



Submission to ACCC Supermarkets Inquiry 2024-25

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About AMIC

The Australian Meat Industry Council (AMIC) is the peak industry body representing the post-farm gate meat industry. AMIC members include businesses processing livestock for domestic and export consumption, smallgoods manufacturers, boning rooms, cold stores, wholesalers and distributors through to exporters and independent local butchers.

AMIC does not represent or seek to speak on behalf of the major Australian supermarkets. However, this submission has been provided to address elements in the terms of reference of this inquiry and to explain the context and unique features of the red meat supply chain.

Executive Summary

With regards to this inquiry, AMIC would like to explain to the *Australian Competition and Consumer Commission* (1) the complexity and nature of the Australian red meat supply chain, (2) competitive market forces and supply and demand drivers, and (3) the concerns of our small-business independent local butcher members in the current environment.

Media attention of late has focused on the spread between saleyard livestock and retail meat prices. However, there are a multitude of factors that need to be considered which drive cost structures, profitability and ultimately prices along the supply chain over the short, medium and long term.

Scrutiny has centred on the short-term divergence between the price of live cattle and sheep against a select array of common cuts sold at stores of the two major supermarket chains. However, this cursory examination fails to consider the wide array of cuts and co-products not sold via the supermarket channel and the competitive global marketplace in which the supermarkets operate.

For instance, the beef tenderloin, a high-value and visible cut, accounts for about 1% of the live weight of an animal – Australian consumers simply do not see a large portion of a processed animal when they go shopping and pick from half a dozen popular cuts. Moreover, Australian supermarkets accounted for approximately 15% of the red meat processed and sold in 2022-23, with the remainder sold via other domestic channels (foodservice and butchers) and onto the export market (live and boxed). These features differentiate the red meat supply chain from other perishable products produced and consumed in Australia.

It is up to the supermarkets to explain how they make retail pricing decisions, but if the recent discounts applied to the meat cabinet have been in response to media and public pressure, and not market forces, this will pose a fundamental challenge to the business model of the independent local butcher. This is not a criticism of the supermarkets but rather a caution of the unintended consequences of when markets and competition cease being central to decision making. If butchers are not profitable, this will only lead to further concentration within the Australian retail meat category.

AMIC recognises the cost-of-living pressures many Australians are under at the moment. However, small businesses, such as the independent local butcher, are also strained in the current economic environment. Butchers must not become collateral damage from the supermarkets discounting their meat category as loss leaders in response to sustained public and political pressure.

AMIC welcomes the opportunity to further discuss the red meat supply chain and the issues raised in this submission with the *Australian Competition and Consumer Commission*.

Red meat supply chain structure

Australian red meat supply chains are complex and vary between species, geographies and commercial relationships. Below touches on these structures and the wider environment in which meat producers, processors and retailers operate. Understanding these structures is important in appreciating how different commercial entities interact with one another.

There are 52,376 business that raise and/or grass finish cattle and 18,323 businesses that raise and/or finish sheep¹. Production systems vary considerably in nature and scale across Australia's climatic zones and environments. These primary producers then sell their livestock to either other producers or feedlots for finishing, or to live exporters or processors. There are about 383 feedlots that finish livestock (predominantly cattle) on a short, medium or long fed grain diet². In 2022-23, 3,252,010 cattle were finished in a feedlot (representing 52% of total slaughter).

The pathways for raising and finishing cattle and sheep in Australia are highly dependent on seasonal conditions which change from year-to-year. For instance, in dry years a producer may sell their stock to a feedlot to be finished, but in wet years retain them to be finished on grass. The Australian livestock sector is prone to patterns of growth and contraction dominated by the El Niño and La Niña climate patterns. These weather patterns impact the entire supply chain and dictate livestock turnoff and production, and have an overwhelmingly influence on the price of livestock.

Finished livestock are slaughtered at approximately 759 domestic and export accredited sites³ across Australia but most processing is via the 90 AUS-MEAT accredited (and mostly export registered) processing establishments⁴. Domestic plants can only sell meat for Australian consumption, while export registered plants can sell to both Australian and overseas end-users. Some processors slaughter multiple species (cattle, sheep and/or goats) or specialise in one.

Domestically there are an estimated 478 wholesale businesses and 2,093 retail businesses selling red meat⁵. Most of these retail businesses are independent retail butchers but supermarkets account for the majority of volume throughput.

In 2022-23, Australia processed 6.3 million cattle and 33.4 million sheep⁶, and live exported 614,000 cattle and 639,000 sheep⁷. In 2022-23, Australia produced 2.0 million tonnes of beef (with approximately 27% consumed domestically) and 778,000 tonnes of sheepmeat (with approximately 22% consumed domestically). Australia exports red meat to over 100 overseas markets.

Of the product sold domestically, Meat & Livestock Australia estimate that 30% of beef and 25% of sheepmeat is destined for foodservice. Of the beef and lamb (sheepmeat) sold via retail, Meat & Livestock Australia estimate that the supermarkets (Coles, Woolworths, Aldi, Metcash etc) accounted for 85% and 80% of volume, respectively (with butchers making up the difference).⁸

¹ https://www.mla.com.au/globalassets/mla-corporate/prices--markets/documents/trends--analysis/soti-report/mla-state-of-the-industry-report-2223-web_updated.pdf

² https://www.mla.com.au/globalassets/mla-corporate/prices--markets/documents/trends--analysis/soti-report/mla-state-of-the-industry-report-2223-web_updated.pdf

³ https://www.mla.com.au/globalassets/mla-corporate/prices--markets/documents/trends--analysis/soti-report/mla-state-of-the-industry-report-2223-web_updated.pdf

