



NORTHERN TERRITORY CATTLEMEN'S ASSOCIATION INC.



Northern Territory Cattlemen's Association (NTCA)

SUBMISSION

Inquiry into Industry Structures and Systems Governing Levies
on Grass-fed Cattle



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1. Terms of Reference

On 12 December 2013, the Senate moved that the following matters be referred to the Rural and Regional Affairs and Transport References Committee for inquiry and report by 28 March 2014.

The industry structures and systems governing the collection and disbursement of marketing and research and development levies pertaining to the sale of grass-fed cattle set out in subsections 6(1)(a), 6(1)(b), 6(2)(a) and 6(2)(b) of Schedule 3 (Cattle transactions) of the Primary Industries (Excise) Levies Act 1999, including:

- a. the basis on which levies are collected and used;
- b. the opportunities levy payers have to influence the quantum and investment of the levies;
- c. industry governance arrangements, consultation and reporting frameworks; and
- d. recommendations to maximise the ability of grass-fed cattle producers to respond to challenges and capture opportunities in marketing and research and development.

2. Background

Organisation and Industry

The Northern Territory Cattlemen's Association (NTCA) is the peak primary industry group in the Northern Territory, representing more than 90 per cent of the Territory's cattle herd, from small family operations to the large corporate organisations. By area, employment and economic contribution the pastoral industry is the dominant industry in land management in the NT, with a focus on long term sustainable production. With about 50 per cent of the total NT production destined for export markets in south-east Asia, the northern beef industry continues to focus on partnerships and programs to strengthen this trade. The NT supplies high quality cattle into all mainland states for growing, finishing and direct to slaughter.

The NTCA has a strategic approach to managing the pastoral sector in the Northern Territory which informs its leadership in pastoral land conservation, market development, and key infrastructure activities.

The Herd

Cattle numbers have increased from 1.4 million in 1974-75 to 1.7 million in 2000-01, and are currently over 2 million head. Over the same period, improved management practices have raised the percentage of turnoff to cattle population as an indicator of productivity from 11 percent to 35 percent.



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Turn-off and the Markets

NT producers supply cattle to all states and territories of Australia with an annual turnoff of up to 600,000 head. They produce quality animals for the growing live export trade to South East Asia. A mix of family and corporate operations in the savannah country (the Victoria River, Katherine, Roper districts) and other Top End regions turn off 300,000 head annually, most of which are shipped through the port of Darwin. The corporate operations of the Barkly region turn off another 200,000, which goes into the domestic market through feedlots in Queensland; and the family operations of the Alice Springs region turn off a further 80,000 -100,000 head, also for the domestic market.

Future Prospects

NTCA believes that over the next decade, there is potential for the cattle herd to increase by 30 per cent and for productivity, measured by the percentage of turnoff to population, to also increase significantly. This increase in the total herd can be achieved through more efficient use of rangelands, land improvement and strategic development, and improved productivity from continued adoption of improved management practices including mineral supplementation, early weaning and continued human development, education and learning programs. This ongoing growth is due largely to the industry reinvesting in itself. Our members are optimistic as they position themselves for predicted future expansion in both our domestic and export food markets.

Our national and international links

Our approach is informed by our body of knowledge and by our active membership of national peak bodies such as the National Farmers Federation (NFF) and Cattle Council of Australia (CCA) and through these affiliations an international network including the International Federation of Agriculture Producers. We are involved in promoting sensible and responsible policy and practice at the NT, national and international level.



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3. Terms of reference - key questions

a. The basis on which levies are collected and used

The current cattle grass fed levy is collected per animal at \$5.00 each transaction. The levy is distributed in the following way:

1. \$3.66 to Marketing (MLA)
2. \$0.92 to R&D (MLA)
3. \$0.30 to Animal Health Australia
4. \$0.12 to the National Residue Survey.

Industry structures

The current structure of peak industry bodies is complex and at times diametrically opposed to each other.

