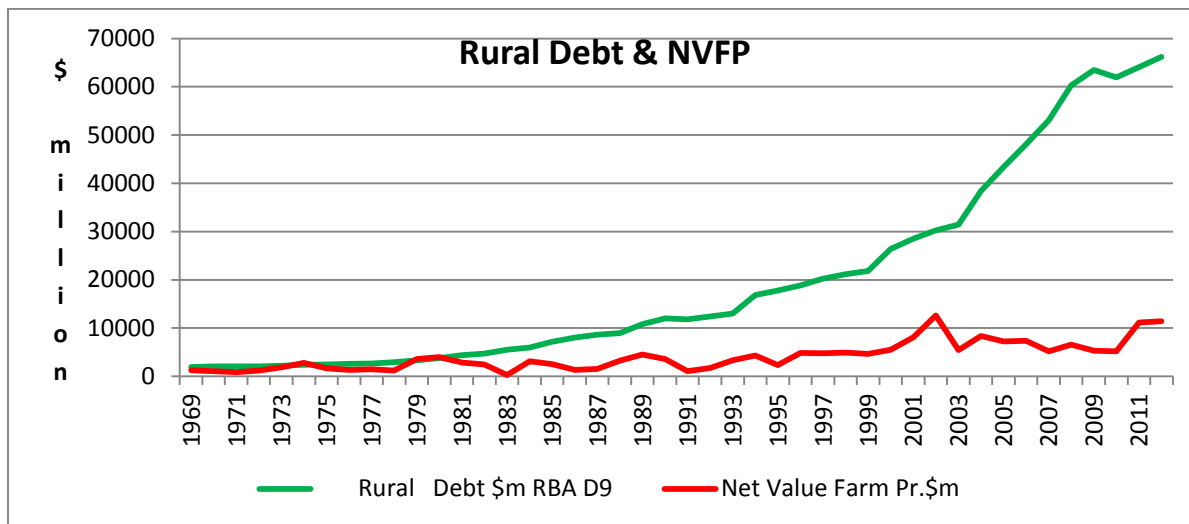


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Industry structures and systems governing levies on grass-fed cattle

Submission

Publically available data was simply ignored as political ideology maintained a belief that fairies actually did live at the bottom of the free trade garden.¹



Ben Rees, "Rural Australia: The Path Forward, Fighting Rural Debt, Hughenden, Dec.9, 2013, p.1

Introduction

There is one word which immediately comes to the fore when contemplating agriculture in general and the beef industry in particular and that is "manipulable".

The prices we receive are always variable as a result of unavoidable conditions such as the value of the dollar and seasonal conditions. However, the real manipulation comes from the sheer market power of our large meat processors and supermarket duopoly. The five largest meat processors, who have a wide geographical spread therefore further hindering competition, kill 54% of the cattle. Small regional meatworks which often service local butchers are being driven out of business by, for example, large fines for relatively small breaches of workplace health and safety laws or intemperate action which destroyed Giles meatworks in Victoria.

¹ Ben Rees, "Rural Australia: The Path Forward, Fighting Rural Debt , Hughenden, Dec.9, 2013, p.1

I will not dwell on declining terms of trade as I expect that will be covered in many submissions and I agree with the fact that it is a continuing and deep seated problem.

When Meat and Livestock Australia was formed in 1997 producers had high hopes that they finally had an organisation that would work on their behalf. It was billed to those of us who were around at the time as a producer organisation with little to no influence by processors.

This has not proved to be the case.

Livestock producers and their rights, or the obligations to them, of MLA rarely get a mention.

Instead we have a lexicon throughout MLA and the MISP which talks about “the industry”, meaning producers and processors and “total supply chain profitability”. I don’t believe that producer profitability gets a single unqualified mention but groups who are peripheral to our industry such as animal welfare and environmental groups are mentioned multiple times. This sort of subservient posturing is unacceptable. Without profitability there is no human welfare much less environmental welfare.

The failure of Cattle Council of Australia (CCA) to take on board the genuine concerns of livestock producers and to advance policy required by such producers will also be a constant theme with which I agree.

There are from time to time other organisations which spring up in response to broad ranging or single issues. There is no reason why CCA should have sole custodianship of the debate or any statutory funding to the exclusion of other groups who can add to the debate. The policy failures of CCA and State farm Organisations (SFO’s) have been exposed by their memberships falling off. Other organisations have survived on membership only in spite of raucous criticism.

