Chapter 3

Industry changes and support for reform

3.1 The red meat industry, and in particular the grass-fed cattle sector, has undergone significant change since the original 1997–98 reforms upon which the current levy systems and red meat industry structures are based. This chapter considers whether the structures that underpin the grass-fed cattle levy, and wider red meat industry, continue to serve the purpose for which they were originally intended in light of these substantial changes.

Context of the inquiry

3.2 This inquiry was established in the context of continuing and significant falls in real cattle prices and producer profitability. Evidence to the committee highlighted the importance of the inquiry to the grass-fed cattle sector, given the increasing challenges both the sector and wider red meat industry are currently facing.

3.3 Many such challenges were not evident when the current levy structures were put in place. These challenges include the appreciation of the Australian dollar, consolidation of the agricultural industry (with increasing domestic concentration of supermarket and processing power), declining farmer populations and SFO memberships, increasing reliance on feed-lot production, and the unsustainable fall in cattle prices and profitability resulting in increased farm debt.[1]

3.4 The industry is faced with these challenges while also operating in an increasingly globally competitive environment which continues to experience declining terms of trade. These challenges brought into sharp focus the importance of effective grass-fed cattle industry organisational structures. These structures should meet the collective needs of the sector in the current economic environment, enable it to address the problem of farm gate return, and capture opportunities in marketing and R&D.

Intent of the 1997–98 reforms

3.5 The 1997–98 industry structure arrangements were designed to provide industry with greater responsibility to run its affairs and to move it towards a less government regulated environment. The key elements of the reforms were designed to enable collectively funded meat and livestock industry programs to be delivered more effectively, and to facilitate a more internationally competitive red meat industry in Australia.

3.6 The 1996 steering committee and task force, established to advise the government on the 1997–98 reforms, found that market and industry circumstances had changed since the establishment of the then *Meat and Live-stock Industry Act*

---

1 Australian Meat Producers Group and Concerned Cattle Producers, *Submission 184*; Red Meat Advisory Council, *Submission 165*; Meat and Livestock Australia, *Submission 154*.

1995 and that there was need for adjustment to deliver what industry required for the future.[2]

3.7 The task force recognised the growing sense of distance amongst stakeholders who were disengaged. It emphasised that 'representation and involved ownership is necessary to achieve the essential participation of the industry itself'. It also suggested that significant savings could be achieved by changing the current structures and levy-funded functions and making the provision of services fully contestable and transparent to industry stakeholders. To address this and other industry challenges, it made a series of recommendations including the provision of separate sheep and beef levy funded marketing and R&D corporations, which included both producers and processors. It also recommended that the corporations adopt a two-register voting and direct election system.

3.8 However, ultimately three corporations were established with the red meat levy funded producer marketing and R&D corporation (MLA), a separate processor corporation (AMPC) and live export corporation (LiveCorp). Under this structure, MLA, AMPC and LiveCorp were incorporated as companies limited by guarantee and linked under the current red meat industry structure along with the various sector PICs, CCA, SCA, ALFA and AMIC under the MOU.

3.9 It was argued in evidence that when the task force recommendations pertaining to accountability (including voting and board selection, as well as the structural division between industry sectors) were not implemented, the accountability and transparency aspirations underpinning the reforms were lost.[3]

3.10 The task force noted how the red meat industry levy funded structures had evolved over the decades and that each stage in the process had been preceded by a review. Australian Meat Producers Group and Concerned Cattle Producers (AMPG/CCP) emphasised the point that each review had been triggered by changing market, industry and policy circumstances which tended to demonstrate that non-profit statutory structures with multiple stakeholders do not adapt on their own accord. The task force had noted that, by their nature, each stage of reform tended to be reactive. In the absence of free market operations, it recognised that the challenge was to develop the most flexible and responsive levy based structure to meet industry and market circumstances.[4]

3.11 During the second reading speech on the AMLI bill, then Minister for Primary Industries and Energy, the Hon Mr John Anderson, made the point that the arrangements under the legislation would increase efficiency and competitiveness in structuring the industry to continue as a world leader. He noted that the AMLI legislation was the final step towards empowering the industry by providing it with a structure that offers ownership and management of its own affairs.

---

2 Australian Meat and Livestock Industry Reform Steering Committee and Task Force, *Australian Meat and Livestock—Reform for the Future*, October 1996.

