



Submission to Senate Select Committee on Supermarket Prices

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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.

Executive Summary

AMIC does not represent or seek to speak on behalf of the major Australian supermarkets. However, this submission has been provided as some public scrutiny of the supermarkets has centred around meat prices and their relationship with livestock prices.

With regards to this inquiry, AMIC would like to explain to the *Senate Select Committee on Supermarket Prices* (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 do not see a large portion of a processed animal when they go shopping. Moreover, Australian supermarkets account for approximately 15% of the red meat processed and sold in 2022-23, with the remainder sold via other domestic channels (foodservice and butchers) or onto the export market (live and boxed).

It is up to the supermarkets to explain how they make retail price decisions, but if the recent discounts in 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.

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.

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 decide to finish them on grass themselves. The Australian livestock sector is prone to cycles of growth and contraction dominated by the El Niño and La Niña climate patterns. These cycles impact the entire supply chain and dictate livestock turnoff and production, and have an overwhelmingly influence on the price of livestock.

Finished sheep and cattle 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 species.

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. The supply chain structure is illustrated in Figure 1.

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 exported 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/>

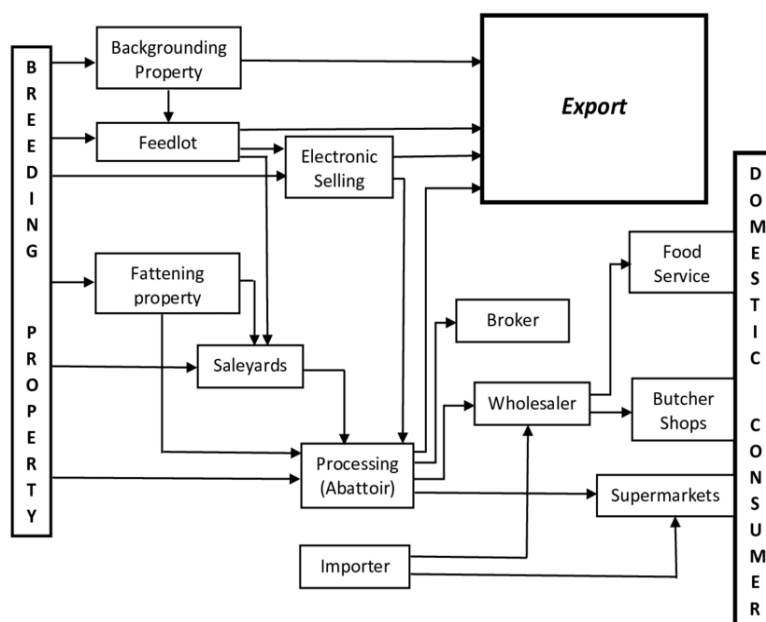
⁵ https://www.mla.com.au/globalassets/mla-corporate/prices--markets/documents/trends--analysis/soti-report/mla-state-of-the-industry-report-2223-web_updated.pdf

