

25 February 2014

Mr Stephen Palethorpe, Committee Secretary,  
Senate and Rural Regional Affairs and Transport References Committee,  
PO Box 6100, Parliament House, Canberra ACT 2600.

## **Senate Enquiry Submission Re Grass-fed Beef Levy**

***TOR (a): The basis on which levies are collected and used; and***

***TOR (b): The opportunities levy payers have to influence the quantum and investment of the levies:***

Grass fed levies are collected in the interests of levy payers and to serve the grass fed beef industry. The manner in which funds are spent and the opportunities levy payers have to influence this, are significantly influenced by a culture that exists within MLA. This is a culture of secrecy and supremacy, as well as an attitude that precludes serious input from external sources. This seriously impedes effective or genuine collaboration with co-investors and delivery partners. The recent independent review of MLA processes and practices with respect to on-farm R&D investment and Livestock Production Innovation (LPI), clearly identified cultural and process problems.

Over the years any ongoing supervision of MLA's culture and practices has been diluted by outdated industry structures. In contrast to MLA's guaranteed and lavish income, the peak councils struggle to operate on the poverty line. Yet these councils are charged with the responsibility of overseeing MLA's strategic investment direction, under the Red Meat Industry Memorandum of Understanding (MOU). Peak Councils are unable to fulfil this role effectively.

Whilst it was intended that peak councils were to provide a level of independent supervision of levy expenditure, there is in fact very little opportunity to exert any authority at all. The service agreement that now exists between MLA and Cattle Council Australia (CCA) surely makes this situation far more unworkable. Very clearly it was never intended that the master would receive funding from the servant and this is obviously a conflict of interest. This unfortunately reduces levy payers' ability to have the influence that levy payers expect their peak council to exercise over MLA.

***TOR (c): Industry governance arrangements, consultation and reporting frameworks:***

We have regularly heard from MLA how strong the Board is on governance. There are many instances where governance is a convenience and nothing more. The Livestock Production Innovation (LPI) review is a case in point. A review panel made up of independent and credible professionals came to following conclusion:

*"The status quo is not viable if MLA/LPI is to help deliver the technological advances that the industry urgently needs in the foreseeable future. Equally, the status quo will not support the retention of key research capacity in partner organisations over the coming decade, and beyond. Major changes are therefore required if MLA/LPI is to effectively adapt to its new and evolving operating environment and deliver the beneficial impacts that industry urgently requires to enhance competitiveness, productivity and profitability."*

The report from this review was delivered to the board in June 2013. This report was highly critical of MLA's performance with regard to R&D, yet eight months later the Board has still not acted on its

recommendations. One has to then ask the question, why was the report commissioned in the first place.

Considering the level of taxpayer dollars that is matched for meat and livestock R&D, it is hard to understand why the Commonwealth has not stepped in to demand some serious reform. The Commonwealth by way of a DEED of Agreement with MLA is the only entity who have any real authority over MLA. Yet this authority has not been imposed and consequently an important obligation does not appear to have been taken seriously.

The Indonesian live export crisis in 2011 highlights an occasion on which CCA was not consulted by MLA. Unknown to CCA, MLA commissioned a former MLA board member, without calling for expressions of interest, to design and deliver several ritual slaughter boxes. CCA was informed about this project from an outside source. CCA policy is opposed to the use of ritual slaughter, instead, insisting on the stunning option. This box was never a workable solution, was too complicated in design and, if successful, would have only served to perpetuate non-stunned slaughter. The real problem here is that MLA ignored genuine, considered concerns from CCA.

Initially the design and delivery of five slaughter boxes were to cost a total of one hundred and seventy five thousand dollars. Only one slaughter box was ultimately built at a cost of between three and four hundred thousand dollars. CCA understands that this box has not been replicated in Indonesia which was a part of the terms of reference of the original contract. The subterfuge connected to the manufacture to this killing box was one of defiance and mis-information to CCA.

In the wake of the Four Corners story on the welfare issue in Indonesia, MLA commissioned Mr Ian Kortlang, of the public relations company '360°M', to review their management of the publicity surrounding this debacle. MLA assured everyone involved that Kortlang's report would be made public and would become the blue print for prevention and management of future public relations disasters. No such report was ever made public and I can only assume that the report was not complimentary, so consigned to the archives. I believe the Senate Committee should ask for this report to be tabled in front of the enquiry.

A major governance issue is the MLA Board selection process. The Board selection panel consists of three sitting board members, three peak council presidents and three independent people, including one lot feeder, one sheep meat producer and one grass-fed beef producer. The fact that three Board members have an opportunity to influence the rest of the panel, whatever their potential bias, makes it impossible to exclude nepotism. The opportunity for levy payers to have influence over this process is zero. The Board selection process lacks rigour and should be replaced by a selection panel of people outside MLA and people without a conflict of interest. The criteria used to categorise Board personnel should be scrapped, the only criteria should be whether they have suitable skills and talent. The selection panel should come from the Peak Councils on a pro-rata financial input basis. In consideration that Grassfed beef producers are the major levy contributors (60%) they should have the majority of votes on this selection panel.

