turnoff, especially when there is great uncertainty over how cattle will grade.<sup>7</sup> Furthermore, producers complain that excessive and unfair discounts apply against the grid, especially in times of abundant supply.<sup>8,9</sup>

The above suggests that further steps are required in Australia to provide confidence in pricing systems – simply collecting more cattle and beef prices will not result in the price transparency issue going away.

#### **In the US probably the greatest benefit from mandatory price reporting has been to apparently encourage a move to vertical supply chain integration with many more cattle being transacted under value related payment systems.**

- In the US the share of cattle transacted on a negotiated cash basis (e.g. through auction markets or via direct sales with price simply determined by live weight) declined from more than 60% in 2004 to less than 30% now.

<sup>5</sup> It would be remiss not to also note that in a limited number of areas price transparency might have marginally increased – e.g. due to the commencement of NLRs reporting of some northern Queensland auction markets.

<sup>6</sup> AgInfo Pty Ltd, 2015, "Assessment of price transparency in the beef supply chain, Milestones 2 & 3 Report, Learning from systems in the US, Canada and other markets and Assessment of cattle/beef supply chain transparency in Australia", Meat and Livestock Australia, Project G.POL.1503, p56.

<sup>7</sup> Ibid, p43.

<sup>8</sup> Ibid, p41.

<sup>9</sup> The complexity of cattle buying grids contrasts with a desire by consumers, the ultimate end user of the product, to buy on a simple basis – eating quality, colour and weight.

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- At the same time the proportion of cattle transacted under Alternative Marketing Arrangements (e.g. using dressed weight / USDA grade / yield grade as the basis for payment) more than tripled.

MISP2020 clearly highlighted the benefits of the Australian industry moving towards greater use of value based payments – for the beef industry for 2030 the BCR of this result in terms of industry income was 7.4:1 and for GVP 15.6:1<sup>10</sup>.

Greater price transparency may prompt such a move towards value based payment systems, but only if accompanied by:

- Methods to make it easier for producers to compare alternative grids. It is interesting to note that in other areas where complex pricing arrangements exist independent services exist to assist buyers to make comparisons between the alternative options. *A role for MLA could be to provide such a service to cattle producers.*
- Measures to instil producer confidence that cattle have been fairly assessed against grids. This may include simply providing producers with greater information on systems already in place or it may involve additional auditing of assessment procedures.
- Educating producers to understand the feedback they receive.

### **(E) ANALYSIS OF OPTIONS TO INCREASE TRANSPARENCY:**

The following is an overview of the potential options for increasing cattle and beef price transparency in Australia.

The options below are in no particular order but reflect preliminary review of suitable options, ease of implementation and indicative costs.

The table (Figure One) at the end of the overview includes comparative analysis of these options.

#### **(1) Mandatory Price Reporting System - Overview**

Mandated reporting of all cattle and beef data prices and volumes by contracting methods in a format that is easily understood and interpreted by Australian cattle producers.

The system would be modelled on the USDA Agricultural Marketing Service mandatory cattle and beef price reporting which was introduced in 1999 and is about to be reauthorised for another 5 years (2015-2020).

In the Australian context it would include all over-the-hooks (OTH) transactions and direct consignment of cattle and include the net price including discounts in relation to weight and grade beef carcasses (currently not reported) - estimate to account for as much as 6 million cattle per year. All wholesale and export beef prices by specification and export codes would also be reported. Volumes and final price would be reported and published daily.

Implementation would require Australian government legislation and there is limited Australian experience of mandatory price reporting systems for commodities.

Such a system would entail significant establishment costs e.g. set up, training, and industry liaison. On an ongoing basis, auditing will be required. Preliminary cost estimate is \$0.20 per head equivalent to upwards of \$1.9 million annually.

It is anticipated that there is likely to be low support for mandatory price from meat processors and supply chain participants including supermarket chains for domestic beef direct consignment with closed supply chains.

<sup>10</sup> Centre for International Economics. 2015. "Meat Industry Strategic Plan 2015-20: Quantifying the payoffs from collaborative investments by the red meat industry". Canberra. September.

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### **(2) Voluntary Price Reporting System - Overview**

Processors voluntarily disclose prices on an anonymous basis.