The MLA procedure for “election” of board members is a total farce and I agree with submitters who contend that the procedure needs to be updated and a more democratic procedure put in place to ensure that producers are well represented. It is significant that Board membership from the areas where the cattle are is very light. Our skills based board has forgotten who it represents.

I would however like to pay tribute to MLA Chair Michelle Allen for being the only person in the whole caravan to acknowledge the part played by the live export ban in exacerbating the damage to cattle prices caused by drought. CCA have steadfastly refused to do so.

Competition Policy Legislation

On the whole MLA has been very narrow in its interpretation of its job.

The experience of producers has been that whenever they have pointed out any deficiencies in the system which is constraining the industry, such as a requirement for legislative amendment or updating of the market intelligence system the standard reply is that their agreement allows them to do “research and marketing”. They have used this mantra to duck for cover against all manner of onslaughts and it has ensured that they have never ever tackled the most difficult issues.

One of the areas which seriously needs addressing is Competition Policy.

Firstly the Australian Competition and Consumers Act has exemptions for environmental groups from the secondary boycott and third line forcing provisions of the Act. These exemptions have destroyed the forestry industry in Tasmania and the beef industry is vulnerable to the same provisions with ENGO’s spreading credible misinformation.

The MLA response to these external threats has not been to respond to the issues on behalf of their livestock producer shareholders and point out the deficiencies in the ENGO arguments loudly and clearly with the help of some targeted research but to bow to the external threat and enunciate some social policy which leaves us with fairies at the bottom of the garden but no increase in credibility and no increase in consumption.

The Australian Competition and Consumer Commission (ACCC) has progressively allowed the consolidation of the meat processing works to a stage where a couple of large processors set the prices and others follow. Competition is almost non-existent. The ACCC manner of operation where mergers between processors are determined on a market by market basis takes no account of the percentage of market power and consequent dominance by a single player. This procedure needs review.

The supermarket sector has a similar history and in allowing supermarket takeover the ACCC has, of late only taken into account the local effect on consumers and not the ever increasing market power in the acquisition of product. 2013 saw near record low prices for livestock but there was little discernible reduction in the retail price of beef and therefore no increase in consumption in a product which has shown itself to be very responsive to price. It has been said in the past that we have eaten our way out of a glut. Not this time.

Processors control how much product is exported, with the tonnage not changing in decades until 2013 when once again almost record low prices for cattle were paid and record high prices for beef in the US (the indicator market) saw an increase in product sold internationally. This will no doubt not be the case in the future if exporting such tonnage threatens to send the livestock prices to a profitable level.

Large international companies which operate on several continents can seriously manipulate a market and there are, it seems no constraints on their doing so. There is also no penalty for misinforming the market, namely producers, as there is with the Australian Stock Exchange and “talking down the market” is a well honed skill. MLA is meant to curb this behaviour with better market intelligence and working towards a more “perfect” market. This is possible because of a lack of easily accessible market information.

This lack of information is not the case in the US where the Packers and Stockyard Act 1921 has the goal of competition in the market. It is overseen by the Grain Inspection, Packers and Stockyards Administration (GIPSA) whose central mission statement is simple,

“To protect fair trade practices, financial integrity, and competitive markets for livestock, meat, and poultry.”²

No such dedicated Act or body exists in Australia. This quote from the annual report of GIPSA gives a small insight into what it does.

“Investigations address a broad range of potential violations under the P&S Act and are grouped into three categories of competition, trade practice, or financial violations. Competition violations often involve preferential treatment or restriction of competition, such as through apportionment of territory. Examples of trade practice violations include offenses such as unfair or deceptive practices, failure to register properly, tariff misrepresentation, and misuse of scales and improper weighing practices, including at any location where scales are used to weigh feed when feed is a factor affecting payment to

² http://www.gipsa.usda.gov/Publications/psp/ar/2012_psp_annual_report.pdf p1

livestock producers or poultry growers. Examples of financial violations include misuse of custodial accounts, failure to pay, and failure to pay when due.”³

The United States Department of Agriculture (USDA) regularly posts cutout values and retail farmgate price spreads⁴⁵ under relevant legislation. Congressional hearings into share of the retail dollar and papers on the subject by the Congressional Research Service offer informed comment. Beyond a few well-informed members, the Australian Parliament would not have a clue about livestock or other agricultural prices much less whether they are adequate or not to be profitable.

I am not trying to say that all the US tools are unconditionally relevant to Australian conditions and certainly not the “sticky” price of livestock but I am trying to point out that other countries recognise and try to do something about compensating for price taking markets. Our politicians and the MLA as far as I can see have just hung us out to dry. MLA has not advanced this issue.