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

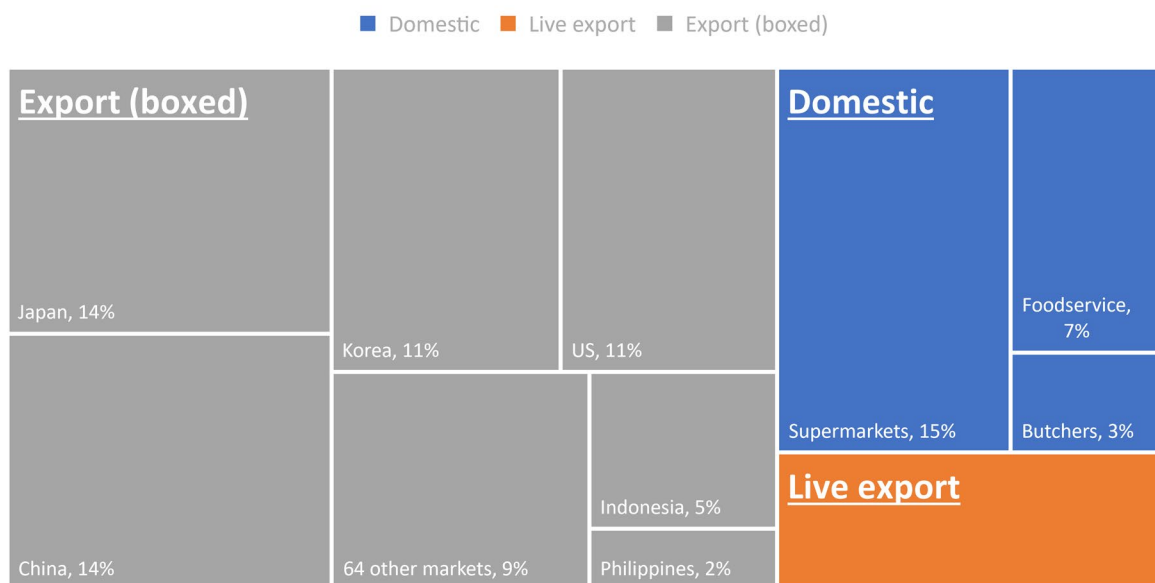
Figure 1: The red meat supply chain



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.

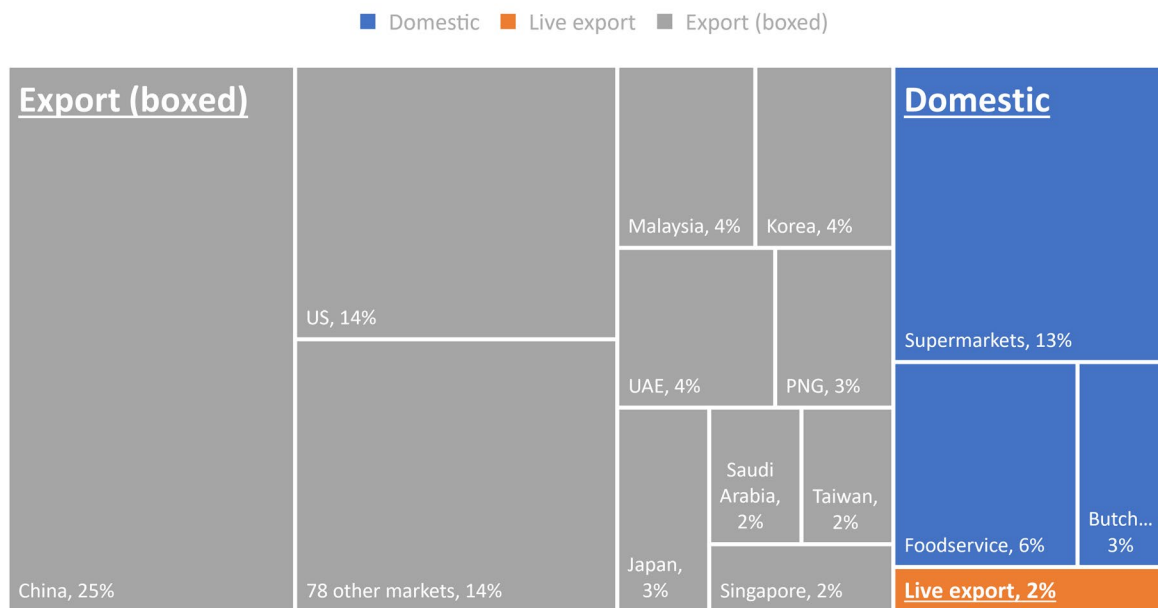
Figure 2: Destinations of Australian cattle (beef)



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.

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

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 find the most valuable market for each meat cut and co-product.

Understanding the supply chain and its complexity is important. Much media coverage has focused on 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 also the wide array of other destinations outside of the major retailers (approximately 85% as illustrated above) where Australian cattle and sheep products are destined.

Drivers of price

Australian cattle and sheep prices are driven by market forces. 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 animals on pasture, traders that buy and sell based on a view on 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 (such as supermarkets, butchers, non-packer

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

exporters, and wholesalers) who may procure livestock to be custom processed at an abattoir for a fee.

When it comes to Australian livestock production, seasonal conditions and the ability to grow grass is 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 on pasture-based systems. Grass availability (and expectations of future grass availability) are the biggest driver of livestock supply on the market. During wet years and periods of ample pasture availability, there will be fewer producers selling (as they build up inventories) and there will be more producers or “restockers” seeking to purchase livestock in the market (as they seek 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 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, 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.

