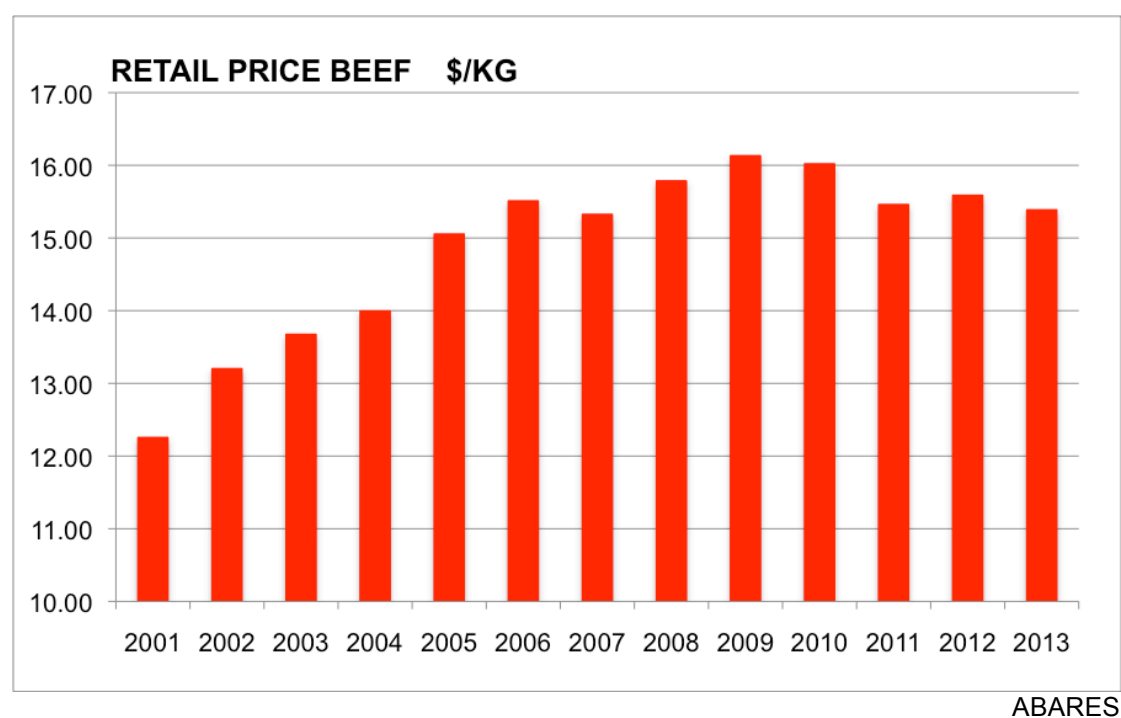


Australian Beef Association Inc
Submission to RRAT
Industry Structures and Governance Grass-Fed Cattle
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(10 pages)