3 Australian Meat Producers Group and Concerned Cattle Producers, *Submission 184*, pp 12–18.

4 Australian Meat Producers Group and Concerned Cattle Producers, *Submission 184*, p. 17.

3.12 While recognising that full consensus was not possible across an industry as diverse as the red meat industry, Mr Anderson identified the issues upon which there was broad agreement, namely:

- need for a non-government, commercially based organisation;
- necessity for industry to manage its own affairs;
- a more hard-headed approach to how levy-payer moneys are spent; and
- separately accountable beef and sheep-meat marketing and promotion divisions and separately accountable research and development divisions within a commercially based organisation.[5]

3.13 Mr Anderson also noted that the bill was designed to free the industry from legislative constraints imposed upon statutory bodies and provide for a new, privately owned structure that would allow industry to take steps towards:

- enhancing industry's capacity to determine and address areas of market failure;
- progressive implementation and facilitation of future industry agreed structural and other reforms;
- minimising government intervention while at the same time ensuring continuing and appropriate representation, governance, accountability and crises management arrangements; and
- providing clear ownership by levy payers and non-statutory contributors, and appropriate participation in decision making processes and resultant benefits.

3.14 Furthermore, the Minister noted that the arrangements proposed in the legislation would empower the industry peak councils to take a leadership role. He highlighted that PICs carry responsibility for decisions on levels of levies and non-statutory funding for the new service delivery company. He also argued that to be able to effectively carry out the new responsibilities, PICs would need to be 'adequately funded' so that they have access to the professional expertise required.

3.15 Many submitters to the inquiry expressed the view that the current structures and systems – including MLA and industry bodies – were due for review and reform in order to effectively provide the collectively commercial outcomes required by the red meat industry in the current decade.[6]

Changes effecting the industry since the 1997–98 reforms

3.16 It is fifteen years since the current red meat industry structures and systems were put in place. Since that time, the environment in which the industry – and in particular the grass-fed cattle sector – operates has changed enormously. This is a

5 Second reading speech, Australian Meat and Live-stock Industry Bill 1997, *House Hansard*, 1 October 1997, p. 8846.

6 Australian Meat Producers Group and Concerned Cattle Producers, *Submission 184*, p. 39.

consequence of several factors, including vertical integration, market share and extended feed-lotting.[7] Furthermore:

> Economic uncertainty associated with the global financial crisis, rising competition from other protein sources and from overseas beef exporters, along with environmental and animal welfare challenges have collectively placed intense pressure on industry organisations, levy payers and value chain firms to adapt.[8]

3.17 Increased challenges faced by the industry include the declining number of farmers (a fall of 11 per cent from 176,700 in 2006 to 157,000 in 2011) and an even faster decline in SFO membership.[9] RMAC noted that the dramatic physical, social, economic and environmental changes that had taken place since 1997–98 amounted to significant transformation to the sectors that the structures were designed to serve. In the context of these changes and challenges, RMAC observed that:

> It would be very rare that any representative (or even corporate) structure that was designed nearly 20 years ago could – in the absence of some level of reform – continue to serve its customers with optimal efficiency.[10]

3.18 The structures and systems pertaining to other rural industries such as pork, wool, grain, dairy and horticulture were reformed from the late 1990s in response to the changing economic and market environment.[11] However, no such reform has taken place in the red meat industry.

Concentration and consolidation

3.19 In a five year period between 1987 and 1992, the percentage of beef sold on the domestic market through supermarkets rose from 20 per cent to 35 per cent.[12] Today, the four supermarket chains, Woolworths, Coles, IGA and ALDI, along with other minor supermarkets, control up to 78.6 per cent of Australia's domestic beef sales.[13]

3.20 Noting that cattle producers are price takers rather than price setters, the point was made that the beef industry is massively concentrated, with these few

---

7 Mr Alan Thompson, Department of Agriculture, *Committee Hansard*, 7 March 2014, p. 11; Dr Brian Creedy, Richmond River Beef Producers Association, *Committee Hansard*, 7 March 2014, p. 60; Bindaree Beef Australia, *Submission 155*, p. 4. Vertical integration is defined as an undertaking by a single firm of successive stages in the process of production and supply of a particular good.