Disclosure of prices will enable reporting of a range of OTH hook grid prices in weight ranges (steers, cows, yearlings), plus minimums and maximums and weight by weekly plant slaughter. Discount range and weighted average by plant slaughter would also be reported. Processors / producers to provide actual prices paid / received per category. Reports would then summarise and track discounts according to weight ranges.

The data is available, however the system would need a sufficient number of grids and the reporting of OTH grids by state and by region. Setup time and cost is expected to be similar to that of mandatory price reporting and would require comprehensive audit, training and producer, processor communications and industry consultation.

With a representative sample of 15 large processors and producer participation the estimated cost calculated at \$1.2 million.

Government legislation not required to implement enhanced voluntary reporting, but there will be similar expenses in consultation and setup and a similar time frame from agreement to implementation. Ongoing auditing and data reconciliation also required.

### **(3) Carcase cut-out report - Overview**

This would include export composite steer cut-out and export cow cut-out report. Supermarket steer, heifer domestic carcase cut-out report.

Methodology would be as follows:

*Steer cut-out* - use a typical yield for a steer and prices for either individual cuts or a composite of chilled and frozen beef cuts including loin cuts, butt cuts and forequarter cuts and manufacturing beef trimmings. Use an indicator 300 kilograms hot standard carcase weight body.

*Cow cut-out* - a full carcase cow broken up for manufacturing purposes into fore and hind trimmings with indicator 90% chemical lean and frozen. Body weight estimates 240 kilograms hot standard carcase weight. Use retail cut-out of bone in and boneless retail cuts as sold by Australian domestic supermarkets based on a typical 250 kilograms hot standard carcase weight beef body. Using a 74% yield of bone in and boneless cuts as advised by industry sources for the typical supply chain partner to supermarkets.

Data is available including:

Cuts - full export Australian Customs department individual chilled and frozen cuts and manufacturing beef prices or the Australian Bureau of Statistics AHECC code subscription service for the full range of fore, loin, butt and manufacturing trimmings for the composite steer

Prices - MLA collected 90cl manufacturing beef indicator price (cross checked with other lean percentages). FOB Australian port in Australian dollars per kilogram. For retail prices, Nielsen Homescan individual cut prices with the option to use a butcher survey of individual beef cut prices. Cross check with weekly catalogue prices for beef cuts as published weekly by Woolworths and Coles supermarkets.

There are no barriers to introduction with data available by ABS subscription and Nielsen Homescan and butcher price survey continuing. Estimated data annual cost \$255,000 plus MLA staff time preliminary estimate \$42,000. All up cost \$300,000.

Advantages are ease and speed of implementation and relatively low cost if ABS figures used. Least disruptive to market participants including meat processors, exporters and supermarkets and butchers.

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### **(4) On-line board including final OTH carcass selling price**

An open source online facility for collecting and collating real time actual paid OTH prices and submitted by producers. Producers will enter the data based on their regular OTH grids provided by processors that they normally supply. Data is available and producers need the OTH grid published weekly and distributed by processors to their producer suppliers.

Cost estimate is \$1.42 million and includes producer time of \$925,000 and agreement to complete the login to the online board and update their final price received after their cattle are processed, weighed and graded. There will be a lag of 2-3 days when MSA cattle are included. Cost per head, high estimate \$0.93, and low estimate \$0.46 per head.

No legislation is required as the facility will be both commercial and voluntary. Producers must be willing to disclose the price data, but it is owned by them as it is the final price received and paid by meat processors. The board will aggregate the data and display prices by weight ranges, grades of cattle, - steers, cows, bulls, heifers. It is envisaged only adult cattle will be included not calves. Only slaughter cattle. Volumes will be included to provide weighted average price groupings.

Barriers to introduction include cost of developing the online board and promoting it to producers. Some incentives may be required to ensure that a critical mass of data is included in the board and this will need to be compared to regular OTH volumes sold. Medium ease of implementation, with CCA and producer organisation support, 6 month time frame, interest expected to be favourable.

Options include a fully commercial facility with seed funding from MLA via R&D and government R&D dollars and gradually commercialise through advertising revenue, paid market reports, paid subscriptions to press and industry.