La Niña weather conditions were evident between 2020 and 2022, during which sheep and cattle prices reached record high levels. 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 producer buyer demand plummeted in the second half of 2023, depressing livestock prices, as illustrated in Figures 4 and 5.

Processors, and others further down the supply chain, are motivated by different profit drivers to producers and lotfeeders, but they need to still manage the volatility in livestock prices introduced by external climatic conditions.

Demand for meat and livestock is influenced by a wide array of factors, but they tend to be slower changing and more subtle than the impact of climate on price and supply. Demand will be influenced by broad economic conditions and consumer purchasing power, exchange rates, supply/price of competing products domestically (e.g. chicken and pork) and overseas (e.g. US beef and New Zealand lamb), emerging and new markets, export market access changes, shipping, geopolitics, marketing activities, and animal disease outbreaks among other drivers.

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 push down the domestic price (all else being equal).

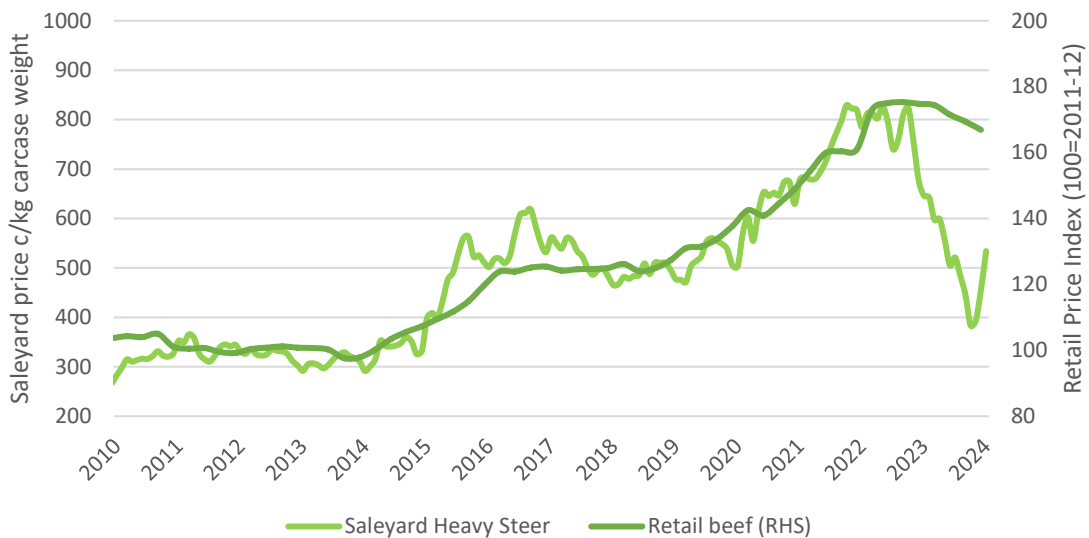
Those supply chain participants between the producer and consumer – including processors, meat traders, wholesalers, and retailers – need to navigate a relatively volatile supply base and slower moving changes in demand. However, they also need to manage other costs of operating their business – such as staff, energy, rent, regulatory costs and finance – when making decisions to buy livestock or sell meat.

Business decisions also need to be understood in the short, medium and long term. For instance, a processor may seek to run at a loss when supply is short and livestock are expensive to maintain

customers and their workforce, knowing that the cycle will eventually turn in the medium to long term. Likewise, a butcher buying cattle from their local saleyard each week may be unwilling to pass on a sudden jump in the livestock price to consumers and may, instead, sell beef at a temporary loss or a lower margin.