⁴ <https://www.ausmeat.com.au/links-tools/accreditationcertification-search/>

⁵ https://www.mla.com.au/globalassets/mla-corporate/prices--markets/documents/trends--analysis/soti-report/mla-state-of-the-industry-report-2223-web_updated.pdf

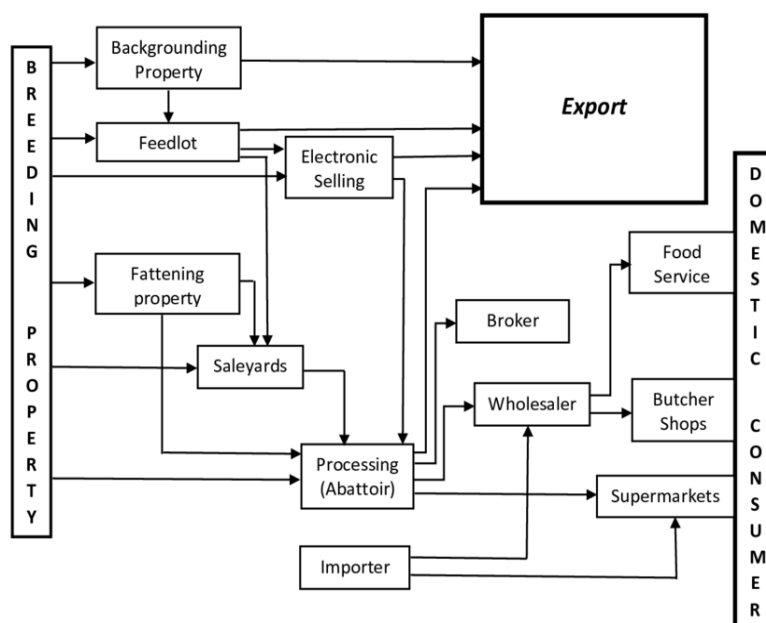
⁶ <https://www.abs.gov.au/statistics/industry/agriculture/livestock-products-australia/latest-release>.

⁷ <https://www.agriculture.gov.au/biosecurity-trade/export/controlled-goods/live-animals/live-animal-export-statistics/livestock-exports-by-market>

⁸ https://www.mla.com.au/contentassets/444bae0fb50140f2bd0bf3c0a4c9b9dc/australia_2023-mla-mi-market-snapshot_290124.pdf

The two major supermarkets predominantly procure livestock (either directly from producers or via saleyards, depending on species and region) and have animals custom processed. However, the supermarkets may supplement supply via purchases from processors to fill any shortages that may arise (e.g. a popular cut sells out due to a spike in demand). Figure 1 illustrates the complexity of the red meat supply chain.

Figure 1: The red meat supply chain



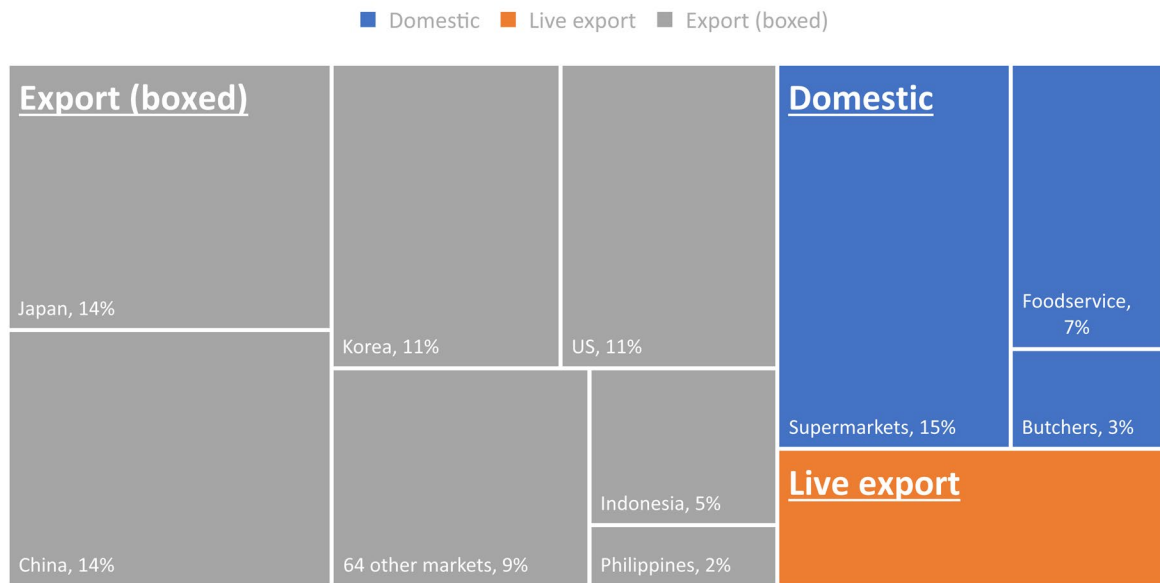
Source: Greenwood PL, Gardner GE, Ferguson DM. Current situation and future prospects for the Australian beef industry - A review. ⁹

Figures 2 and 3, below, illustrate the breakdown of cattle (beef) and sheep (sheepmeat) and the various end destinations of those products. The Australian red meat industry is fortunate to have a healthy portfolio of buyers for its product – thanks to years of fostering improved export market access and marketing efforts domestically and overseas.

Within the share of Australian beef and lamb production that is sold via domestic channels, this is then broken down between the major retailer chains, independent grocers, foodservice and independent local butchers. Hence, from a procurement perspective, the level of market share of the two major supermarkets does not provide a position to set the market price of livestock. Ultimately, the price of sheep and cattle is dominated by weather and the global marketplace, within which the supermarkets compete. In fact, some single export markets are comparable or larger buyers of beef and/or lamb than the entire supermarket retail channel.