APPENDIX 1

RETAIL BEEF PRICES



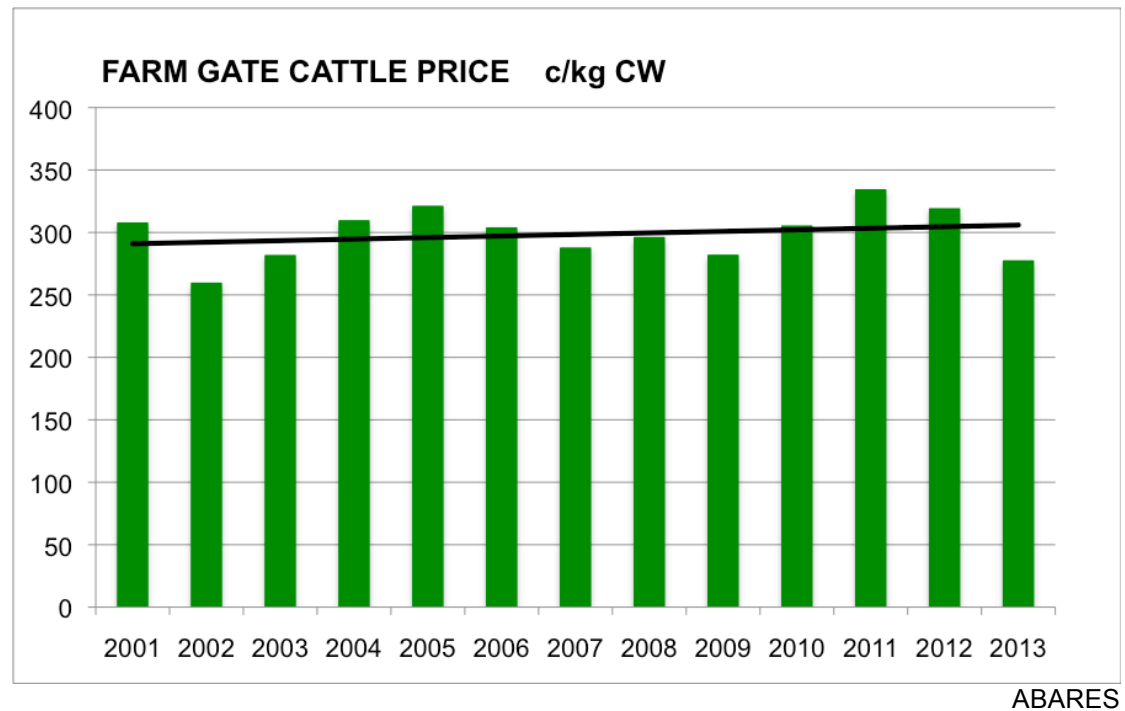
The Retail Beef Price is the average price paid by consumers for beef at the butchers shop or supermarket. It is expressed as \$/kg.

In 2001 the average price of beef was \$12.35. In 2013 it was \$15.39.

In general terms, the Retail Price of beef has increased 30% in the past decade - broadly in line with inflation.

APPENDIX 2

CATTLE PRICES



FARM GATE CATTLE PRICE is the price received by cattle producers when they sell their cattle at a saleyard for slaughter. The units are A\$ cents per kilo carcase weight.

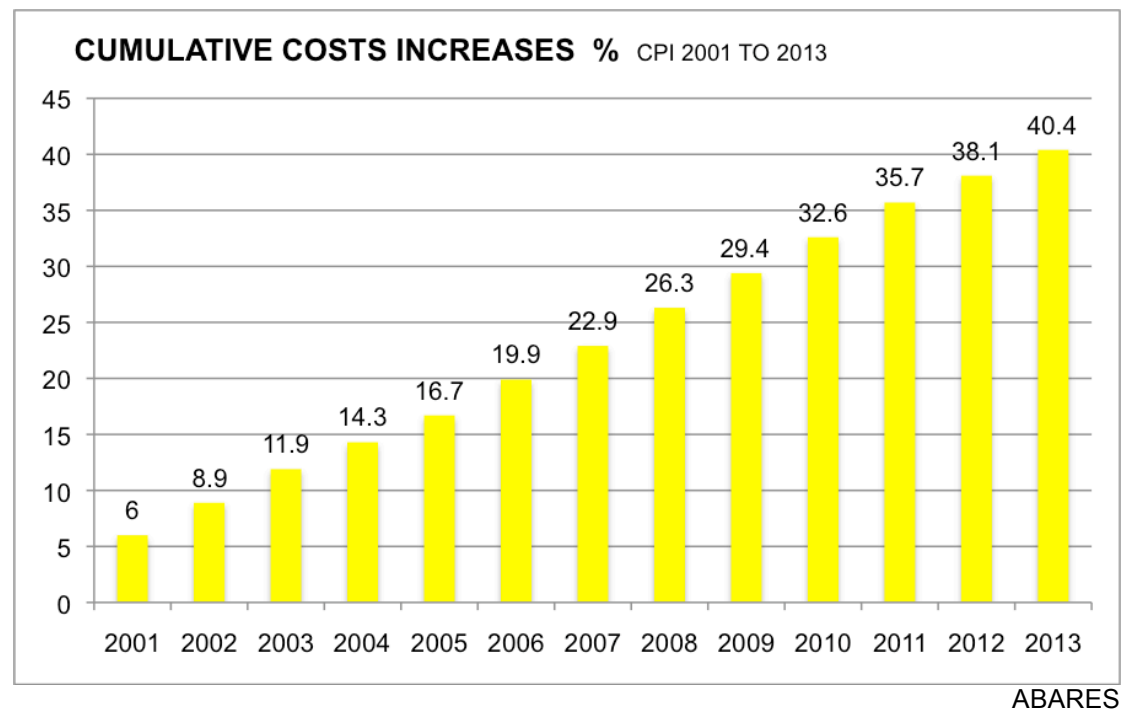
Farm Gate Cattle Price has remained unchanged for the past decade.

