

## Submission to

Senate Standing Committees on Rural and Regional Affairs and Transport

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## Inquiry into

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.

By

**Australian Beef Association Inc**

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Australian Beef Association Inc

P O Box 529, Mowbray, Launceston, TAS 7250 T: 03 6326 8960

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## **EXECUTIVE SUMMARY**

Farm gate cattle prices have not increased in nominal terms for more than a decade.

In real terms, Cattle Producers' incomes have declined more than 30%.

This chronic decline in real income has severely undermined the capacity of this link in the beef chain to produce cattle efficiently and profitably.

Debt has reached levels that will never be paid off through farm income.

Young people will not enter the industry because of its poor income and lifestyle prospects.

Cattle producers desperately need a platform for collective action to address their real marketing and R & D needs.

Cattle Council of Australia and the Meat and Livestock Australia bureaucracy have failed Cattle Producers. These organisations were poorly designed and ill equipped to identify and address the evolving marketing and commercial challenges faced by cattle producers.

CCA and MLA are even less well equipped to identify and address the challenges that lay ahead.

The Red Meat industry Structure has and continues to serve Live Exporters, Lot Feeders and Processors well.

Grass Fed Cattle Producers need a platform for collective action.

Minor modification of the existing Structure would give Grass Fed Cattle Producers an effective Peak Council.

This new Peak Council must be representative, adequately resourced, transparent and accountable.

Changes to the Grass Fed Cattle components of the Red Meat Industry Structure will have little impact on the operation of the other sectors.

## INTRODUCTION

The Red Meat Industry Structure was developed in the late 1990s.

The role allocated to Meat and Livestock Australia was the marketing of red meat and the management of R&D. Cattle Council of Australia was allocated a nominal oversight role.

The real world has moved-on over the past 15 years. The marketing tasks allocated to MLA are now irrelevant in terms of priorities for Grass Fed Cattle Producers.

Multinational meat processors do not need Australian Grass Fed Cattle Producers' funds to promote their beef brands in international markets nor do Australian supermarkets need Cattle Producers' funds to promote their businesses.

The MLA bureaucracy, in conjunction with its CCA overseer, has been shown to be an inept manager of Cattle Producers' and Commonwealth R&D funds. The Productivity Commission inquiry in 2011 identified fundamental shortcoming in MLA's allocation of funds, reporting on expenditure and the reporting of the science.

MLA and CCA have failed to anticipate or respond in a competent and timely manner to the major marketing challenges that have faced Grass Fed Cattle Producers over the past two decades.

Issues CCA/MLA have failed to manage, address or resolve in the interest of Cattle Producers include:

- live exports and animal welfare
- trade barriers/FTAs
- beef imports from BSE affected countries
- foreign ownership and control
- a grading system
- traceability systems
- meat chain efficiency and competition
- industry skills and technology development and implementation
- cattle trading transaction costs

These key issues for Grass Fed Cattle Producers that have proven to be beyond the capacity of CCA and MLA to address. CCA/MLA have spent hundreds of millions of dollars on some of these issues but producers have not seen a single dollar of benefit.

Grass Fed Cattle Producers need a platform for collective action. They operate in a challenging and often unpredictable physical and commercial environment.

A Grass Fed Cattle producer organisation must be able to analyse and anticipate issues and have the flexibility to react in a timely manner.

To achieve these goals Grass Fed Cattle Producers must have an organisation that is representative, properly resourced, and fully accountable.

## RECENT HISTORY

### Cattle Prices

The Australian Cattle Industry is in a sorry state. A decade of mismanagement has sapped its intellectual and financial capacity. It has come to the point where if significant action is not taken, the cattle industry is unlikely to ever again be an Australian controlled and an environmentally, financially and socially sustainable food supply.

Cattle prices have remained unchanged since the late 1990s. At the same time, producers' costs have increased by at least 30%. In real terms, farm gate prices have declined more than 30% in the past decade.

*Ref: Appendix 1*

In 2000 the domestic retail beef price averaged \$10/kg. In 2013, retail prices averaged \$15/kg.