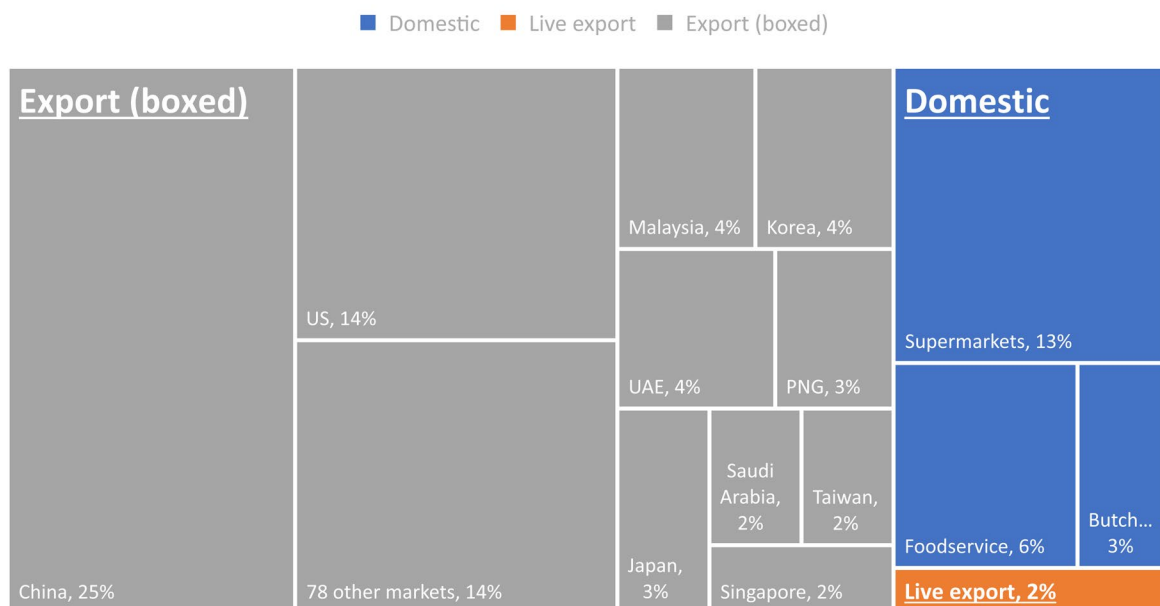
⁹ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6039327/>

Figure 2: Destinations of Australian cattle (beef)



Source: DAFF, ABS, MLA, AMIC calculations. Please note, this visualisation does not capture co-products. All data converted to an estimated carcass weight equivalent to permit comparison across pathways.

Figure 3: Destinations of Australian sheep (sheepmeat)



Source: DAFF, ABS, MLA, AMIC calculations. Please note, this visualisation does not capture co-products. All data converted to an estimated carcass weight equivalent to permit comparison across pathways.

As an animal is slaughtered, it is converted (or dismantled) from a live animal into a carcass and a wide array of co-products. The carcass is then broken down further into many different cuts and value-added products. For instance, when a steer is processed, approximately 41% of the live animal is edible meat, with the remainder made up of hide (6%), blood (4%), edible offal (4%), pet

food (1%), gut fill (8%) and rendered products (36%)¹⁰. Virtually none of the live animal is wasted and processors seek to match the most valuable market with each meat cut and co-product.

Understanding the supply chain and its complexity is important. Much media coverage has focused on simply comparing the live price of an animal in the saleyard with the retail meat price in the two major supermarkets. However, as illustrated above, this ignores a large part of the animal that is not edible meat (approximately 59% in the case of a steer) that is incorporated into price of an animal and the wide array of other destinations outside of domestic supermarket channels (approximately 85% as illustrated above) where Australian cattle and sheep are destined. These features make red meat distinct from other perishable products produced and sold in Australia.

Moreover, as the majority of meat sold via the major supermarkets is under a contracted custom process arrangement, the value captured by the processor providing a service to the supermarket is relatively stable and fixed.

Drivers of price

While livestock and retail prices are linked, they often operate independently, at times for extended periods, in response to their own unique supply and demand schedules. As supermarkets largely purchase livestock directly from producers there is no respective 'wholesale market' per se in between the farm gate and consumer.

Livestock prices

Australian cattle and sheep prices are driven by competitive market forces. There are two overwhelming factors that determine the price of livestock, both of which are outside the control of all participants: seasonal conditions and global demand.

The livestock market is very liquid, with tens of thousands of animals transacted each day across Australia. There is a wide variety of animals produced in Australia, thanks to a diverse climate and geography and different market specifications, but the value of each animal is based on the same underlying supply and demand fundamentals. While transactions occur at a local level, livestock sellers and buyers are part of a national marketplace.

Sellers of livestock primarily include producers that have raised and/or finished on pasture, traders that buy and sell based on a view of the market outlook, and feedlots. Buyers of livestock include other producers seeking to expand herds/flocks or finish stock, traders, feedlots, live exporters, processors and others who may procure livestock to be custom processed for a fee (such as supermarkets, butchers, non-packer exporters, and wholesalers).

When it comes to Australian livestock production, seasonal conditions and the ability to grow grass is often the single biggest driver of short to medium term price changes. Even though Australia finishes an increasing number of cattle and lambs on grain, these animals still spend the majority of their lives in pasture-based systems. Grass availability (and expectations of future grass availability) is a key determinant of livestock supply on the market, as producers make selling decisions based on feed and what they can carry.