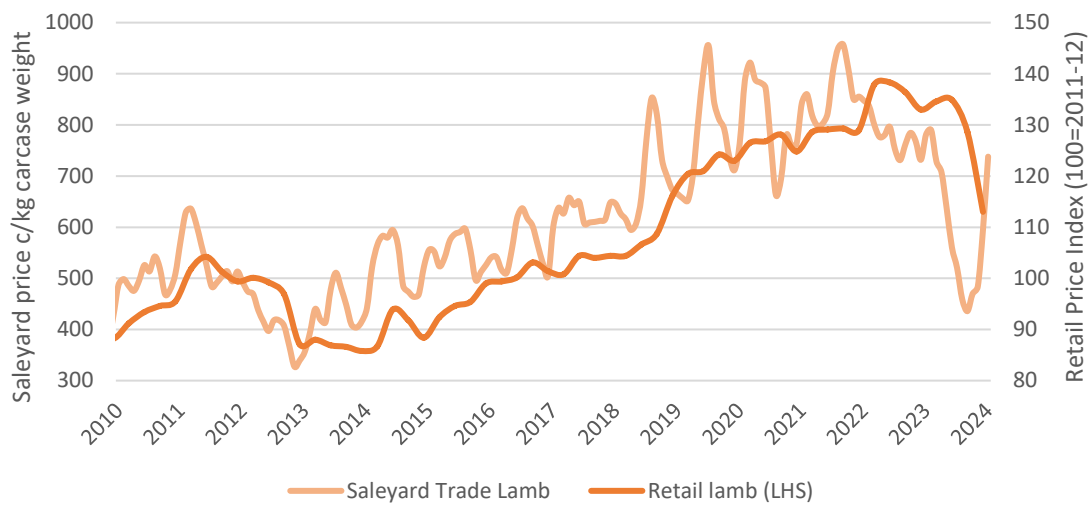
Figures 4 and 5, below, illustrate the heavy steer and trade lamb indicators with their respective retail meat price series from the Consumer Price Index. While the series loosely track each other, retail prices are less volatile and reflect increases and decreases in the cost of livestock at a delay.

Figure 4: Cattle and retail beef prices



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 retail price of meat. 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. One clear way to make producers, consumers and the businesses in between better off is to focus on levers and policies that can alleviate the growing cost burden evident throughout the supply chain. The cost pressures borne by independent local butchers is discussed in more detail below.

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.

The same supply chain structures and relationships that you find today were in place when livestock prices reached record highs 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. Some of this decline in livestock prices was evident at retail however, as expected, these transfers were muted and slower to take place.

More recently, a wetter than expected summer in many areas has tempered concerns of feed availability and underpinned a rally in the cattle and sheep markets. As reported by Meat & Livestock Australia in the last week of January, the heavy steer indicator has increased approximately 50% from where it bottomed out in October and November, while the trade lamb indicator has increased 60%. Retail businesses that passed on a modest portion of the short-term decrease in the cost of livestock towards the end of 2023 are likely breathing a sigh of relief they do not have to hit their customers with the same magnitude of price increase witnessed in the cattle and sheep market in recent weeks.

Business environment for independent local butchers

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 elsewhere.

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. The results from this survey are outlined 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 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*¹¹.

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%¹². 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 offering 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.

While livestock markets have rallied in 2024, the supermarkets have again discounted their meat categories amidst much fanfare¹³. 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.

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.

This practise was also captured in our 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. However, in a world where retail meat prices are politicised and the supermarkets are hesitant to increase price when market conditions suggest they should, smoothing prices and averaging margins will become particularly fraught for butchers.

¹¹ <https://www.cosboa.org.au/post/resilience-amidst-challenges-cosboa-and-square-release-2023-small-business-data-report>

¹² https://www.mla.com.au/contentassets/444bae0fb50140f2bd0bf3c0a4c9b9dc/australia_2023-mia-mi-market-snapshot_290124.pdf