*Ref: Appendix 2*

Through this decade, consumers' expenditure on beef increased by \$2billion p.a., or the equivalent of \$600 per animal slaughtered for domestic consumption. Yet, not one dollar has flowed back to the producer.

Meanwhile, Meat and Livestock Australia spent more than \$100million of Cattle Producers' levy funds on domestic marketing.

Australian producers now receive a record-low share of the consumer dollar spent on beef. US cattle farmers capture about 50% of the retail value of beef, New Zealand farmers about 40% while Australian farmers about 30%.

Looked at another way: in the US for every \$10 spent by a consumer, the farmer gets \$5. In Australia the farmer gets \$3. If Australian farmers were to receive 50% of the consumer dollar, a typical domestic steer would return the farmer an additional \$475 per head (on a steer currently selling for \$720).

US farm-gate cattle prices are currently about 25% higher than in Australia, while average US retail beef prices are about 20% lower than in Australia.

This data suggest a highly inefficient processing and distribution chain and/or excessive margins in processing, distribution and retail.

*Ref: Appendix 3*

In the year 2012/13 Australian beef exports reached record levels in terms of tonnage, gross receipts and \$/tonne, yet farm gate cattle prices declined 20% over the year.

Meanwhile, MLA has spent more than \$300million in Cattle Producers levies on export marketing.

### Debt Crisis

A decade of unsustainably low prices and rising costs has led to a debt, technical and social crisis.

The debt of Queensland cattle producers increased from about \$2billion in 2000 to \$9billion in 2011 (QRAA). On a per head basis, this is an increase from \$180 per head to \$750 per head.

*Ref Appendix 3*

The debt now exceeds the value of the livestock. This is significant in an environment where most of the land has no other use than the grazing of livestock. The cost of servicing this debt is about \$350 per head sold - given that northern producers can only sell about one in six of their cattle inventories if they are to maintain production levels.

The Cattle industry (as is agriculture in general) is experiencing a brain drain as, quite sensibly; young people choose not to enter an industry with few commercial/career/lifestyle prospects.

Agricultural courses have the lowest entry-scores of any courses offered by tertiary institutions. The average age of cattle producers increases almost a year every year as few young people choose to enter the industry.

Across Australia, rural communities are in decline as the underlying economic engine – agriculture – struggles to support farm families and the business and social infrastructure needed to support communities.

Farm gate cattle prices are unsustainable, even for the most efficient.

## THE EXISTING RED MEAT INDUSTRY STRUCTURE

### Key Components of the Cattle and Beef industry

Cattle producers operate in a complex and challenging physical and commercial environment. It is important to recognise the differences between participants in the cattle - beef food chain.

**Grass Fed Cattle Producers:** Most cattle producers are small and medium scale enterprises. Many are family businesses. Industry data suggests there are about 30,000 enterprises that “identify” as cattle producers. In addition there is possibly an additional 50,000 that turn off some cattle.

**Lot Feeders:** Multinational corporations dominate this sector.

**Processors:** Australian meat processing is 50% controlled by foreign multinational corporations. (JBS [30% owned by the Brazilian Development Bank], Cargill, Nippon). These corporations are also the dominant lot feeders. 140 smaller processors account for the balance of Australia’s 8 million head annual cattle kill.

**Retailers:** Coles and Woolworths account for 50% of all domestic retail meat sales. Aldi, IGA and other small chains account for about 7% and 3000 independent retail butchers account for the balance.

**Live Exporters:** They are typically big businesses often associated with agribusiness corporations.

Multi national processors and retailers Coles and Woolworths dominate the market place for beef. These organisations also exercise considerable power in the existing Red Meat Industry Structure.

### How the Red Meat Industry Structure Works

The Red Meat Industry Structure established in 1998 is broadly workable.

*Ref Appendix 5 Industry Diagram*

The Peak Councils for Processors, Live Exporters and Lot Feeders are directly elected by their members - Meat Processors, Live Exporters and Lot Feeders.

These Peak Councils direct MLA on how to spend their members’ funds. AMIC and ALEC directly control the flow of funds to MLA through AMPC and Livecorp respectively and can choose other service providers when appropriate. Combined, these organisations manage about \$18m of their members’ levy funds.