During wet years and periods of ample pasture availability, there will be fewer producers selling and there will be more producers or 'restockers' active in the market seeking to purchase livestock to build up inventories. Likewise, when grain prices are cheap, feedlots will have deeper pockets to buy and finish livestock. These producers and lotfeeders enter and withdraw from the

¹⁰ https://www.mla.com.au/contentassets/79c16798add246bfa3162b9411022e93/a.cop.0061_mla_coproducts_compendium.pdf

market and compete with other buyers based on key drivers outside all parties' control (i.e., the price and availability of grass and grain).

Livestock are transacted in a number of ways, most notably through saleyards, online auctions, privately out of the paddock, and directly to processors 'over-the-hooks'. Most store (young) animals are sold via the saleyard, online or out of the paddock and most finished (prime) livestock are sold over-the-hooks. While finished livestock are also sold via the saleyard, prices recorded at the saleyard tend to be more volatile week-to-week than over-the-hook prices as they are exposed to a greater degree to the ebb and flow of store buyer demand. While store and finished livestock often appeal to different buyer types, they are closely linked as many animals can be channelled in either direction. Supermarkets would frequently purchase stock, particularly cattle, on a direct contract basis, making the comparison of the saleyard and retail price less relevant.

As approximately three-quarters Australian beef and lamb is exported, and even more so when it comes to offals, hides and other co-products, the global market has a far greater bearing on livestock prices than the decisions of the major supermarkets.

Global demand for Australian red meat is influenced by broad economic conditions and consumer purchasing power, exchange rates, supply/price of competing products (e.g. US beef and New Zealand lamb), emerging and new markets, export market access changes, shipping costs and disruption, geopolitics and conflict, marketing activities, and animal disease outbreaks, among many other drivers.

As these factors are always evolving and work additively to move prices both up and down in the market setting process, they are harder to disentangle, let alone fully comprehend when peering over the rail at the local saleyard. What is clear, however, is when global market lifts, buyers of livestock react accordingly and, all else equal, bid up the price of livestock (and likewise do the opposite when the global market drops). Like our inability to influence seasonal conditions, the global market is outside the control of any one Australian business. While Australia is a relatively large trading nation when it comes to red meat, we still only account for only 2.5% of global beef production and 6.7% of global sheepmeat production, making us largely a price taker¹¹.

Australian meat prices

The domestic and export markets compete with one another, and both are intrinsically linked. Strong export demand will pull up the domestic price and inversely weak export demand will provide slack for domestic prices to ease (all else being equal). However, transportation costs, diverse consumer preferences (between export and domestic markets) and different pricing models mean export and domestic prices can and do deviate for periods of time. Moreover, when one compares the domestic and export price indicators, it is really a comparison of a retail index (imputed from the CPI) in the case of the former and a wholesale index (average FOB unit export price) in the case of the latter – both of which reflect differing levels of volatility and value-add.

For Australian meat retailers – both small independent butchers and supermarkets – retail pricing decisions are also based on changing cost structures and local demand conditions. While the input cost of livestock is a large component of the retail price, retailers consider the wide array of other variable and fixed costs when determining the combination of prices across the meat cabinet.

¹¹ https://www.mla.com.au/globalassets/mla-corporate/prices--markets/documents/trends--analysis/soti-report/mla-state-of-the-industry-report-2223-web_updated.pdf

AMIC has a large membership of independent local butchers. These members are generally small businesses with less than 10 employees (average 4 employees). Unlike supermarkets which sell a wide array of products, independent local butchers sell principally meat and value-added meat products. Butchers have limited ability to offer loss-leading products to generate foot traffic and make up sales across other product lines.

AMIC surveyed our butcher members between 22 January and 1 February 2024 to understand their cost pressures in the current environment and how they pass changes in costs to consumers via retail pricing. Key results from this survey are summarised in further detail in the Appendix.

Despite media focusing on the decline in livestock prices not being passed on to consumers by the supermarkets, when looking at the overall cost of running a butcher shop (which includes wholesale meat as well as staff, energy, rent, insurance etc) 96% of butchers surveyed responded that their overall costs had increased in the last twelve months and over two thirds indicated their costs had increased more than 10%. Underlying this rise in overall costs was the increased cost of staff, energy and insurance. Butchers face a growing cost of doing business, a challenge shared by the broader small business community and a pressure highlighted in COSBOA's *Small Business Data Report 2023 Year in Review*¹².

Retail prices are sticky, indicating retailers smooth over volatility in their input prices to provide a level of stability for consumers. It is understandable that retailers would not want to increase retail prices 50-60% over a few months just because the livestock market jumped that magnitude. The practise of smoothing the rises and falls in input costs and targeting an average return over a period of time is a completely legitimate practise and does not indicate anti-competitive behaviour.

The practise of price smoothing was also captured in AMIC's butcher survey. While some butchers worked on maintaining a constant margin, passing on all cost changes as they are incurred, most (69%) looked to target an average margin over an extended period of time, some more than six months. The practice of smoothing retail price changes and targeting an average margin over a period of time makes sense if businesses understand the broader market environment and can manage risks. It appears the supermarkets follow a similar pricing model, with retail price changes far more infrequent than those evident in the livestock market.

In addition to costs, butchers will also set prices and mix up their product mix based on consumer demand. As consumer demand increases, this bids up the price of meat cuts, all else equal, and allows butchers to sell more premium products. Likewise, as consumer demand wanes, prices will ease and consumers will seek out 'value' products.

Recent price movements

La Niña weather conditions were evident between 2020 and 2022, during which sheep and cattle prices reached record high levels amidst reduced turnoff. On average 2023 was a drier year and an El Niño event was declared in September 2023. With producers sitting on elevated inventories of stock and concerns of limited feed availability going into summer, turnoff jumped and store buyer demand plummeted in the second half of 2023, triggering a major downward correction in livestock prices.