Figure1. below represents the current structure of the peak industry bodies, namely the Australian Meat Industry Council (AMIC), Australian Live Exporters Council (ALEC), Australian Lot Feeders Association (ALFA), Cattle Council of Australia (CCA), Sheepmeats Council of Australia (SCA), Goat Industry Council of Australia (GICA).

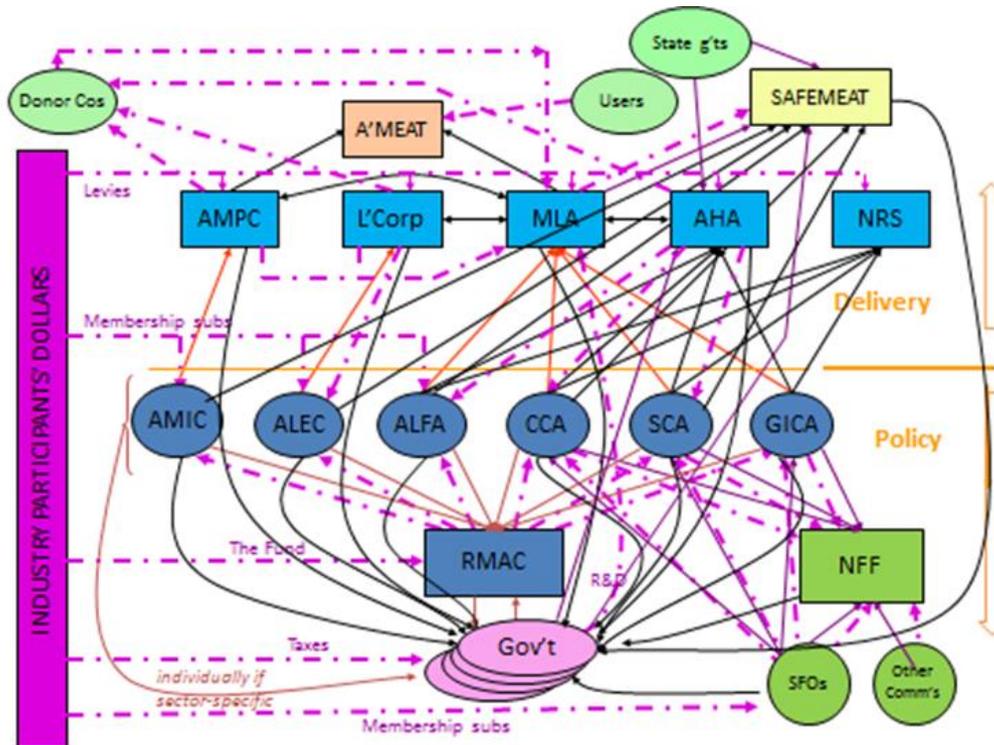


Figure 1 - the structure and relationships in the red meat industry



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The chair of each body sits on the Red Meat Advisory Council (RMAC) which is required to give advice on industry matters to the Minister. The RMAC also manages the red meat industry fund and disperses a portion of the fund income to the industry bodies mentioned above. Industry pay levies which are (cattle \$5), used by statutory bodies such as Meat and Livestock Australia MLA (for sheep, cattle and goats) to deliver services to industry. In the case of the cattle transaction levy, the \$5 is split into four areas as mentioned above with MLA receiving \$4.58 and Animal health Australia and the National Residue Survey receiving the rest.

In the case of the cattle transaction levy, the CCA is required to provide direction to MLA as to the best use of the funds, in the areas of marketing and R&D. The CCA as an industry member body, operating with funds from member organisations and a draw down from the red meat industry fund and operating with a budget of some \$1.3m. From this operating base, the CCA is required to give direction to, and oversight of MLA activities and most importantly the use of the grass fed levies component, which is in the order of \$60m pa from a total of \$180m pa.