8 Tasmanian Farmers and Graziers Association, *Submission 156*, p. 4.

9 Australian Meat Producers Group and Concerned Cattle Producers, *Submission 184*, p. 28.

10 Red Meat Advisory Council, *Submission 165*, pp 12–14.

11 Australian Meat Producers Group and Concerned Cattle Producers, *Submission 184*, p. 9.

12 Australian Meat Producers Group and Concerned Cattle Producers, *Submission 184*, p. 23.

13 Australian Meat Producers Group and Concerned Cattle Producers, *Submission 184*, p. 23.

corporations setting the terms and conditions for the domestic market.[14] Under these circumstances, the options for selling into the retail sector have contracted markedly while the power of the supermarkets has consolidated the retail channels for red meat sales.[15] It was noted that retailers can be 'relied upon to resist anything that would lead to higher cattle prices, their main input cost'.[16]

3.21 The trend towards greater concentration in the retail sector is mirrored in the processing sector. The future of single plant processors such as Primo at Scone and the Northern Co-operative at Casino remain uncertain, with the real prospect of a future form of amalgamation.[17] In 1998, there were 215 meat processing facilities (abattoirs) around the country whereas now there are no more than 157.

3.22 The 157 meat processing facilities represent more than 97 per cent of Australia's red meat processing capacity.[18] The five largest processors now account for some 54 per cent of the national sheep and cattle killed compared to 28 per cent of the national cattle killed in 1996.[19] The top 25 processors contribute 80 per cent of the processor levy and of them, the top five would contribute up to 60 per cent.[20] It should be noted, moreover, that up to 80 per cent of the beef product that the AMPC membership process is grass-fed.[21]

3.23 Australian Beef Association (ABA) explained that the industry is characterised by 200,000 producers, 23 million consumers, two retailers with 50 per cent control of the domestic market and five processors (at least three of which are foreign owned) controlling over 50 per cent of the processing.[22] Bindaree Beef Australia added that 60 per cent of the export market is controlled by the world's three largest meat companies, namely JBS, Teys/Cargill and Nippon.[23] Mr J.B. Carpenter noted the consequences of this trend:

---

14 Mr J.B. Carpenter, *Submission 5*, p. [3]; Mr James Ramsay, *Submission 8*, p. [2]; Mr Ryan and Ms Tracey Hacon, *Submission 20*, p. [2]; Mr J. Ashley McKay, *Submission 99*, p. 5.

15 Bindaree Beef Australia, *Submission 155*, p. 8.

16 Mr J.B. Carpenter, *Submission 5*, p. [3]

17 Mr J.B. Carpenter, *Submission 5*, p. [3]; Mr Joe Moore, *Submission 18*, p. [1]; Australian Beef Association, *Submission 164*, p. 6.

18 Mr David Lind, Australian Meat Processor Corporation, *Committee Hansard*, 7 March 2014, pp 13–14.

19 Mr J. Ashley McKay, *Submission 99*, p. 5; Ms Joanne Rea, *Submission 138*, p. 1; Bindaree Beef Australia, *Submission 155*, p. 8.

20 Mr David Lind, Australian Meat Processor Corporation, *Committee Hansard*, 7 March 2014, pp 13–14.

21 Mr Stephen Kelly, Australian Meat Processor Corporation, *Committee Hansard*, 7 March 2014, p. 15.

22 Mr Athol Economou, Australian Beef Association, *Committee Hansard*, 7 March 2014, p. 51; Mr Brad Bellinger, Australian Beef Association, *Committee Hansard*, 20 June 2014, p. 17.

23 Bindaree Beef Australia, *Supplementary Submission 155*, p.1.

> Every time a processor or retailer is amalgamated, it knocks out yet another bidder from the market for cattle.[24]

3.24 The end result is that there is inadequate competition in the marketplace.[25]

Diversity of cattle sector

3.25 In contrast to the beef (or processor) sector, the cattle (producer) sector is highly fragmented, comprising thousands of cattle producer families geographically dispersed across the country. MLA noted that a major contributor to the prevalence of market failure in the sector was the scale of cattle enterprises. CCA highlighted the diversity of product coming out of the farm gate including local trade, the grass-fed cattle market and burger (patties) animal market. This makes the challenge of establishing a unified approach at the farm gate, to put pressure on the supply chain, extremely difficult.[26]

3.26 The current industry dynamics, and in particular the concentration of ownership and consolidation within the industry (which has concentrated buying power in the sale yards and resulted in a lack of competition) were not characteristic of the industry when MLA was first established.[27]

3.27 In contrast to industries such as manufacturing or mining, where large scale enterprises are of adequate size to realise benefits from investment in brand marketing and other innovations, the cattle industry has a structure dominated by small and medium enterprises, particularly in southern Australia. MLA noted that the enterprise scale presented various challenges for R&D including investment scale, free-rider, information failure and risk aversion issues.[28] Free-riding is recognised as a form of market failure because it enables those who do not contribute to raising revenue for the benefit of the industry to enjoy the contribution of those who do.