¹³ <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.>

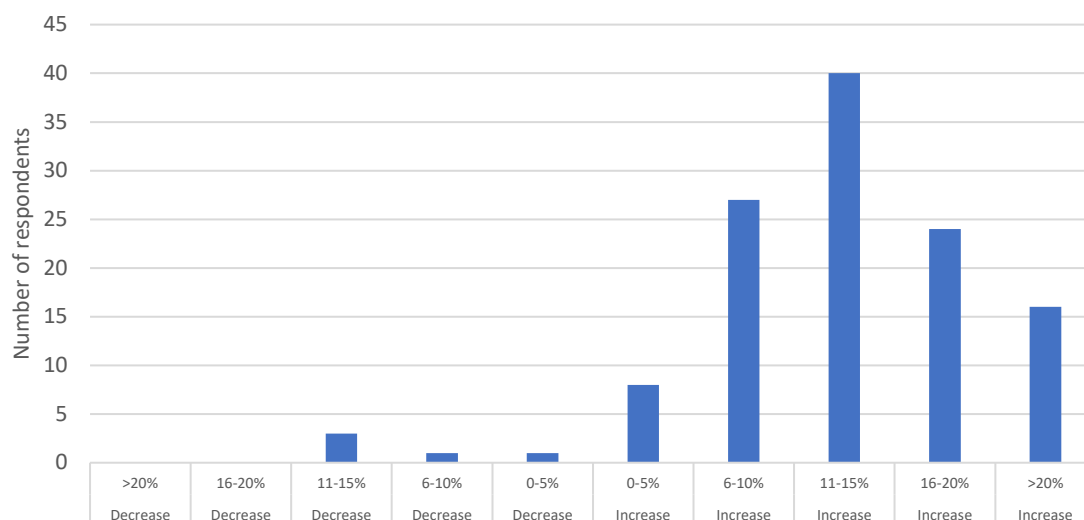
Conclusion

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. Periods of divergence between what the producer earns and consumer pays is normal and based on market forces. However, if market forces are abandoned by the supermarkets when making retail pricing decision, 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.

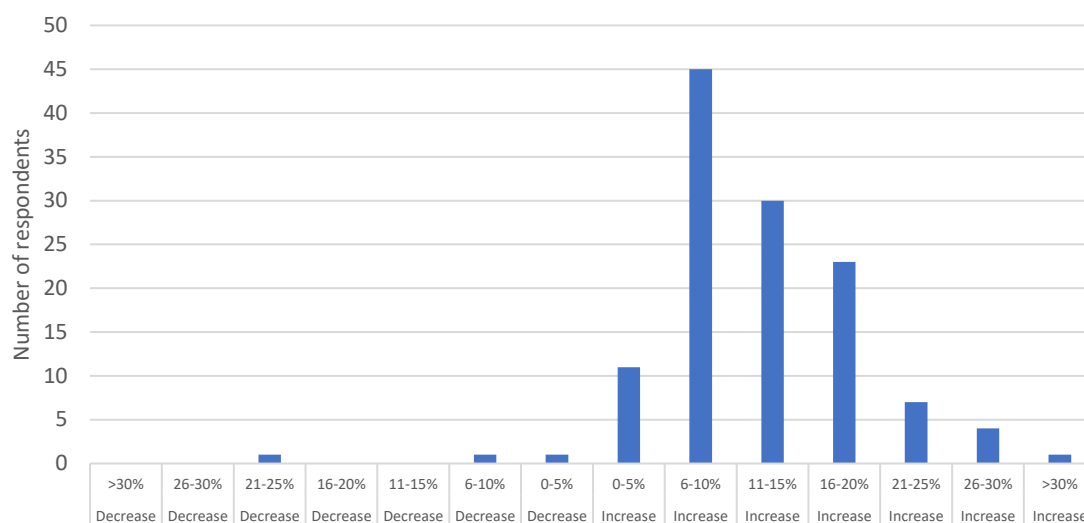
Appendix – Butcher Survey Summary

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.

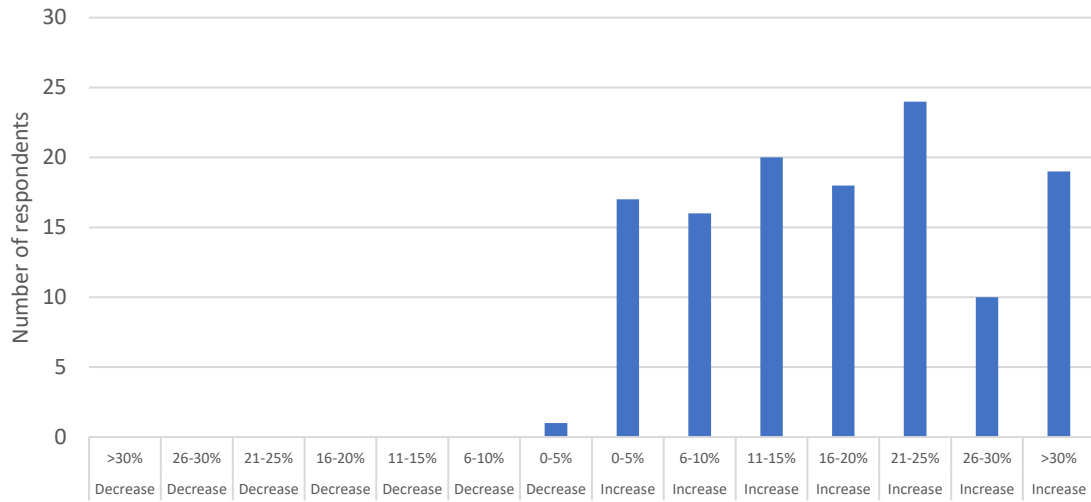
Q: How much has the overall cost of goods increased/decreased in the last 12 months?