There was a slight upward trend following the ban on US imports by Japan and Korea in December 2003. There was a slight decline in price due to the drought in 2006/7. The current decline in price can be attributed to a flooded market as producers sell cattle to service debt and because of the drought.

Australian cattle prices are currently about half those in the USA and Canada – Australia's main competitor the high-value North Asian beef markets. Australian cattle prices are lower than in: Argentina, Uruguay Paraguay and Brazil.

APPENDIX 2 cont

COSTS



Farm costs and the cost of living for farm families have increased in-line with the national rate of inflation.

Costs have increase about 35% in the decade to 2013. (40% since the beginning of 2001)

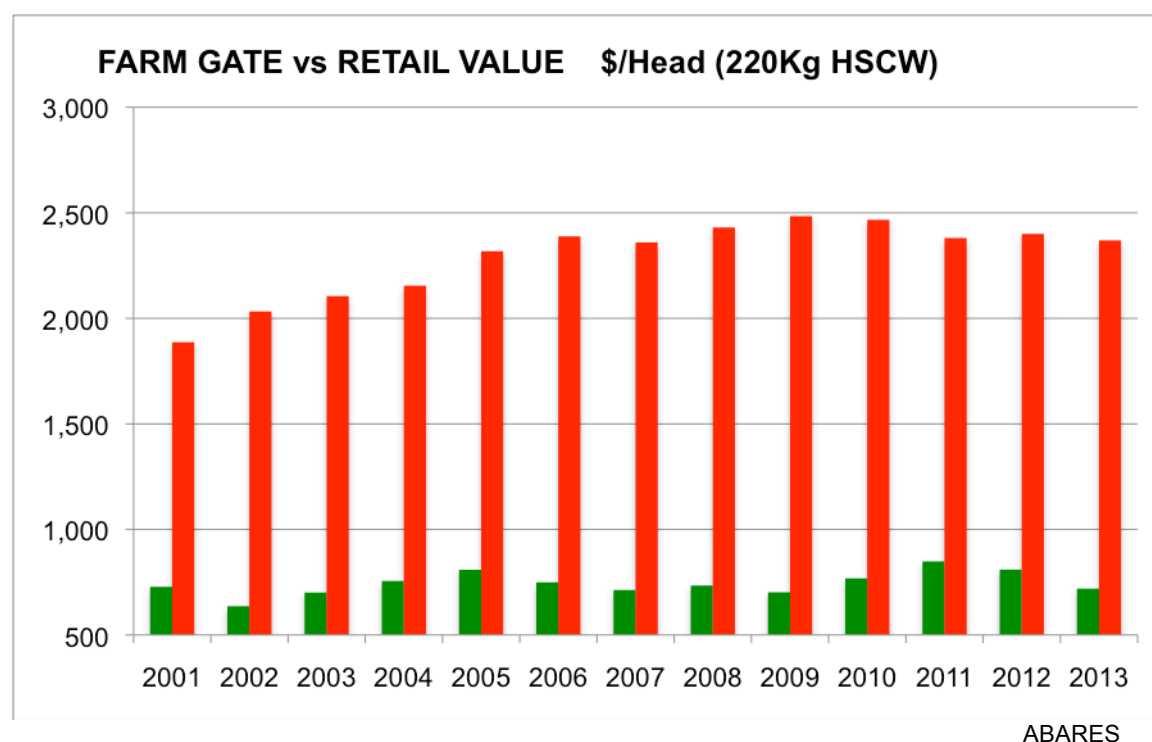
In real terms, cattle prices have declined 30% over the decade.