3.28 The diversity of scale within the cattle production sector brought to light the importance of collective cattle transaction levy investments which provide for long-term strategic industry planning to give Australian beef the competitive advantage it needs in global markets.[29]

Return at the farm gate and the costs of production

3.29 Evidence provided to the committee from producers across the country indicated that, in addition to the margin of return at the farm gate remaining stagnant over time, the percentage of return to the producer in the value chain has remained relatively low. According to recent research conducted by Bush AgriBusiness Pty Ltd,

---

24 Mr J.B. Carpenter, *Submission 5*, p. [3]

25 Mr Bradley Bellinger, Australian Beef Association, *Committee Hansard*, 7 March 2014, p. 52.

26 Mr Peter Hall, Cattle Council of Australia, *Committee Hansard*, 7 March 2014, p. 43.

27 Mr Brad Bellinger, Australian Beef Association, *Committee Hansard*, 20 June 2014, p. 17.

28 Meat and Livestock Australia, *Submission 154*, p. 15.

29 Beef Marketing Fund Committee 2009 cited in Meat and Livestock Australia, *Submission 154*, p. 19.

Queensland cattle prices have declined by 40 per cent in real terms since 2001.[30] The recent Northern beef report found that the majority of northern beef producers are 'not generating sufficient profits to fund current and future liabilities'. The report noted that the situation over the last three years was on average similar to the performance over the previous 12 years.[31]

3.30 A substantial number of cattle producers emphasised the point that the price that they receive for their cattle, in light of the costs of production, have placed the cattle industry in crisis.[32] According to ABA, while cattle prices have declined by 30 per cent over the past decade, producer costs have risen by at least 30 per cent. Producers now receive about 30 per cent of the consumer dollar spent on beef (compared to 50 per cent for US farmers and 40 per cent for New Zealand farmers).[33] Put another way, for every $10 spent by a consumer in Australia, the producer gets back $3, while in the US, the producer receives $5.[34]

3.31 According to Keough Cattle Company, grass-fed cattle prices have declined every year by approximately 40 per cent from 1998 to January 2014.[35] Mrs Lasca Greenhill argued that MLA has spent $1.6 million in levies on initiatives like advertising campaigns, which have benefited the supermarkets and multinationals, while domestic beef consumption continues to fall, and cattle prices are the same as 30 years ago.[36] Mrs Greenhill's observations, and the views of Keough Cattle

---

30 Bush AgriBusiness Pty Ltd cited in Ms Dixie Nott, *Submission 92*, p. [3]

31 Meat and Livestock Australia, *The Northern beef report: Northern 2013 situation analysis*, April 2014, p. 66.

32 Mr J. Ashley McKay, *Submission 99*, p. 1.

33 Mr Athol Economou, Australian Beef Association, *Committee Hansard*, 7 March 2014, p. 49; Australian Beef Association, *Submission 164*, p. 5.

34 Australian Beef Association, *Submission 164*, p. 5.

35 Keough Cattle Company, *Submission 124*, p. 2.

36 Mrs Lasca Greenhill, *Submission 104*.

Company, captured the sentiment of many producers who gave evidence to the inquiry.[37]

3.32 Mr Joe Moore observed that producers were getting $1 per kilogram in 1978 and that while cattle numbers have remained steady since then (at around 28 million), cattle was sold all over Queensland in 2013 at well under $1 per kilogram.[38]

3.33 Producer Mr David Gregory made the point that across major international beef producing nations, Australian beef producers receive among the lowest farm gate prices for their product. He argued that Australian farm gate prices are similar to some South American beef producing nations which generally have a lower quality product.[39]

3.34 Estimates suggest that the cattle producers' share of the average retail price for beef in Australia is approximately 26.5 per cent.[40] By way of comparison, cattle producers' share of the average retail price in the US was 49.4 per cent over 2010–12.[41] ABA held that the low return to the producer suggests that every dollar spent on the cattle transaction levy is delivering less than a third its value to the producer.[42]

3.35 It was highlighted in evidence that in Australia, competition is disproportionately in favour of the beef sector rather than cattle sector.[43] The point was made that once a beast is sold by a primary producer, its purchase price rises dramatically. Producer Mrs Dale Knuth explained:

> We breed, feed and keep healthy these cattle from anywhere from two to four years before they are marketed and within a short space of time their