This contrasts with the arrangement for Grass Fed Cattle Producers. Grass Fed Cattle Producers’ \$55m annual levy payments, collected by DAFF, are paid directly to MLA.

CCA is not elected by Grass Fed Cattle Producers.

Grass Fed Cattle Producers’ Peak Council, Cattle Council of Australia is, in reality, a sub-committee of representatives nominated by State Farm Organisations (Ag Force, NSW Farmers, VFF etc).

CCA board members’ first duty is to report to their respective SFOs, not to levy paying Grass Fed Cattle Producers.

Some SFOs do not have “Cattle Boards”, and some require their CCA representatives to consult with their SFO before they vote on each CCA issue.

CCA does not publish minutes of board meeting or its accounts. Its processes and deliberations are totally opaque.

It has been recently revealed CCA received and still relies on MLA for funding to pay for meeting and associated operating expenses. Meanwhile, CCA is meant to oversee and evaluate MLA programs. CCA has neither the resources nor the independence to carry out either function.

Without a mandate, without intellectual resources and limited funds, CCA is incapable of directing the 250 bureaucrats at MLA.

For the above reasons CCA has grossly underperformed compared to AMIC, ALEC and ALFA.

CCA has absolutely failed in its obligation to Australian Grass Fed Cattle Producers.

### **CCA/MLA Failures**

CCA/MLA have consistently failed to implement programs or take timely action to response to marketing opportunities and challenges. These systemic failures have contributed significantly to poor cattle prices despite strong post farm gate revenues and margins.

CCA/MLA's secrecy with respect to reporting and accounting particularly on R & D leaves many issues unresolved.

Since its inception, MLA has spent more than \$1billion of meat industry levy money. . This includes about \$680m of levies paid by Grass Fed Cattle Producers. It has spent \$800 million of taxpayers' money on R&D

#### **CCA/MLA key marketing and administrative failures include:**

- Live Exports Indonesia 2011
- Most of \$800m in R & D expenditure not published or financially accounted for
- MSA: Grading \$200m spent - delivers nothing to Cattle Producers
- NLIS: No value to producers and now selling data to financial institutions
- CCA conflict of interest
- MLA Directors Conflict of Interest on R&D expenditure
- VIAscan Cost \$17m, allegedly 'sold' for \$10m but later 'sold' for \$0.5m
- MLA Voting Gerrymander/incomplete voting register
- MLA Directors - selected not elected
- CCA is a subcommittee - not a representative organisation
- CCA Some SFOs are not “paid-up” member of CCA
- Lack of MLA/NLIS/DAFF register of Australia's cattle businesses

*Ref Appendix 5*

## OPPORTUNITIES

Cattle play a key role in utilising rangeland and other resources to produce food. Australia's beef production currently provides the equivalent of a full protein ration for about 60 million people. This is a small but significant contribution to the global food supply. For economic and ethical reasons, Australia must continue to produce beef for a hungry world.

Global demand for all foods including beef can only increase. The challenge for Australia is to secure sustainable farm gate prices, through the processing and distribution chain, from consumers who over the longer term can afford to pay the real cost of production in Australia.

Australia is not a cheap place to grow livestock. The soils are poor and nutrients must be imported. The rainfall is erratic and droughts are frequent. Australian businesses pay world parity prices for inputs including energy, equipment and farm chemicals. We must pay first world wages to farm workers, business and community service providers, bureaucrats and politicians.

Australian consumers are prepared to pay relatively high retail prices for beef at the retail level. They have increased expenditure on beef by \$2billion per year with little or no consumer resistance.

International comparisons show there is significant potential to improve post farm gate efficiency and to significantly reduce processing and retail costs. Comparisons with the US suggest, chain efficiency improvement could reduce costs in the order of A\$500 per head processed.

A competitive meat chain will automatically pursue and distribute these savings to consumers and producers.

First world consumers in Japan, South Korea and Europe recognise Australian beef as cheap. So cheap, Japan and South Korea apply a 38% and 40% tariff respectively. The EU applies quotas.