### **(5) Enhanced MLA and commercial market reporting and intelligence services**

Regular generation of NLIS data of direct consignment of cattle from property of origin PIC to meat processor PIC. Detailed data by regions generated and provided to MLA on a regular weekly basis. NLIS data is currently not available. NLIS data access is critical and agreement by NLIS Committee to set up the data generation and absorb the cost as well as defraying some of the costs by making aggregated data with limited breakup available by subscription. Industry partnership to generate significantly improved beef and cattle price transparency.

No estimate has been made of cost at this preliminary stage. Department of Agriculture submission to Senate meat processor concentration enquiry included in attachments.

Senate processor enquiry hearings continued to press the lack of transparency and availability of data for up to two thirds of Australian cattle slaughter and processor submissions indicating 80-90% of their cattle are procured by direct consignment OTH terms.

### **(6) Other feasible, beneficial mechanisms to improve price transparency**

Map the beef supply and value chain in detail with volumes of transactions and regional factors. Include live export. Volume data by selling method, locations for major volumes that drive prices. Include unit price trends over time to value the segments in the supply chain.

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| <b>FIGURE ONE:</b><br>Option to address price transparency    | Brief description of solution  | Describe data needed   | Is data available (Y,N, comments)  | Cost of data  | Legislative barriers to data | Any other barriers (e.g. confidentiality, commercial in confidence, regularity, level of detail)   | Alternative options (e.g. what, how much, availability, compromises)   |
|---|--|--|--|---|------------------------------|--|--|
| <p><b>(1)</b><br/><b>Mandatory price reporting system</b></p> | Mandated reporting of all cattle and beef data prices and volumes by contracting methods that is easily understood by producers. | Processor data of actual price paid and their ex works selling price for all products. Live Cattle (daily and weekly reporting): Daily (by prices and by quantities). All over the hooks prices including discounts by grade and weight range. Selling prices wholesale and export for all beef cuts, co-products and volumes sold for weighting of prices. Discounts for cattle purchased and slaughtered during the previous week. | <p>Yes. No local Australian experience for operations.</p> <p>Yes. USDA report interface is fact-based from packers and provides no analysis, reducing potential for manipulation. Reports can be disaggregated by purchase method, region and livestock category, which makes this more pertinent for users</p> | <p>Australian estimate.<sup>11</sup> Setup \$775,000, industry reporting costs – High \$790,000 Low \$266,000, annual maintenance \$250,000, annual audit \$80,000. Total \$1,895,000 High</p> <p>\$1,372,000 Low. \$0.20 per head High and \$0.15 per head Low.</p> <p>USA cost estimate. USD\$725,000. Industry \$100,000, annual cost \$300,000 and technology \$325,000.<sup>12</sup></p> | New legislation required.    | <p>Costs could be an issue to some Australian meat processors. In the USA, packers who slaughter fewer than 125,000 head per year are exempt from reporting so appropriate scaling in Australia could be needed.</p> <p>High effort, long time frame, industry absolutely against.</p> | <p>Yes, greater attention to key data from industry without jeopardizing confidentiality. More scrutiny in the competitiveness of the beef value chain. GIPSA in the USDA has the mandate to enable competition in the beef industry and to take enforceable legal action. Need to have close legal and regulatory oversight. New Australian ACCC agriculture position for supply chain oversight assists.</p> |

<sup>11</sup> agInfo estimate August 2015

<sup>12</sup> USA Federal Register Vol. 77, No. 163 Wednesday, August 22, 2012 page 50562