37 Mr Don, Ms Cathy and Mr Scott Bates, *Submission 12*; Mr Mike Kena, *Submission 16* ; Mr Christopher Walton, *Submission 27*, p. [1]; Mr Mark Lucas, *Submission 91*; Ms Rachel Weston, *Submission 94*; Mr Chris Kirk, *Submission 96*; Mr J. Ashley McKay, *Submission 99*, p. 2; Mr Tom and Ms Robyn Aisbett, *Submission 100*; Mr Peter Mahony, *Submission 101*; Food Producers Landowners Action Group Australia Inc, *Submission 103*, p. [2]; Mr David Corr, *Submission 105*; Mr Viv and Ms Caralyn Caspani, *Submission 106*, p. [1]; Mr Ken Cameron and Mr Richard Belfield, *Submission 109*; Ms Tracey and Mr Alan Hewitt, *Submission 111*; Ms Aneeta Hafemeister, *Submission 113*, p. [1]; Mr Barry and Ms Marella Green, *Submission 118*; Ms Lorraine Rhodes-Roberts and Mr Des Roberts, *Submission 122*; Mr Richard Phillips, *Submission 125*; Mr Ernie and Ms Kylie Camp, *Submission 129*, p. [3]; Yammatree Family Trust, *Submission 133*; Councillor Maggie Creedy, *Submission 135*; Ms Marion Jarratt, *Submission 137*; Mr Alex Munro, *Submission 140*, p. [1]; Mr Sergio Beani, *Submission 146*; Mr Darryl and Ms Karen Smith, *Submission 147*; Mr Jim O'Neill, *Submission 148*; Mrs Dale Knuth, *Submission 152*; Mr Gary and Ms Melina Ryan, *Submission 158;* Dr Brian Creedy, Richmond River Beef Producers Association, *Committee Hansard*, 7 March 2014, p. 60.

38 Mr Joe Moore, *Submission 18*, p. [1].

39 Mr David Gregory, *Submission 150*, p. 3.

40 Mr J.B. Carpenter, *Submission 5*, p. [3]. ABA noted that it was between 25 and 30 per cent. Mr David Byard, Australian Beef Association, *Committee Hansard*, 7 March 2014, p. 57.

41 Mr J.B. Carpenter, *Submission 5*, p. [4].

42 Mr David Byard, Australian Beef Association, *Committee Hansard*, 7 March 2014, p. 57.

43 Mr J.B. Carpenter, *Submission 5*, p. [3].

> purchase price goes from approximately $1.60/80 (if you strike a good sale) to the very high amount we see on the meat in the retailers displays in Australia.[44]

3.36 The majority of grass-fed cattle producers who provided evidence to the inquiry emphasised the difficult financial situation that they currently face. Mr Peter and Ms Catherine White posed the question of how it was possible to stay viable in the industry when running costs have doubled in the last ten years while cattle prices have halved.[45] Mr Rob Atkinson noted that while farm-gate returns in Australia have been poor over the past decade, they have been woeful for the last two years despite the fact that the world beef price has been very strong and most recently, at record levels.[46] Ms Jacqueline Curley noted that 2013 racked up both the highest meat export figures and some of the lowest producer returns.[47]

Domestic consumption of beef

3.37 According to the Keough Cattle Company, beef consumption has declined by 1.4 per cent annually for the past 13 years.[48] At 41.3 kg per person in 1997, domestic consumption of beef on a per capita basis fell to 32.8 kg per person in 2012–13.[49]

3.38 It was argued that the investment of $210 million in Meat Standards Australia (MSA) has not halted the decline in domestic consumption.[50] Producers asked where this money was going, and why they were not seeing improvements in farm-gate prices as a flow on effect of MLA's marketing and R&D investments.[51]

3.39 CCA argued that the decline in domestic consumption in Australia was a trend consistent with the rest of the developing world.[52] One of the reasons for this trend is that the Australian domestic market encompasses an ageing population and people who have migrated from countries with low red meat consumption rates. For these reasons, CCA argued that the growth and opportunity to increase the value of the Australian beef industry is in the international market.[53]

---

44 Mrs Dale Knuth, *Submission 152*.

45 Mr Peter and Ms Catherine White, *Submission 33*. This evidence was supported by Mr Rod Barrett, *Submission 45*, p. [1].