Figures 4 and 5, below, illustrate the heavy steer and trade lamb indicators (up to March 2024) with their respective retail meat price series from the Consumer Price Index (up to December

¹² <https://www.cosboa.org.au/post/resilience-amidst-challenges-cosboa-and-square-release-2023-small-business-data-report>

2023). While the series loosely track each other, retail prices are less volatile and reflect increases and decreases in the cost of livestock at a delay.

Since late 2023, livestock prices have partly recovered as panic selling receded and supply normalised, albeit at still historically high levels. Weekly cattle slaughter in March was 18% above year-ago levels, while lamb and mutton slaughter were up 30% and 23%, respectively¹³. Australian retail beef and lamb retail prices have eased in recent quarters but retailers have not passed on the same level volatility reflected in livestock markets.

Cattle prices are now sitting at levels comparable with 2019-20, prior to the weather-induced rebuild in the cattle herd which pressured store and finished livestock prices higher. Adding to the shift in supply, export demand has waned of late, amidst global economic woes and soft demand in key export markets, such as China. Similar conditions are playing out with regards to the lamb market, although there's the increased noise from highly seasonal annual supply.

Figure 4: Cattle and retail beef prices

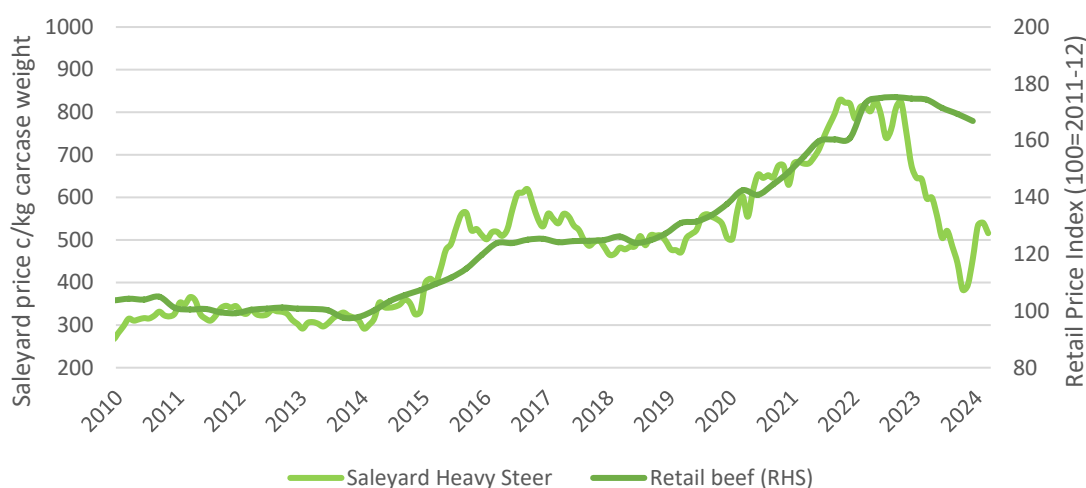
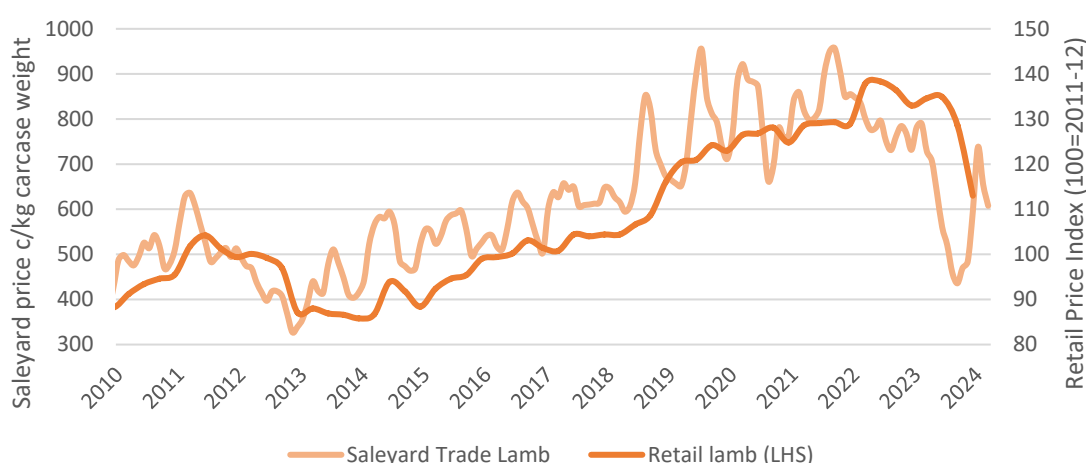


Figure 5: Saleyard lamb and retail lamb prices



Source: MLA and ABS, AMIC calculations. Retail prices are quarterly series from the Consumer Price Index (CPI) and livestock are monthly averages of the respective indicators reported by MLA.

¹³ <https://www.mla.com.au/prices-markets/statistics/nlrs-slaughter/>

Even if livestock prices remain at levels close to 2019-20, supply chain cost inflation will likely prevent retail prices from sustainably returning to those levels. Moreover, given recent volatility in livestock prices, retailers may seek for a base of stability before committing to further discounts.

With volatile livestock prices and relatively stable retail prices, those businesses operating between the producer and the consumer act like a shock absorber, with margins increasing or decreasing in the short term based on the cost of livestock, their operating costs, and the price of meat (albeit, in the case of supermarkets having their livestock contract processed, it is the supermarket margin increasing and decreasing). Importantly, the operating costs of businesses along the meat supply chain have grown in the last couple of years amidst broad inflationary pressures and ongoing workforce shortages.