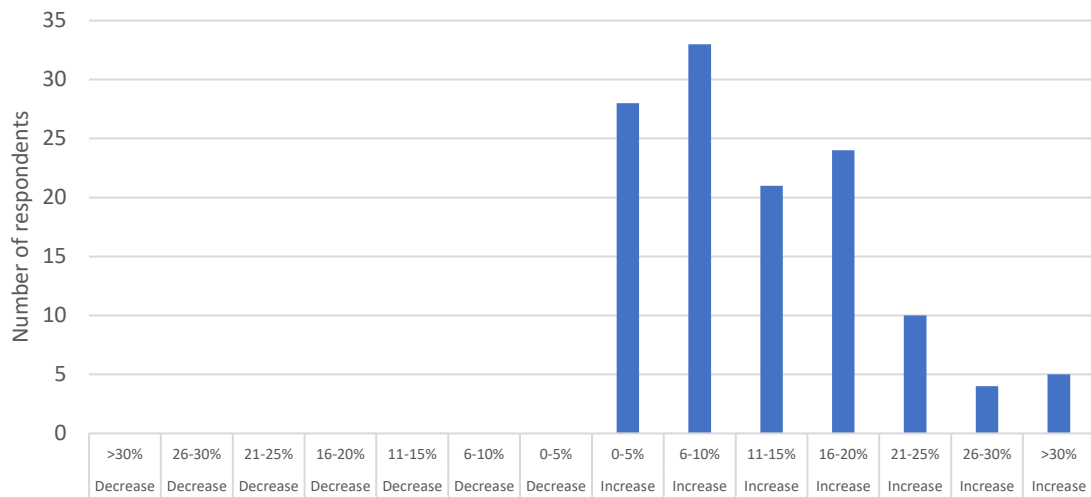
Q: How much has the cost of staff increased/decreased in the last 12 months?



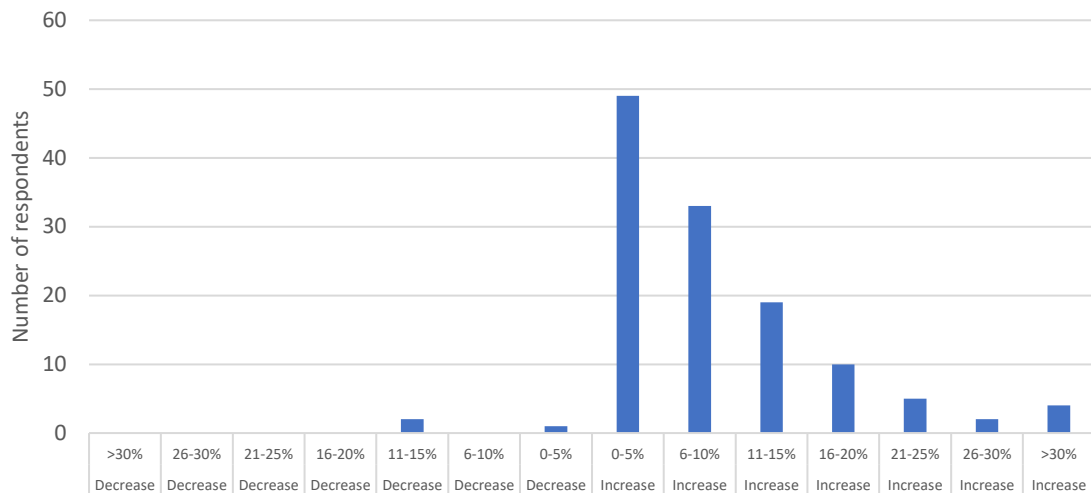
Q: How much has the cost of energy increased/decreased in the last 12 months?