46 Mr Rob Atkinson, *Submission 35*.

47 Ms Jacqueline Curley, *Submission 42*, p. [1].

48 Keough Cattle Company, *Submission 124,* p. 3.

49 Mr J. Ashley McKay, *Submission 99,* p. 1.

50 Mr J. Ashley McKay, *Submission 99,* p. 2.

51 Mr Ian and Ms Nina Batt, *Submission 141*.

52 Mr Andrew Ogilvie, Cattle Council of Australia, *Committee Hansard*, 20 June 2014, p. 37.

53 Mr Jed Matz, Cattle Council of Australia, *Committee Hansard*, 20 June 2014, p. 37.

3.40 MLA confirmed that domestic beef consumption amounted to 32.5 kg per person in 2012–13.[54] However, it argued that the total value of the domestic market – which remains the largest single global market for Australian beef – has been relatively stable in recent years, with approximately $6.6 billion in annual retail sales.[55]

3.41 MLA's domestic marketing initiatives are aimed at maintaining strong consumer perceptions and preference for beef and to promote the nutritional value of beef. Most of the MLA marketing spend in the domestic market is focused on generic advertising.[56] During 2012–13, MLA invested $10.2 million in beef domestic marketing, including $9.2 million in producer levy funds and $1 million in processor contributions.[57]

3.42 MLA noted that the domestic market had been sluggish for the past five years commencing with the tightening of household spending in 2007 resulting from rises in other household costs and the impact on consumer confidence of the global financial crisis from the second half of 2008. According to MLA's 2012–13 annual report, the volume of beef consumed domestically had increased to 743,750 tonnes (cents per kilogram carcase weight or cwt) from 705,630 tonnes cwt in 2011–12 and 742,230 tonnes cwt in 2010–11.[58]

3.43 Evidence to the committee in relation to MLA domestic marketing highlighted the disparate views of MLA compared to those of producers. The fundamental challenge for producers is that of increasing returns at the farm gate. The view of many producers who gave evidence to the committee was that the focus of levy investment had shifted away from achieving this outcome and the profitability of levy payers more generally.[59] These matters are considered in the next chapter of this report.

Export sale of beef and opening and expanding markets

3.44 MLA noted that while domestic consumers still make up Australia's single largest market, more than two-thirds of all beef production is exported to approximately 100 countries. However, maintaining international competitiveness is a critical challenge.[60] MLA argued that despite a high Australian dollar and global

---

54 Meat and Livestock Australia, Australia's beef industry, http://www.mla.com.au/Cattle-sheep-and-goat-industries/Industry-overview/Cattle (accessed 29 July 2014).

55 Meat and Livestock Australia, *Submission 154*, pp 6 and 26. Domestic expenditure on beef in 2010–11 was $6.7 billion. Meat and Livestock Australia, *Annual Report 2010–11*, p. 12.

56 Dr Peter Barnard, Meat and Livestock Australia, *Committee Hansard*, 7 March 2014, p. 33.

57 Meat and Livestock Australia, *Annual Report 2012–13*, p. 21. However, Dr Allan informed the committee that MLA invested only $5 million on all marketing in Australia per year. Dr Michele Allan, Meat and Livestock Australia, *Committee Hansard*, 20 June 2014, p. 50.

58 Meat and Livestock Australia, *Annual Report 2011–12*, p. 9; *Annual Report 2010–11*, p. 2.

59 Australian Meat Producers Group and Concerned Cattle Producers, *Submission 184*, p. 38.

60 Meat and Livestock Australia, *Submission 154*, p. 6.

economic challenges in major developed economies, international demand for Australian beef has grown significantly in recent years, with total beef export values of $5.1 billion in 2012–13.[61] Over the past ten years, Australia's beef exports have grown from 840,000 tonnes to 1.1 million tonnes.[62]

3.45 MLA also explained that Australia is a relatively high cost beef producer. Input costs (including labour) as well as off-farm costs in processing and transport remain significantly higher than those of other exporting nations including Brazil, the United States (US) and India.[63] Mr Geoff Pearson, Meat Council Representative, Western Australian Farmers Federation (WAFF) detailed the slaughtering and processing costs per animal in Indonesia, America, Brazil and Australia:

> The cost…in Indonesia for a kill and bone is $5 to $8. The cost of production in Australia for a process and bone is around $180. In America it would be more like about $80. In Brazil it would be more like about $40 to $50.[64]

3.46 MLA explained that sustaining growth in sales in overseas markets requires differentiating Australian beef amongst consumers and retailers as a high quality, safe and delicious product and, just as importantly, maintaining trade access to Australia's main overseas customers.[65] WAFF's Mr Pearson explained that as the WA market was heavily domestically driven, overseas markets were fundamental to sustainability in WA and would provide producers with choices beyond the two multinationals.[66]