The same supply chain structures and relationships that you find today were in place when livestock prices reached record levels in the last two years. What changed in the second half of 2023, however, was the increase in supply of livestock based on realised or expected drier conditions in many areas.

Business environment for independent local butchers

Livestock and retail prices must be based on market drivers. Of concern to AMIC and our members, has been the increased politicization of meat prices on the back of sustained media in 2023, possibly distorting the price setting behaviour of the major supermarkets. If meat prices are discounted to unsustainable levels, this will eventually flow back to reduce the returns of everyone along the supply chain and, particularly, undercut the business model of the independent local butcher.

In a world where retail meat prices are politicised and the supermarkets are hesitant to increase price when market conditions normally suggest they should, smoothing prices and averaging margins will become particularly fraught for butchers.

At a top-level, the market share for butchers has declined in the last few years. While the two major supermarkets currently account for about a third of red meat retail sales apiece, the market share of independent local butchers has declined from above 20% in recent years to around 17%¹⁴. While butchers have trade and artisanal skills, knowledge to share, and direct customer engagement as a point of difference, they are very much hindered by workforce shortages, an increasing cost of doing business and the ongoing expansion of the supermarkets. AMIC witnesses these challenges first-hand as butcher members close their businesses amidst a challenging economic landscape and competition from supermarkets.

While public scrutiny has focused on the major supermarkets, butchers operate in the same marketplace and compete for the same customers. If the overall cost of goods has increased for butchers, calls for the supermarkets to drop prices (as they have subsequently done) will place immense pressure on the independent local butcher. Butchers have shown some ability to adapt, with our survey highlighting many have sought to find efficiencies and strip other costs from their business, provide more in-store value-adding, and offer cheaper/budget cuts in their cabinet. However, these efforts will be constantly undercut in an environment where meat is sold as a loss leader or at a slim margin in the supermarkets.

¹⁴ https://www.mla.com.au/contentassets/444bae0fb50140f2bd0bf3c0a4c9b9dc/australia_2023-mla-mi-market-snapshot_290124.pdf

While livestock markets have recovered in 2024, the supermarkets have again discounted their meat categories amidst much fanfare¹⁵. For butchers, this means additional pressure to their cost base and more competition to maintain sales, pressures which were identified in our survey. While half of butchers indicated they thought trading conditions would more or less stay the same in 2024, 41% responded that it would be worse and only 7% thought it would improve.

Conclusion

A complete understanding of the red meat supply chain structures, how an animal is disassembled into various products for a wide array of markets, and the primary market drivers in the industry is critical when comparing retail and livestock prices. The red meat supply chain is unique and differs vastly from other perishable products produced and consumed in Australia. Periods of divergence between what the livestock producer receives and consumer pays is normal and based on market forces. While linked, livestock and retail prices are set based on their own supply and demand schedules and reflect different levels of volatility.

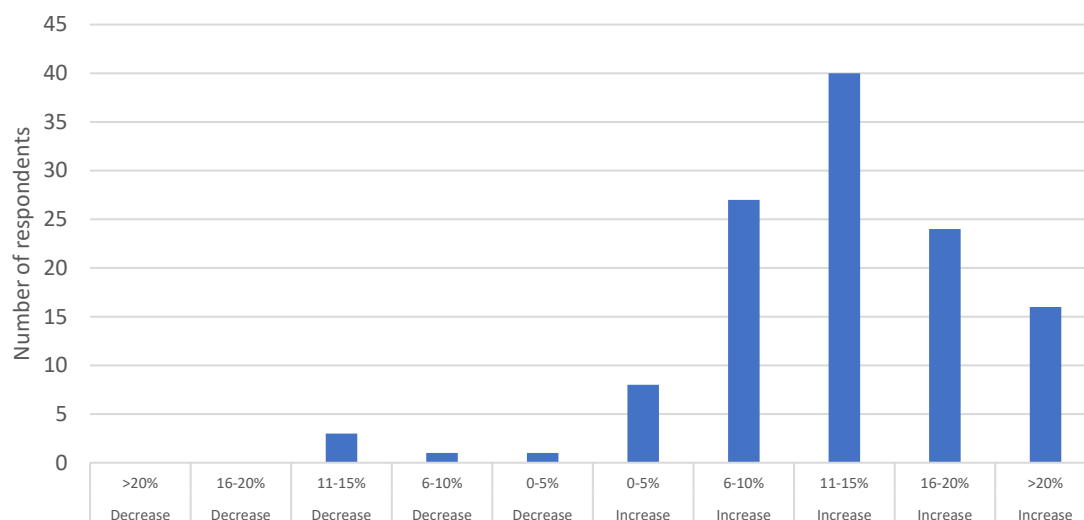
If market forces are abandoned by the supermarkets when making retail pricing decisions, this will unintentionally impact the independent local butchers who do not necessarily have those same options available. If butchers continue to go out of business, recent pressure on the supermarkets to lower prices could inadvertently create more concentration within the fresh meat retail landscape.