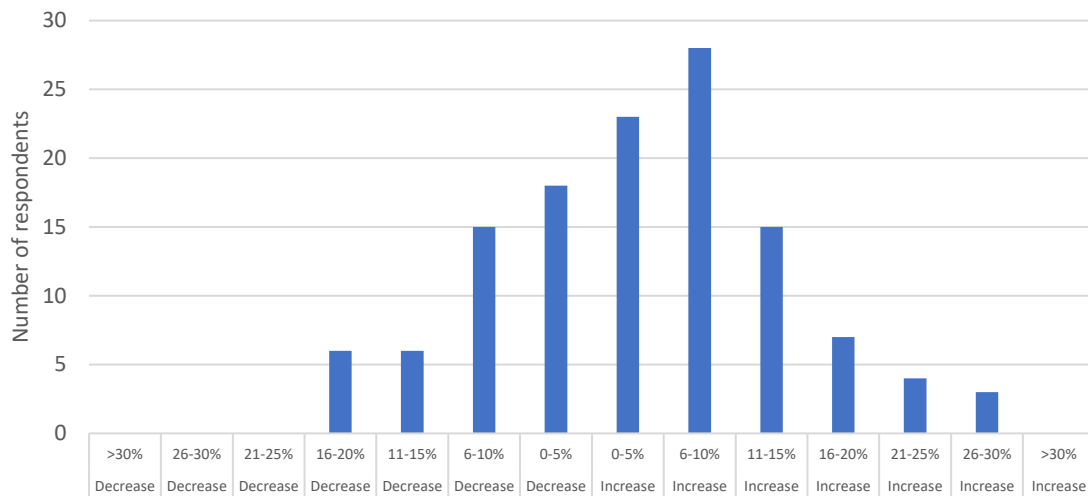
Q: How much has the cost of business insurance increased/decreased in the last 12 months?



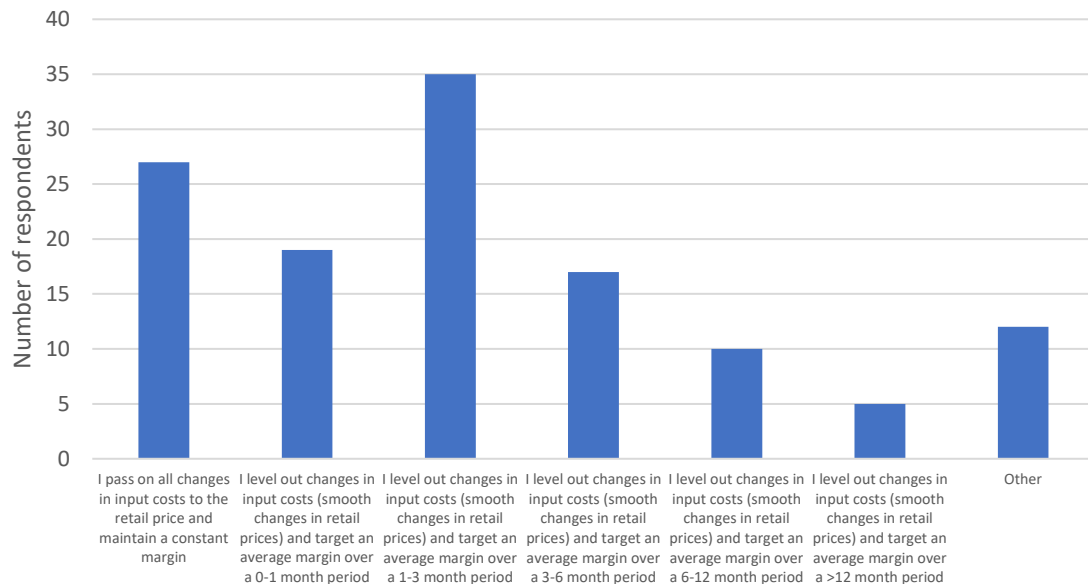
Q: How much has the cost of workers compensation insurance increased/decreased in the last 12 months?



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?