Australian livestock producers attract little informed interest by policy makers. Many of the so-called informed comment of late by economists from eminent institutions show that they are ignorant of a price taking market, out of touch and unaware of the distortions to the free market that exist in agriculture. Their pronouncements that the free market will just continue to operate in some orderly fashion, that only the poor managers will go broke and that all farms will continue to produce is not borne out by the empirical evidence. One of their standard concepts is that the sector just needs to adopt new practices and increase productivity.

Australian livestock producers as a whole are not subsidising cheap wholesale prices for food (which is not the same as cheap food for consumers) by increasing debt, sale of off-farm assets, off-farm income, using their savings and superannuation both formal and informal while there are cost effective productivity increases sitting on the shelf unused. The ivory towers need to look at the evidence and apply the relevant theory, not that which applies to a different theoretical market.

The Australian Competition and Consumer Act needs to be amended and strengthened so that competition is maintained by a dedicated rural desk within the ACCC which understands a price taking market and the constraints of having more sellers than buyers distilled down to a concentrated form. It needs investigatory powers so it can find and investigate what could be regarded as breaches on a fulltime and thorough basis. The Free Trade Commission and Department of Justice do this in the US⁶ often with the help of the FBI. It should not need to rely on reports from affected businesses. The previous hit and run method on a project by project basis without any deep understanding or knowledge has not served agriculture well.

Sometimes divestiture needs to be considered.

There is something amiss with either the Act or the ACCC when they take Coles and Woolworths to court over cheap fuel prices but wave through \$1 per litre milk which quite clearly was below the cost of production, processing and marketing and had the potential (and has done) to do untold damage to a primary industry.

³ Ibid. p 26

⁴ <http://naldc.nal.usda.gov/download/38951/PDF>

⁵ http://www.ers.usda.gov/datafiles/Meat_Price_Spreads/sumtab.xls

⁶ <http://www.ftc.gov/sites/default/files/attachments/mergers/commentaryonthehorizontalmergerguidelinesmarch2006.pdf>

They also need reminding that “consumers” under their charter are often businesses and are worthy of protection.

Market Intelligence

The state of market intelligence, one of the major responsibilities of MLA, has not been reformed, or even changed significantly in its lifetime. Market reports today look exactly as they did 17 years ago and the Board has not, as far as we know, investigated practice in the US or elsewhere. Many of the unempowered levy payers (not necessarily small-many have 5,000 or more head) have brought up such options many times over a significant period of time. Many producers are aware of and have verbalised the necessity for an improved, simplified and locally relevant version of the US Stockyard and Packers Act 1921. A regular published version of the farmgate /wholesale and wholesale/retail price spread would also be beneficial.

Due diligence in investigating all possible market intelligence options to ensure market knowledge is as “perfect” as possible is not in evidence. The sorry state of information available to producers is an indictment of the structure of the MLA and the amount of power in the hands of processors. It is also an indictment of the rest of the Board who failed to carry any major reforms on behalf of producers.

Meat Industry Strategic Plan

I started to read the Meat Industry Strategic Plan (MISP) concurrently with the submissions into the Reserve Bank Development Board.

The submissions paint a picture of structural hardship stretching back many years backed up by the statistics presented by economists such as Ben Rees⁷.

In contrast the MISP is a social policy based on delusional self indulgence. MLA, like other social organisations of our time, does not recognise that profitability, even “supply chain profitability” the only sort they half recognise, is not possible without farmers. No-one is prepared to admit that the system may be in imminent danger of collapse.

Strategic Theme 1

Ethics, Environment and Animal Welfare

We all realise that Environmental issues are not something we can ignore but the issue does not need to be one of the strategic themes at all much less the number one theme and this suite of policies should be incorporated within the normal research and development category.

We also **expect that these programs are free from the influence of NGO’s** who are aggressively advancing their position across the globe. The Institute of Public Affairs’ Tim Wilson has done an analysis of the ambitious scope of WWF’s Global Transformation Initiative in “*Naked extortion? Environmental NGOs imposing [in]voluntary regulations on consumers and business*”.⁸

⁷http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/RBA_Amendment_2013/Submissions_submission_2

⁸http://www.ipa.org.au/library/publication/1315452023_document_110906_-_report_-_naked_extortion.pdf

Support for NGO's should be a matter of personal choice, not something that is imposed on one by external forces. "Voluntary" has been a much misused word around proposed schemes.