The effective direction of the industry service deliverer (MLA) requires a high degree of rigour and attention from dedicated and skilled people able to provide sound and insightful advice. The CCA relies upon a very meagre staff to manage the organisation and provide the appropriate support to directors and expert committee members, the majority of whom donate their time as industry representatives, while also running their own businesses.

The capacity of CCA to adequately oversee and direct MLA without suitable resources is very limited. This is also compounded by the perception that a proportion of industry are not represented through their national body (CCA) as they are not members of their state bodies. State bodies (SFOs) are the members of CCA. For this reason the CCA have been through a partial restructure and constitutional change allowing for individual producers to become members of the CCA and in so doing able to vote directly for independent directors who may have no affiliation with existing state or national bodies. Designed as a staged transition from the existing 100% SFO membership, the new model may deliver a more inclusive sense of representation for cattle producers at the national level. Since the partial restructure a very small number of direct members have registered with CCA. This situation would need to improve radically in order to change the dynamic of the CCA representative model

Regardless of the heightened sense of representation which may evolve, the effectiveness of the CCA in directing MLA and setting national cattle industry policy is seriously hamstrung without adequate resources. The relationship between MLA and CCA has been cited by some as master / servant, rather than the reverse, due to the imbalance in resources. Currently CCA is receiving funds from MLA to conduct some activities including the very important work of committees for animal biosecurity, trade and regulation.

While the NTCA remains supportive of the levy in its current quantum and general allocation we have concerns around CCA capacity to perform effectively due to lack of resources. While the CCA restructure is a step in the right direction it will need to go further with review conducted annually.



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In 2011 a live export crisis was triggered by the federal government suspension of live exports into Indonesia, the largest single market for northern Australian cattle. The impact and severity of this action is still being felt today. The decision by the federal government to suspend the trade was supported by key animal rights activist groups, the Australian Meat Industry Council (AMIC) and independent MPs including Andrew Wilkie. This created a split in industry which manifested publically and disastrously, and paralysed the RMAC which required consensus from each member body before advising the minister. This consensus was not possible due to the position of the AMIC, and so RMAC provided no advice to the minister leaving various industry bodies to do their own bidding. For producers supplying the live export industry, the apparent alliance between meat processing interests, animal activist groups, trade unions and some government MPs to stop live exports is considered a serious threat to the overall livestock sector for which market diversification is critical to survival. Moves to remove competition and a sole outlet to domestic processing is seen as a major threat to industry viability. The role of RMAC should be solely confined to administration of the red meat industry fund.

MLA

In relation to the activities of MLA, expenditure and focus on markets and market access must be targeting countries that can afford to pay what Australian beef producers need to receive in order to stay viable. CCA and MLA appear not to have grasped the significance of the impact of tightening terms of trade and the impact Australian beef producers.

More attention needs to be focused on secondary and tertiary aspects of the supply chain in order to compliment the entire supply chain, rather than just elements of it. Processors and exporters are margin operators. Their incentive is to reduce the livestock cost (as this is the biggest cost) rather than focus on ways to value add and increase their margins and sale price. Processors are at odds with producers even though both are in the same game.

Research and development is vital to improving profitability and there is a perceived lack of linkage between profitability and research. This needs to be addressed through the various structures established to prioritise and approve research.

b. The opportunities levy payers have to influence the quantum and investment of the levies

Producers have very limited opportunity to influence the quantum and direction of the levy expenditure. As mentioned above we currently rely on an under resourced and under-performing CCA to make these decisions and perform due diligence on behalf of industry. Currently producers are able to have a say through a long chain, from state farmer branches to state farmer executive through the state farmer delegate to the CCA. Following the partial restructure the CCA producers are now able to get involved in the direct election of CCA directors through direct membership. The success or otherwise of this approach will require time. There are other indirect means by which producers can influence the use of levies



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including the North Australia Beef Research Council (NABRC) and its southern equivalent (SABRC) which is not generally seen as functional in relative terms. In the case of NABRC it serves to prioritise and oversee research, and the direction of research across northern Australia through regional groups of producers, researchers and government, however primarily driven by producers. This framework is used by MLA to prioritise some research spending in the northern zone and is considered by producers to be a constructive system and process.