Japan imports about 300,000 tonnes of beef annually. Japan has been collecting about \$A500million per annum since the early 1990s, for simply counting containers as they cross the wharf. This tariff equates to about \$450/per head slaughtered for this market.

The South Korean government pockets about \$200million per annum and has done so for 20 years.

Consumers in Australia and abroad have demonstrated they are prepared to pay for quality beef protein. The challenge is to return a sustainable price to Cattle Producers.



## SOLUTIONS

### Principles and Objectives

The value for money on the Grass Fed Cattle Producers' levy funds would be vastly improved by modifying the existing structure where it relates to the Grass Fed Cattle sector.

Quite simply, it needs to be modified to parallel the arrangements currently enjoyed by Processors and Live Exporters, that is:

- A Peak Council directly elected by Grass Fed Levy Producers (equivalent to AMIC/ALEC)
- Re-direction of levy funds to the Peak Council with the absolute authority to select marketing and R&D service providers (such as MLA and others) using fully transparent and competitive criteria.

The new Peak Council for Grass Fed Cattle Producers must:

- Have a mandate from Grass fed cattle Producers
- Be accountable
- Be transparent
- Be required to negotiate its priorities and objectives and its income and expenditures with the Grass Fed Cattle Producers who fund it.

This organisation will seek a budget that provides intellectual and economic resources needed to research, identify, articulate and pursue the economic, technical, legal and commercial interests of Grass Fed Cattle Producers.

This can only be achieved by a board directly elected by Grass Fed Cattle Producers.

Ultimately Grass Fed Cattle Producers must have sovereignty over their Peak Council.

### Key Features

This proposal requires the position of "Peak Council" (as defined in the Red Meat Industry Structure) to be re allocated to a new organization (*lets say, Grass Fed Cattle Producers' Association (GFCPA)*).

CCA's position as a Peak Council will be terminated.

The GFCPA

Key elements

- Membership: Grass Fed Cattle Producers - cattle producers who pay the levy based in their production of cattle off grass. (This membership specifically excludes Lot Feeders)
- Voting system based on 'one-man, one-vote' (possibly modified to reflect regions and/or states and/or environments and/or scale of operation)
- Board elected by Grass Fed Cattle Producers
- Levy/fees paid direct to GFCPA
- Levy rate to be determined by GFCPA
- Members to have the final say on all issues at AGMs base on the voting system

Key functions are:

- GFCPA to negotiate marketing and R & D priorities and objectives with Grass Fed Cattle Producers
- GFCPA to determine budgets and administrative arrangements
- GFCPA to negotiate "levy" level with Grass Fed Cattle Producers (options to include mandatory and/or optional)

The GFCPA constitution will include provisions of AGM, Annual Reporting, election of board membership etc. GFCPA will manage no more than \$150m pa – possibly a lot less.

Ultimately, the role/level of funding will be determined by the GFCPA membership.

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## **Discussion**

This is not a radical reform. It simply requires a modification of part of the existing Red Meat Industry Structure.

This re-arrangement would bring Grass Fed Cattle Producers' representation into line with the other meat industry sectors.

Lot Feeders, Live Exporters and Processors have never expressed concern about their representation or the performance of the Red Meat Industry Structure.

This proposed change is consistent with democratic principles, and is a proven formula for the delivery of effective marketing and R&D outcomes as demonstrated by its support by the other red meat industry sectors.

This proposed reform, when properly explained, would have the support of almost every cattle producer in Australia.

Australia's pasture and rangeland resources are significant national assets. But to create food and value, on an ongoing basis, cattle producers need sustainable prices.

Sustainable prices means price levels that gives competent operators adequate margins to pay decent wages, invest to improve efficiency, look after the land and provide for normal events such as fire, floods and drought.

A responsive and competent platform for collective thought, planning and action is essential if cattle producers are to produce cattle, and compliment corporations in our joint goal - to deliver food to consumers in Australia and abroad.

If implemented, it will bring about timely change for the better for Australian Grass Fed Cattle producers. But perhaps more importantly it will provide the next generation of cattle producers with a foundation that will assist them rebuild this severely damaged but significant industry.

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