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| <p><b>(2)</b><br/><b>Voluntary price reporting</b></p> | <p>Processors could voluntarily disclose prices on an anonymous basis. Report a range of OTH hook grid prices in weight ranges of steers, cows, yearlings – report high and low and weight by weekly plant slaughter. Report discounts range and weighted average by plant slaughter.</p> | <p>Processors / producers provide actual prices paid / received per category. Summarise and track discounts according to weight ranges. Use maximum price cell in grid and then quote discounts for weights and carcass fat cover. Indicate number of grids surveyed next to each discount weight range and fat cover.</p> | <p>Yes. Would need a sufficient number of grids and continue the reporting of OTH grids by state and by region, example North Queensland, Central Queensland, South East Queensland, Darling Downs, NSW North Coast, Central NSW, Southern NSW, Western Victoria, East and north east Victoria as appropriate.</p> | <p>Cost estimate<sup>13</sup>. Top 15 meat processors and a representative sample of beef cattle types and specifications. Setup same as MPR \$755,000, industry reporting costs \$100,000. Less reports, less processors. Annual maintenance same as MPR \$250,000, annual audit \$30,000. Total cost \$1,155,000. Approx. \$0.41 per head.</p> <p>As experienced in the USA, VPR requires adequate funding to insure market representative reports.</p> | <p>No need for legislation as voluntary. Requires the same cost of consultation as MPR as well as same training and same preparation in set up.</p> | <p>Would need sufficient transaction volume to be market reflective.</p> <p>No legislative barriers but agreement of meat processors essential.</p> <p>Similar degree of difficulty as MPR in terms of setup. Time frame lengthy and low degree of cooperation expected from processors.</p> <p>In USA context, voluntary price reporting has been perceived as a means of manipulating market outcomes. However after MPR implemented was not found to be</p> | <p>Not known.</p> |
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<sup>13</sup> agInfo estimate August 2015

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|   |  |  |  |   |   | the case.  |  |
| <b>(3)</b><br><b>Carcase cut-out report</b> | Export composite steer cut-out and export cow cut-out report. Supermarket steer, heifer domestic carcase cut-out | Use a typical yield for a steer and prices for either individual cuts or a composite of chilled and frozen beef cuts including loin cuts, butt cuts and forequarter cuts and manufacturing beef trimmings. Use an indicator 300 kilograms hot standard carcase weight body. Cow cut-out is a full carcase cow broken up for manufacturing purposes into fore and hind trimmings with indicator 90% chemical lean and frozen. Body weight estimates 240 kilograms hot standard carcase weight. Use retail cut-out of bone in and boneless retail cuts as sold | Yes. Either the full export Australian Customs department individual chilled and frozen cuts and manufacturing beef prices or the Australian Bureau of Statistics AHECC code subscription service for the full range of fore, loin, butt and manufacturing trimmings for the composite steer and MLA collected 90cl manufacturing beef indicator price (cross checked with other lean percentages). Prices on the basis FOB Australian port in Australian dollars per kilogram. Either the full Nielsen scan | Customs Data not available and would need to be negotiated by industry and government and held confidentially by MLA. ABS data is readily available by subscription. It is understood the ABS subscription, annual sum less than \$10,000. Customs data cost unknown. Global Trade Atlas subscription for overseas markets \$20,000. Nielsen Homescan current subscription rates \$165,000 annual. Butcher retail data \$69,000. Addition of MLA staff cost time to collect and enter weekly retail beef catalogue prices. Estimate one | Federal privacy and confidentiality rules as appropriate for Australian Customs raw data. Maybe available under Freedom of Information but negotiation necessary at Government level for this raw data. Would be best to obtain a sample of Customs data before going through the exercise. Either the full export Australian Customs department individual chilled and frozen cuts and manufacturing beef prices or the Australian Bureau of Statistics AHECC code subscription service for the full | ABS AHECC export data is released 6 weeks after end of month reported. Significant time lag issue. Insufficient detailed break up of individual beef cuts. Homescan data is a sample only. Cross check with butcher prices survey and weekly supermarket catalogue prices necessary.<br><br>Ease and speed of implementation and relatively low cost if ABS figures. Least disruptive to market participants including meat processors, exporters and supermarkets and butchers. | Data in a format that will clearly depict potential opportunities and constraints.<br><br>Voluntary price reporting by supermarkets or negotiation for them to report a usable weekly average price of beef cuts sold. They are likely to have data that is commercial but a generic price per kilogram may be obtainable. |