As mentioned under the previous question, Regardless of the heightened sense of representation which may evolve, the effectiveness of the CCA in directing MLA and setting national cattle industry policy is seriously hamstrung without adequate resources. The relationship between MLA and CCA has been cited by some as master / servant, rather than the reverse, due to the imbalance in resources. Currently CCA is receiving funds from MLA to conduct some activities including the very important work of committees for animal biosecurity, trade and regulation.

Investment of the marketing component of the levy requires agreement of the CCA and equivalent commodity bodies in the form of agreement to the marketing plan and annual operating budget. The capacity of CCA to apply any degree of rigor to this process is limited due to resource constraints and issues mentioned previously.

c. Industry governance arrangements, consultation and reporting frameworks

Governance and reporting arrangements are not considered an issue that requires attention, however were there to be a deregulation of levy allocation, with dispersal to smaller organisations or groups, then this would require close scrutiny and a corresponding accountability and reporting framework to protect industry funds.

The NTCA is of the view that consultation and reporting from MLA and CCA does not appear to be an issue. Its management and lack of capacity that is the limiting factor.

The process for the selection of directors of MLA has continued to raise concerns by growers with regard to real and perceived transparency. In addition, the influence and role of processors in direction of and use of marketing and R&D levies is perceived by some as disproportionate to their contribution to the overall levy raised. This is particularly relevant to producers who are dependent on live exports for their livelihoods and perceive an undercurrent of opposition to trade from elements of the processing sector. A lack of clarity and transparency around these issues remains an irritant in the effective functioning of the levy based system.



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d. Recommendations to maximise the ability of grass-fed cattle producers to respond to challenges and capture opportunities in marketing and research and development.

Industry needs to better understand its operating environment, constraints, opportunities and risks. Market research is imperative and product matching to demand critical. R&D needs to be strongly based around viable economic outcomes recognising our comparative advantage and integrating clear line of sight programs through the entire supply chain.

Australian agriculture has been largely supply driven, whereby products are produced and then markets found. This approach has limitations that will increase in a global economy and with increasing competition from developing countries where the means of production is radically changing with urban drift and rural restructuring driving increased agricultural production in many bulk commodities.

This competition requires Australian industry to seek new and innovative products able to meet niche and premium markets where we have competitive advantage. There is a large role for industry to see many years ahead and anticipate new and emerging trends and opportunities. Some of this relies on the capacity to more fully understand the means of production, economic, social and political forces operating in our market and competitor countries.

The effective use of levy monies for strategic market intelligence and research should be informed by industry and expert advice. This can be achieved with some of the existing structures and the addition of targeted and extra resources.



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4. Conclusion and further comments

The NTCA supports the principle of statutory levies where those levies are able to deliver gains in sustainable profitability to levy payers. The NTCA has been consistent over the past 2-3 years in questioning the role and effectiveness of the bodies established to oversee the expenditure of the levy monies including the role of CCA and RMAC. This effectiveness has been compromised by division between the grower and processor sector highlighted at the time of the live export ban of 2011 and a lack of resources in CCA resulting in an inability to effectively manage the industry service provider (MLA) and to develop sound industry policy.

The NTCA is also very aware of the need to drive innovation in marketing, research and development and the need for centralised programs to be nimble and progressive enough to capitalise on new and emerging opportunities. The capacity of centralised programs to do this, particularly in the area of marketing and research needs to be carefully analysed. With an increasingly globalised economy and rapidly changing fundamentals, the ability of large organisations such as MLA to remain relevant is critical. Management and strategic direction of MLA must avoid bureaucratic default, remaining flexible and adaptive, promoting innovation through the supply chain, allowing industry to develop competitive advantage and profitability.

END.