This raises another important issue. CCA is often criticized for not providing enough leadership or influence with regard to MLA. However, despite the size of the grass-fed cattle sector, CCA always has to share the 'vote' equally with the grain fed sector and the sheep meat industry. This would not be the case in the commercial world. If CCA is to deliver on the expectations of levy payers, it must have voting influence commensurate with the proportion of levies contributed.

In 2010 Arche Consulting prepared a 'Review of Performance' report at the behest of MLA. CCA was invited to contribute to this review and identified issues in relation to the board selection process and several other concerns. When the report was published none of the concerns raised by CCA appeared. As the report is referred to as a final report, the question has to be asked as to what happened to previous reports, as well as what amendments were insisted upon by MLA. It is also noted that there was no genuine engagement with CCA with regard to the setting of the Terms of Reference for this review, or whether ultimately the Terms of Reference were adequately delivered. One recommendation included:

"....that MLA, in consultation with stakeholders, review the company's approach to crisis management. This should include consideration of roles and responsibilities within MLA and the support that the company provides industry stakeholders to ensure preparedness in the event of crises". Obviously no such crises plan existed to manage the Indonesian Live Export debacle.

***TOR (d): Recommendations to maximise the ability of grass-fed cattle producers to respond to challenges and capture opportunities in marketing and research and development:***

In its thirty five years of existence CCA has delivered a valuable service to the beef industry and continues to do so. However, the declining financial position and reliance on a service agreement is not in its best interest and seriously weakens CCA's position. CCA is in need of its own dedicated source of income, which can only come as a small percentage of the \$5 levy. CCA has also been weakened by the sporadic membership and levy contribution by some states. Only two states, Queensland and the Northern Territory, have autonomy at the CCA table, with regard to how their state organisation determines cattle policy. This lack of autonomy impairs CCA's ability to make critical industry decisions. The right to receive a dedicated source of income should be granted by the Minister for Agriculture along with the ability to oversee the function of MLA. This power needs to be delivered in a way CCA can supervise levy expenditure and governance issues with authority.

The concept of MLA is good and MLA has done some commendable work. Of particular note, the MSA meat grading system, which is of world standard. The number of cattle MSA graded continues to escalate at an astounding rate with 2.6 M cattle graded in 2013. Rather than restructure, MLA needs serious reform. Whilst out dated the structure is not the only problem, it is the culture and mindset of the current organisation that prevents delivery of meaningful services to the levy payers.

In the debate during the introduction of the Australian Meat and Livestock Industry Bill (1997) Mr John Anderson, Minister for Primary Industries and Energy at the time, said:-

*"The new structures will consist of a new producer-owned service delivery company, limited by guarantee under the Corporations Law, to provide a range of services to the industry, including professional guidance. The role of the company needs to be recognised, more so than the fact that it will be producer owned. The company will replace the statutory authorities of the Australian Meat and Livestock Corporation (AMLC) and the Meat Research Corporation (MRC).*

*The company will be accessible to all sectors within the industry in every sense, including service delivery, professional guidance and advice. All sectors will independently enter into contracts with the company for specific services. Importantly, the company will be a fully professional organisation which will be able to develop initiatives and proposals and advise industry and government on key issues. The Bill is*

*designed to free industry of legislative constraints by providing clear ownership by levy payers and non-statutory contributors including appropriate participation in decision making processes.”*

It is obvious that the then Minister’s intent has not been realised or if it was then this authority has been completely eroded over the years. Serious thought should have been given as to whether the Corporation Law Model coupled to a statutory levy is ideal, or in fact workable. This model has quite serious limitations when only a very narrow range of resolutions are able to be put forward at a MLA AGM. This is something that eliminates the right of levy payers to be heard and motions voted on by fellow levy payers.

### **Recommendations:**

The following key Recommendations should be made:

1. The Commonwealth Government should insist on a greater degree of accountability and performance from our service provider (MLA), as well as facilitating an extension of power to producer representative bodies (Peak Councils).
2. The provision of part of the levy to a body such as CCA.
3. R&D is grossly under-funded. Considering the importance of R&D, a portion could be transferred from the marketing component, to create a more balanced portfolio.
4. There should be an autonomous organization solely dedicated to R&D.
5. The Commonwealth initiate a comprehensive review of all MLA activities and this should be carried out by a team of investigators with absolute independence and integrity.

Yours sincerely,

Greg Brown