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|  |  | <p>by Australian domestic supermarkets based on a typical 250 kilograms hot standard carcass weight beef body. Using a 74% yield of bone in and boneless cuts as advised by industry sources for the typical supply chain partner to supermarkets</p> | <p>data by cut sold by Australian supermarket chains or a combination of the Nielsen Homescan individual cut prices with the option to use the butcher survey of individual beef cut prices. Prices retail \$ per kilogram. Cross check with weekly catalogue prices for beef cuts as published weekly by Woolworths and Coles supermarkets.</p> | <p>staff member 8 hours per week, \$800 staff time per week, \$42,000 pa.</p> | <p>range of fore, loin, butt and manufacturing trimmings for the composite steer and MLA collected 90cl manufacturing beef indicator price (cross checked with other lean percentages). Prices on the basis FOB Australian port in Australian dollars per kilogram. Either the full Nielsen scan data by cut sold by Australian supermarket chains or a combination of the Nielsen Homescan individual cut prices with the option to use the butcher survey of individual beef cut prices. Prices retail \$ per kilogram. Cross check with weekly catalogue</p> |  |  |
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|--|--|--|--|--|---|--|--|
|  |  |  |  |  | prices for beef cuts as published weekly by Woolworths and Coles supermarkets.. |  |  |
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| <p><b>(4)</b><br/><b>On-line board (including final OTH sales)</b></p> | <p>An open source online facility for collecting and collating real time actual paid OTH prices and submitted by producers.</p> | <p>None; producers will enter the data based on their regular OTH grids provided by processors they normally supply.</p> | <p>Generally, yes as producers need the OTH grid published weekly and distributed by processors to their producer suppliers.</p> | <p>Cost estimate<sup>14</sup> \$1,420,000 includes producer time \$925,000 and agreement to complete the login to the online board and update their final price received after their cattle are processed, weighed and graded. There will be a lag of 2-3 days or more if MSA cattle are included. Cost per head, High estimate \$0.93, and low estimate \$0.46 per head.</p> | <p>None as commercial and voluntary. Producers must be willing to disclose the price data but it is owned by them as it is the final price received and paid by meat processors. The board will aggregate the data and display prices by weight ranges, grades of cattle, - steers, cows, bulls, heifers. It is envisaged only adult cattle will be included not calves. Only slaughter cattle.</p> | <p>Cost of developing the online board and promoting it to producers. Some incentives may be required to ensure that a critical mass of data is included in the board and this will need to be compared to regular OTH volumes sold. As the price would likely include number of head and price after discount, a weighted average price as well as trends could be generated by the online software.</p> <p>Medium ease of implementation, with CCA and producer organisation support, 6 month time frame, interest expected to be favourable.</p> | <p>Unlikely unless a mandatory price reporting online board was developed for processors to report their grid prices, grades and discounts and this would need Federal government legislation. (Called PPP or Primary Producer Pricing Bill). Or, a fully commercial facility with seed funding from MLA via R&amp;D and government R&amp;D dollars and then gradually commercialise through advertising revenue, paid market reports, paid subscriptions to press and industry.</p> |
|--|---|--|--|---|---|---|--|

<sup>14</sup> agInfo estimate August 2015

## Price Transparency Milestone 5

|   |  |  |   |   |             |  |   |
|---|--|--|---|---|-------------|--|---|
| <p><b>(5)</b></p> <p><b>Enhanced MLA and commercial market reporting and intelligence services</b></p>  | <p>Regular generation of NLIS data of direct consignment of cattle from property of origin PIC to meat processor PIC</p>     | <p>NLIS data by regions generated and provided to MLA on a weekly routine basis.</p>   | <p>NLIS data is available. NLIS data access is critical and even if we can find another way it should become more accessible as a matter of course.</p> | <p>Unknown. NLIS costs to generate the data. If the code was written, the start-up cost would be an amount and the regular generation of data would be a lesser amount. Auditing of data would be an additional cost.</p> | <p>None</p> | <p>Unanimous agreement by NLIS Committee to set up the data generation and absorb the cost and defray some of the costs by making aggregated data with limited breakup available by subscription.</p> <p>Industry partnership to generate significantly improved beef and cattle price transparency.</p> | <p>None known. Current ABARES survey of selling methods is infrequent and possibly too small a sample and designed for industry performance tracking.</p> |
| <p><b>(6)</b></p> <p><b>Any other feasible, beneficial mechanisms to improve price transparency</b></p> | <p>Map the beef supply and value chain in detail with volumes of transactions and regional factors. Include live export.</p> | <p>Volume data by selling method, locations for major volumes that drive prices. Include unit prices trends over time to value the segments in the supply chain.</p> | <p>Some currently. Would need a research project.</p>   | <p>Unknown.</p>   | <p>None</p> | <p>Commercial and confidentiality but aggregation of data would assist to make all supply chain participants comfortable.</p>  |   |