¹⁵ <https://www.afr.com/companies/retail/woolworths-slashes-meat-prices-as-heat-rises-on-gouging-claims-20240122-p5ez3c#:~:text=Woolworths%20on%20Monday%20confirmed%20it.more%20than%2020%20per%20cent.>

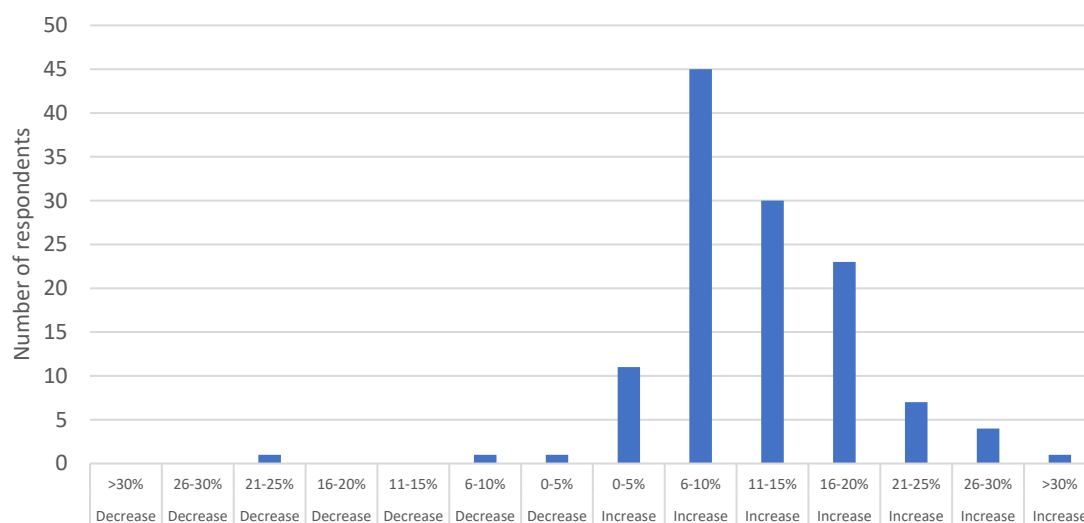
Appendix – Butcher Survey Summary

AMIC ran a butcher survey between 22 January and 1 February 2024 and received 125 responses. Questions focused on whether costs had increased/decreased for butchers, how these cost changes had been passed on, and how butchers felt about the broader trading environment. Key questions are summarised below.

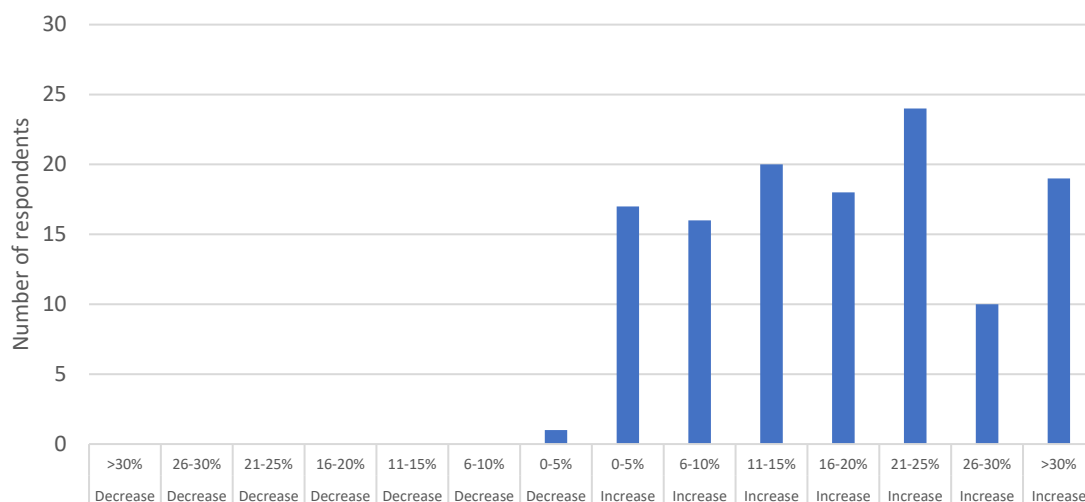
Q: How much has the overall cost of goods increased/decreased in the last 12 months?



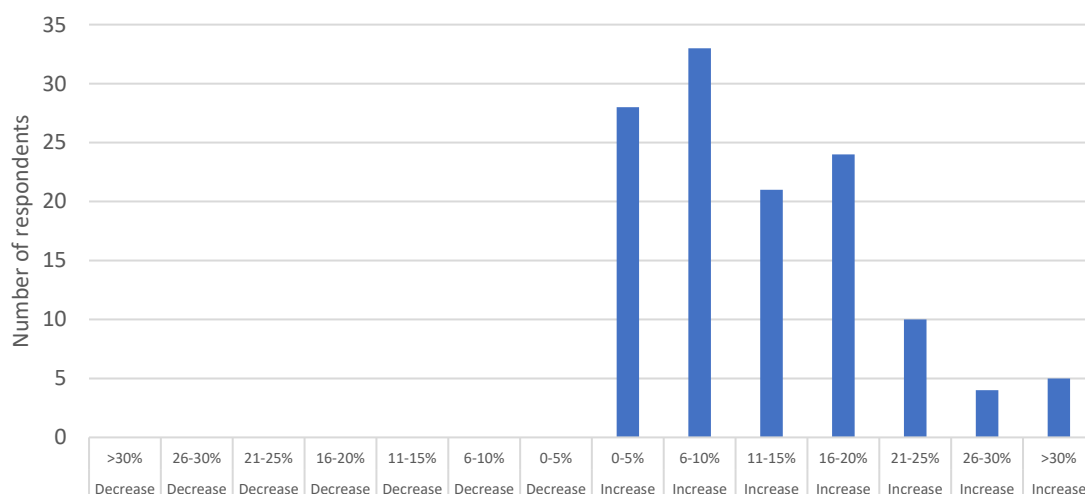
Q: How much has the cost of staff increased/decreased in the last 12 months?