McDonalds may wish to begin to source sustainable beef by 2016 but to insist that it be from a WWF certified programme is third line forcing for a corporation in Australia and therefore illegal. That law should be enforced with no authorisations or exemptions by the ACCC. MLA should, on behalf of its grassfed levy payers, not only request that McDonalds not be given authorisation but make a case for why it should not be given so that sustainability programs are contestable. It should be a prominent submitter to the ACCC process in opposition to any authorisation.⁹The same comments apply to Woolworths.

Such contestable programs should be accessible to producers at an acceptable price and availability.

WWF is not farmer friendly. While distorting science to demonise farmers for destroying the Great Barrier Reef on the one hand they are successfully soothing them through the rural media.

WWF, in their submission to the Qld Government on the Vegetation Management Framework Amendment Bill said,

*"Tree clearing is a major contributor to sediment and nutrient pollution. Reef catchments have already lost 40% of their tree cover with another 24% disturbed. Due to marine pollution caused by clearing and outdated farm practices, hard coral cover is now down to just 14%, a loss of 50% since 1986."*¹⁰

This last statement implies that there are no other stressors of the Reef and that tree clearing and outdated farm practices are responsible for the entirety of hard coral loss. This is blatantly not true but is the sort of information that regularly appears on WWF internet sites and in social media. Who deals with these untruths? Certainly not MLA who are responsible for "research and marketing". It is far easier to bow to the untruths of these sorts of disinformation programs and contribute to someone else's research program more intent on getting funding for a damaged reef than to find one's own sources and fund them to rebut the untruths. Scientists who dispute the truth of these statements are about but they are unfunded.

For the record quite apart from the methodology by which the coral loss was measured which has been questioned in some quarters, tree clearing and farm practices are not "major causes" of coral loss. Major causes are cyclones, crown of thorns starfish and coral bleaching. That is not the message from the excerpt above.

Efforts have been made by WWF to link crown of thorns starfish with farm runoff but outbreaks are frequently on outer reefs where there would be no influence from farm runoff and many scientists believe they are just a normal part of the changing ecology of the reef. More unchallenged misinformation.

⁹<http://www.accc.gov.au/business/applying-for-exemptions/authorisations>

¹⁰<http://www.parliament.qld.gov.au/documents/committees/SDIIC/2013/10-VegetationMgmtFramewk/submissions/057.pdf> p.6

MLA's "shareholders", we the livestock producers, sometimes need our money to be spent on rebuttal of those who would spread misinformation about our industry. Sometimes that will mean spending money on watching and waiting and refuting dishonest and overblown claims on social media, not bowing to their pressure.

The sort of subservient posturing as in this strategic theme is of no benefit to our industry. The provision of a sustainability plan should just be a business as usual plan with no interference from environmental groups and with no kowtowing. The Great Barrier Reef has been and will be an ongoing battleground between producers and green groups and MLA's response has been to fund some of the work that is used by the groups to blame producers for pollution of the Reef. It is significant that other impacts on the Reef such as urban communities and mining waste are rarely attacked by these groups and not with the same vigour. They see an easy and poorly protected sector so they are determined to get involved. Involvement with sustainability schemes will merely be the foot in the door with more to come if we do not start to get some meaningful protection.

There are other sectors which impact on primary producers that WWF are intent on getting involved in.

The hugely erroneous and now discredited "Livestock's Long Shadow" has been and is used by green groups, including WWF, all over the world to imply an unreasonable beef footprint. One of the co-authors has explained why using it for comparison between the livestock and transport industries would be erroneous in this Washington Examiner article.¹¹

MLA's response has been silence. For a so-called marketing and research agency on behalf of the beef industry it has played into the hands of the unreasonable critics of our industry.

The published work of MLA such as "Red Meat Green Facts" which they wave in front of every producer who asks what they are doing is miserable and inadequate.

If our \$156m industry body, the wealthiest in rural industry, cannot offer producers some basic scientific and marketing rebuttal of blatant dishonesty which is being used repeatedly to blight our industry around the world and supposedly "inform" vegetarianism and veganism they are truly redundant.

We must achieve agreement across our industry on a total supply chain response to climate change, ensuring we respond in a consistent and cohesive manner.-MISP

The response of the processors to the announcement of the carbon tax was to inform us and the world that it would pass all of it onto livestock producers. That was the "total supply chain response".