# Price Transparency Milestone 5

## Attachments

### Options cost estimates

MILESTONE 5 COSTINGS, BUDGETS ANNUAL

CURRENT DATA COSTS IN RED

| OPTION                              | PREPARATION, PLAN               | STAGE 1 CONSULTATION | REVIEW          | LAUNCH, PUBLICITY | FINAL CONSULTATION | TRAINING  | TOTAL        |
|-------------------------------------|---------------------------------|----------------------|-----------------|-------------------|--------------------|-----------|--------------|
| MPR                                 | SETUP                           | \$ 300,000           | \$ 150,000      | \$100,000         | \$ 25,000          | \$ 75,000 | \$ 775,000   |
|                                     | ANNUAL MAINTENANCE              |                      |                 |                   |                    |           | \$ 250,000   |
|                                     | INDUSTRY REPORTING COSTS        |                      |                 |                   |                    |           | \$ 790,000   |
|                                     | AUDIT ANNUAL                    |                      |                 |                   |                    |           | \$ 80,000    |
|                                     |                                 |                      |                 |                   |                    |           | \$ 1,895,000 |
| VPR                                 | SETUP                           |                      |                 |                   |                    |           | \$ 775,000   |
|                                     | ANNUAL MAINTENANCE              |                      |                 |                   |                    |           | \$ 250,000   |
|                                     | INDUSTRY REPORTING COSTS        |                      |                 |                   |                    |           | \$ 100,000   |
|                                     | AUDIT ANNUAL                    |                      |                 |                   |                    |           | \$ 30,000    |
|                                     |                                 |                      |                 |                   |                    |           | \$ 1,155,000 |
| ONLINE BOARD                        | SETUP                           | \$ 50,000            | \$ 25,000       | \$ 20,000         | \$ 25,000          | \$ 50,000 | \$ 195,000   |
|                                     | CAPITAL AND IT                  |                      |                 |                   |                    |           | \$ 250,000   |
|                                     | ANNUAL MAINTENANCE              |                      |                 |                   |                    |           | \$ 50,000    |
|                                     | PRODUCER REPORTING COSTS        |                      |                 |                   |                    |           | \$ 925,000   |
|                                     |                                 |                      |                 |                   |                    |           | \$ 1,420,000 |
| BEEF EXPORTS EST. 74% of production | <b>CURRENT DATA ANNUAL COST</b> |                      |                 |                   |                    |           |              |
|                                     | GLOBAL TRADE ATLAS              | \$ 18,480            | USD             |                   |                    |           |              |
|                                     | ABS                             | \$ 7,800             |                 |                   |                    |           |              |
| DOMESTIC                            | <b>CURRENT DATA ANNUAL COST</b> |                      |                 |                   |                    |           |              |
|                                     | NIELSEN HOMESCAN SERVICES       | \$ 165,000           | 2 YEAR CONTRACT |                   |                    |           |              |
|                                     | NFS BUTCHER SURVEY 2015-16      | \$ 68,700            |                 |                   |                    |           |              |
|                                     |                                 | \$ 233,700           |                 |                   |                    |           |              |

HIGH \$ 266,667 LOW  
\$1,371,667

|                          |     |
|--------------------------|-----|
| INDUSTRY REPORTING COSTS | 60% |
|--------------------------|-----|

|                    |           |          |                 |            |
|--------------------|-----------|----------|-----------------|------------|
| annual             |           |          |                 |            |
| Beef production    | 2,622,357 | tonnes   | AVERAGE CWT KGS | 278        |
| Beef slaughter     | 9,419,900 | head     |                 |            |
| \$ 0.0050          | HIGH      | \$0.0010 | LOW             | PER KG CWT |
| \$ 0.14            | HIGH      | \$ 0.03  | LOW             | PER HEAD   |
| <b>TOTAL COSTS</b> |           |          |                 |            |
| \$ 0.0072          | HIGH      | \$0.0054 | LOW             | PER KG CWT |
| \$ 0.20            | HIGH      | \$ 0.15  | LOW             | PER HEAD   |