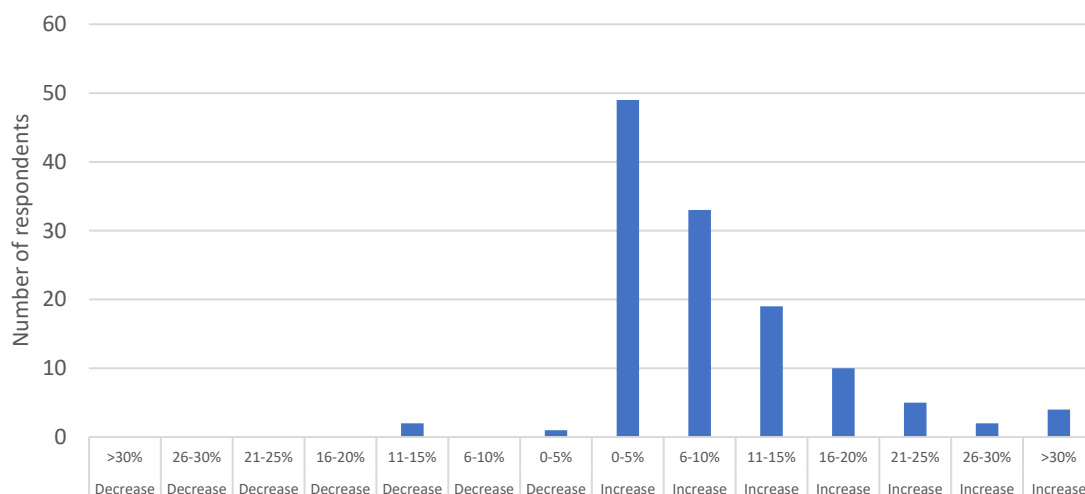
Q: How much has the cost of energy increased/decreased in the last 12 months?



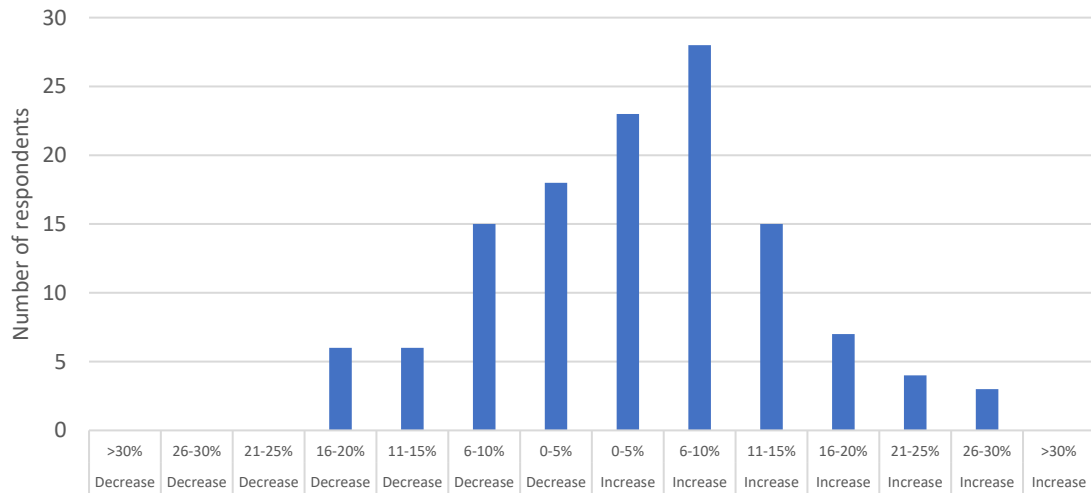
Q: How much has the cost of business insurance increased/decreased in the last 12 months?



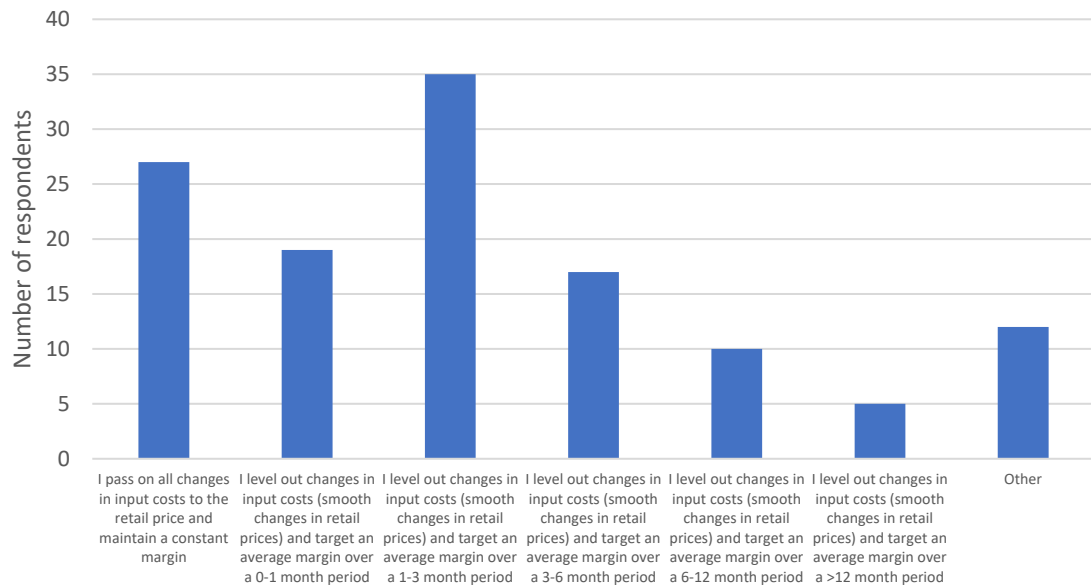
Q: How much has the cost of workers compensation insurance increased/decreased in the last 12 months?



Q: How much has the cost of wholesale meat increased/decreased in the last 12 months?



Q: Which approach best describes how you set retail prices with respect to changes in your cost of goods?



Q: How do you feel about the 12 months ahead?