If MLA think they should "engage with consumers", they need to be on the social media. It does not mean talking to WWF who are **not** representative of the average consumer.

Strategic Theme 3

Co-ordinated voice

¹¹ <http://washingtonexaminer.com/dont-blame-climate-change-on-the-cows/article/5444>

Our A\$15.8b industry has been ‘punching below its weight’ for a decade because of a multitude of bodies seeking individual representation to Government and policy makers on matters that affect the entire industry.-MISP

The theme may as well say “silence all dissent, dismiss new ideas and lateral thinking is strictly forbidden.”

A United voice as was the case in the live export halt? As far as I can see the processors got a fair share of what they wanted and producers were left struggling to make ends meet and were inadequately represented. If it wasn't for unfunded producers on social media the misinformed claims of animal welfare groups would have gone unanswered.

The best policies come from a variety of voices putting forward different opinions and them being subject to debate. The failure to allow all groups, no matter how radical to speak and have their opinions reported has not served our industry well. If policies are sound they will only be strengthened through robust debate. If they cannot survive that process they probably never were well thought out policies to start with.

Unrecognised conflict of interest between the sectors of “the industry”, an expression beloved of Agriculture Ministers, but is really code for processors, is what has caused our industry to be “punching below its weight”.

This strategic theme shows arrogance beyond belief. We, the livestock producer levy payers, have been silenced enough.

MLA spends an inordinate amount of time marketing its policy to its own members, silencing opposition and not taking on new ideas or concerns instead of addressing external threats.

Strategic Theme 5

Innovation

Innovation will not be limited to improving profitability. Areas requiring an innovative focus will include meeting emerging consumer expectations, managing animal welfare and meeting the environmental challenges of the coming decade.-MISP

It would appear that profitability just cannot get a Guernsey of its own. There is always someone else trying to jump into it.

When will our statutory body stand up and have at least one theme that unashamedly says that livestock producers should be profitable with no qualification?

Not the “total supply chain” or “the industry” but the livestock production sector.

This lack of positive statement on profitability illustrates all that is wrong with the organisation.

Efficiency of production through the supply chain is at the heart of our industry's future prosperity. We have already demonstrated our ability to innovate across many sectors; however, impetus must be maintained.

At every point in the supply chain the pursuit of continual innovation, with a focus on production efficiency, is paramount. Investment in new and emerging technology should be central to this effort.

Australia leads the world in its development of livestock identification and product certification, classification and grading. These initiatives reflect our capacity as an innovative nation. We must continue to progress with these and other initiatives to nurture ongoing improvements in the efficiency of our systems. By doing so, we are developing products that are internationally marketable.-MISP

It has long aggrieved producers that processors, particularly large international processors get a large proportion of research levies.

“Shareholders” and livestock producers come second to the “supply chain”. At various times, including the present, there have been very generous tax incentives for research and development.

Corporate bodies, which rules out most producers, can access 45% rebate on their tax (50% above the company tax rate) for research and development. The minimum spend is \$20,000. The rebate is not available for sole traders, partnerships or trusts. This program is supervised and audited by AusIndustry and the ATO.¹² MLA research funds should be similarly audited and have some similar exclusions such as not repeating work already done or for which results are already known.

There should be no necessity to give levy payer funds to companies who can walk away with government rebates which can pay their taxes and leave cash in their pockets.

What funds are expended on research should be for the benefit of Australian industry. Having a body of work which is unavailable or patented and sold to foreign buyers is not to the benefit of our industry.

What happens to much of the research is obscure and at one stage I recall project managers were writing their own patent agreements. I hope they have discovered what lawyers are for.

Some questions need to be answered.

Who has ownership of and access to “commercial in confidence research”?

Who has ownership of and access to patented research?

How much and what has been sold off to overseas companies?

How much has been a technology transfer from our processing plants to overseas plants by our multi-national processors?

Conclusion

A more democratically elected board with several members being producer representatives put there by genuine popular vote would have had unashamedly and without qualification as one of its strategic themes **that livestock production must be profitable. Always.**

¹²<http://www.ausindustry.gov.au/programs/innovation-rd/RD-TaxIncentive/Pages/default.aspx>

Key performance indicators that are important to livestock producers are simple and measurable. They are increases in prices for livestock, increases in export tonnage and increases in domestic consumption.

MLA has failed in all three of these indicators and should be replaced with a body which has a clear advocacy mandate and which is responsive to producer initiated suggestions rather than being defensive.

A new body needs to be rebuilt from the ground up.

Joanne Rea