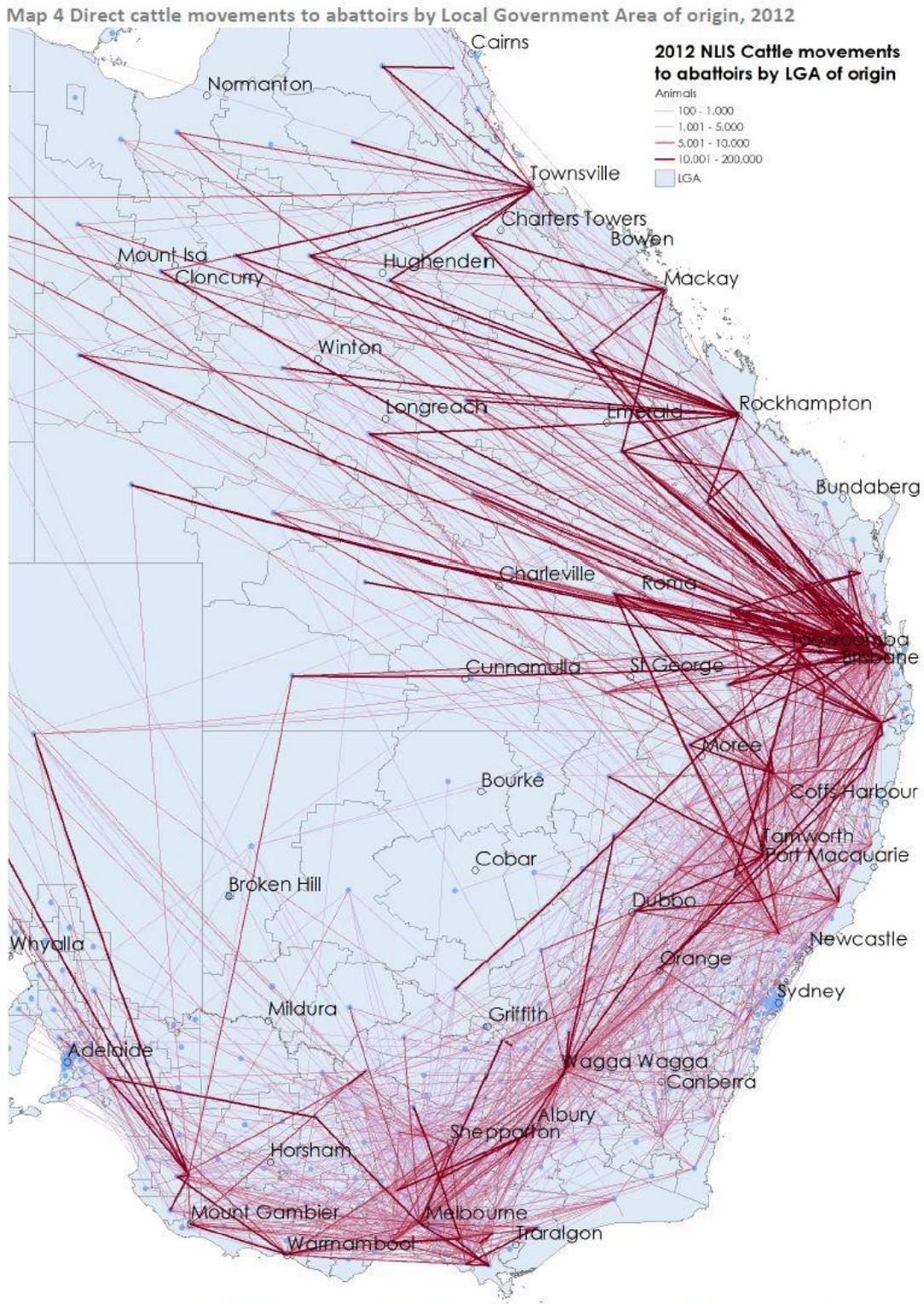
|            |                 |
|------------|-----------------|
| \$ 0.00147 | COST PER KG CWT |
| \$ 0.41    | COST PER HEAD   |

|         |      |         |      |
|---------|------|---------|------|
|         | HIGH |         | LOW  |
| \$ 0.93 | HEAD | \$ 0.46 | HEAD |

Source: agInfo

# Price Transparency Milestone 5

## Australian Department of Agriculture – NLIS movements<sup>15</sup>.



<sup>15</sup> Market consolidation and the red meat processing sector SUBMISSION TO THE SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT REFERENCES COMMITTEE 9 JULY 2015. Australian Department of Agriculture

## Price Transparency Milestone 5