3.47 The question that arose in this context is the extent to which the expansion of markets will actually provide a greater return for the producer at the farm gate. Mr Stephen Kelly, Chairman of AMPC, argued that market access was one of the most critical aspects of generating returns back to the producer sector. He stated that the more markets 'we can sell into, the greater the chance we can extract the best return'.[67]

3.48 However, many producers disagreed. Mr Sergio Beani noted that 2013 was a record year for beef exports from Australia. He argued that new markets in China and Russia, along with the free trade agreements with Korea, will increase the profits of processors and exporters. However, there is currently no mechanism to ensure that any further expansion (and therefore profits) will be passed on to the producer.[68]

---

61 Meat and Livestock Australia, *Submission 154*, p. 6.

62 Dr Michele Allan, Meat and Livestock Australia, *Committee Hansard*, 7 March 2014, p. 22.

63 Meat and Livestock Australia, *Submission 154*, p. 19.

64 Mr Geoff Pearson, Western Australian Farmers Federation, *Committee Hansard*, 6 May 2014, p. 5.

65 Meat and Livestock Australia, *Submission 154*, p. 19.

66 Mr Geoff Pearson, WA Farmers Federation, *Committee Hansard*, 6 May 2014, p. 3.

67 Mr Stephen Kelly, Australian Meat Processor Corporation, *Committee Hansard*, 7 March 2014, p. 15.

68 Mr Sergio Beani, *Submission 146*.

Concerns with the current structure and levy system

3.49 The significant structural changes that have occurred in the industry since the 1997–98 reforms brought into question the effectiveness of the current levy system in meeting the collective needs of the cattle industry. It was noted in evidence that the lack of competition brought about by the concentration and consolidation of industry sectors were not issues of concern when the levy system and respective structures came into effect, but that this had changed over time.[69]

3.50 Vertical integration is one such significant change which the current system does not take account of. The concentration of retailers and processors is contrasted by the diverse and disparate nature of the producer sector which is charactered by declining numbers and disproportionately low returns at the farm gate.

3.51 Many producers made the point that they were led to believe that by paying the CTL they could reasonably expect some return on their investment in the future. Yet, as detailed in this chapter, since the compulsory levy was increased to $5 per head, farm gate prices have remained stagnant or have dropped.[70]

3.52 Mr Rod Dunbar argued that low cattle prices are the result, not of market failure, but rather system failure. He argued that the regulation and control regime (which is enforced by a system dominated by the processor sector) is destroying the grass-fed cattle industry.[71] Noting that processors contribute six per cent of MLA's revenue, together with 50 percent of the processor industry levy, ABA argued that under the current structure, processors and retailers benefit the most from MLA marketing and research but don't contribute to MLA's upkeep.[72]

3.53 The committee received considerable evidence about the low return to cattle producers, the need to achieve a fairer return in the value chain and the extent to which movements in farm-gate prices are set by supply and demand in competitive markets. Underlying these concerns rests the issue of whether the levy systems and industry structures in place, have actually caused the distortion in relation to the return to producers, or have reinforced it.

3.54 Pastoralists and Graziers Association of Western Australia (PGA) explained that while there is a diversity of views regarding the CTL, the root cause of the dissonance is the ongoing reduction in industry profitability. Indeed, some submitters argued that the measure of whether MLA research and marketing had yielded commercial benefit to cattle producers was whether domestic consumption had

---

69 Mr J. Ashley McKay, *Submission 99*, p. 5.

70 Mr Wayne and Ms Sandra Birchmore, *Submission 7*; Mr Michael and Ms Maureen Borello, *Submission 26*, p. [2]; Mr David Conachan, *Submission 127*; Mr Ryan and Ms Tracey Hacon, *Submission 20*, p. [1]; Mr Damien Jensen, *Submission 22*.

71 Mr Rod Dunbar, *Submission 107*, p. 1.

72 Mrs Linda Hewitt, Australian Beef Association, *Committee Hansard*, 20 June 2014, p. 13.

increased along with returns at the farm gate.[73] PGA confirmed that input costs have gradually risen over the last 30 years, leading to an erosion of profit margins for those who do not adopt new technology and adapt to changing market conditions. It argued that given such circumstances, there is little wonder that some producers are seeking to further reduce input costs by reviewing beef levies.[74]

3.55 MLA raised the point that the additional $1.50 levy for marketing introduced in 2009, resulted in an increase in cattle prices by 1.8 per cent.[75] However, a number of submitters argued that since 1998, producers have provided more than $1 billion to MLA in levy revenue, while returns to producers continue to decline. Yet, MLA emphasised that it has no control over farm-gate prices. While MLA's marketing and R&D programs are 'designed to deliver strong returns back to the farm gate', MLA Chair, Dr Michele Allan explained that:

> Through our R&D we can affect the cost on farm, the productivity of animals and the pastures. What we cannot control is the kill numbers…last year was the biggest kill of beef cattle in this country since 1975. If all those animals are lined up at the processor door, the processor can call the price. That is supply and demand.[76]

3.56 The disparate views put to the committee were representative of the growing division between MLA as service provider and producers brought about by a lack of producer engagement in relation to marketing as well as more generally in relation to levy investment decisions. A 2010 review of MLA recommended that it consider revising its approach to planning domestic marketing activities. Suggestions included longer term marketing plans for each species, an examination of how stakeholders are involved in the planning process and opportunities to streamline annual planning activities.[77]

3.57 Evidence to the committee also highlighted the inflexibility of the CTL which stands at a set rate of $5 regardless of the sale price of a beast. For example, it was pointed out that the $5 levy amounted to 25 per cent of what some producers have received for their cattle.[78] A number of submitters argued that they could see no visible return for the levy cost to grass-fed cattle producers and voiced frustration that during periods of difficulty (such as drought when cattle is transacted at below production costs), it still attracts the $5 CTL.[79] As an alternative, some submitters

---

73 Mr J.B. Carpenter, *Submission 5*, p. [6]; Richmond River Beef Producers Association, *Submission 9*, p. [3]; Mr Mike Kena, *Submission 16*; Mr G Schmidt, *Submission 19*; Mrs Lasca Greenhill, *Submission 104*.

74 Pastoralists and Graziers Association of WA, *Submission 112*.

75 Dr Peter Barnard, Meat and Livestock Australia, C*ommittee Hansard*, 7 March 2014, p. 34.

76 Dr Michele Allan, Meat and Livestock Australia, *Committee Hansard*, 20 June 2014, p. 59.

77 Archer Consulting, *Meat and Livestock Australia 3 Year Review of Performance—Final Report*, June 2010, p. 16.

78 Mr Alex Munro, *Submission 140*, p. [3].

79 Keough Cattle Company, *Submission 124*, p. 3; Mrs Dale Knuth, *Submission 152*.

argued that the levy rate should be a percentage of the value of the beast at the point of sale with a minimum price set for each beast.[80] A rate of 0.05 per cent of the gross price – which would be $5 for every $1000 – was suggested as one such option.[81] Victorian Farmers Federation (VFF) argued that an investigation should be considered into a more dynamic fee structure which could be based on a percentage of the animal value, similar to the current sheep and lamb levy structure.[82]

3.58 MLA noted that the drought that affected most cattle production areas had forced many producers to sell in an overstocked marketplace, which had resulted in the highest turnoff of cattle since 1998. MLA stated that, for these reasons, the current conditions are difficult for producers. However, the fundamentals of the industry were strong.[83] It emphasised that prices are determined by the relative forces of supply and demand.[84] Yet, it also acknowledged that the producer's share of the retail dollar – of 25 to 30 per cent – was low, and considerably less than in the US.[85]

3.59 The changing industry dynamics detailed in this chapter have placed pressures on its institutional arrangements and the structures upon which the levy system is based. Such changes have brought to the fore questions regarding the imposition, objective and use of the CTL and the efficacy of the organisations and bodies responsible to invest levy funds on behalf of producers and represent their collective needs both now and into the future. The extent to which decision-making processes within MLA and its voting structure have resulted in levy payers becoming disconnected from levy investment decisions is the subject of the following chapter.

---

80 Mr James Ramsay, *Submission 8*; Mr Peter and Ms Catherine White, *Submission 33*; Ms Jacqueline Curley, *Submission 42*; Mr Gib and Ms Sue Muller, *Submission 128*.

81 Mr Ernest and Mrs Kylie Camp, *Committee Hansard*, 7 May 2014, p. 28.

82 Victorian Farmers Federation, *Submission 121*, p. [2].

83 Dr Michele Allan, Meat and Livestock Australia, *Committee Hansard*, 7 March 2014, p. 22.

84 Dr Michele Allan, Meat and Livestock Australia, *Committee Hansard*, 7 March 2014, p. 22.

85 Dr Peter Barnard, Meat and Livestock Australia, C*ommittee Hansard*, 7 March 2014, p. 32.