This situation is unsustainable. Eventually, even the most efficient producers will be faced with negative margins.

This cost price squeeze cannot be solved by productivity gains. In the biological world of cattle production, it is impossible for individual business, let alone an industry, to achieve the annual 2-3% productivity gains needed to maintain or improve margins. Cattle producers are struggling to survive on a daily basis. They are not in a position to "invest" in their future.

APPENDIX 3

FARM GATE vs RETAIL VALUE



The Farm Gate Value is the average per head price received by cattle producers when they sell an animal.

The above chart is for an animal with a carcase weight of 220kg. (Typical premium domestic-trade carcase) This carcase would be derived from a steer or heifer, 18m of age with a live weight of 420kg.

The Retail Value is the gross value of the beef, from this carcase, paid by consumers, to the butcher or supermarket .

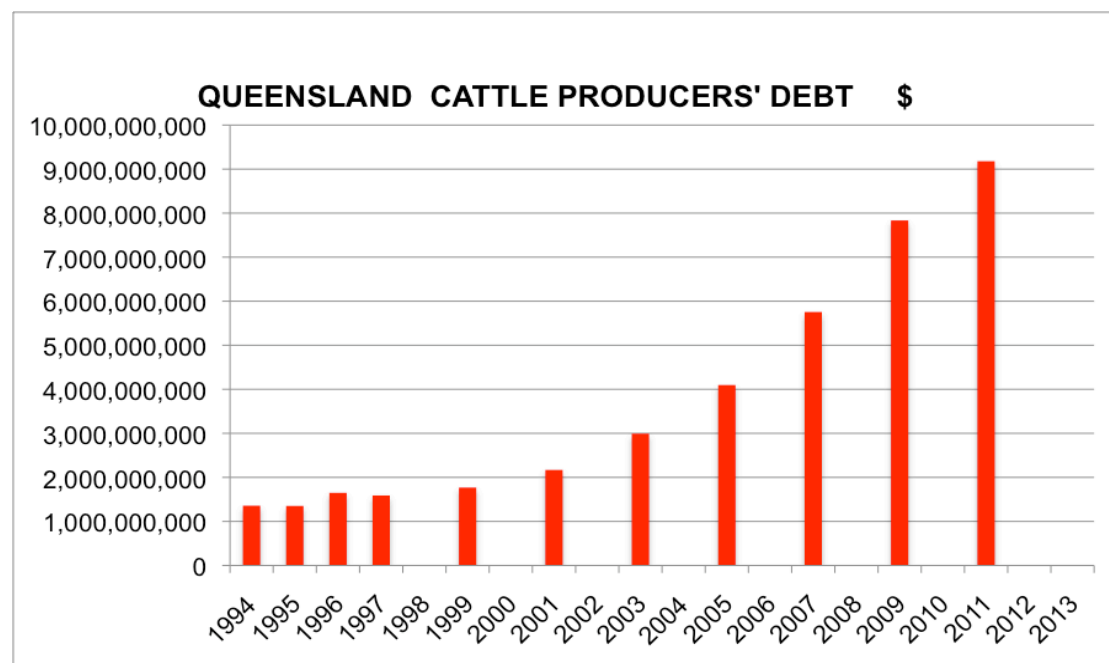
In 2001 the average 220kg steer or heifer returned the farmer \$728 and generated a Retail Value of \$1,887 for the butcher or supermarket.

In 2013 the average 220kg steer or heifer returned the farmer \$720 and generated a Retail Value of \$2,369 for the butcher or supermarket.

In 2013 Australian cattle producers captured about 30% of the Retail Value (\$720/\$2369).

APPENDIX 4

DEBT



QRAA/Bentleys: Rural Debt Survey 2011

Long and short-term debt owed by Queensland cattle producers has increased more than four fold from \$2.2Billion to \$9.2Billion in the decade 2001 to 2011.

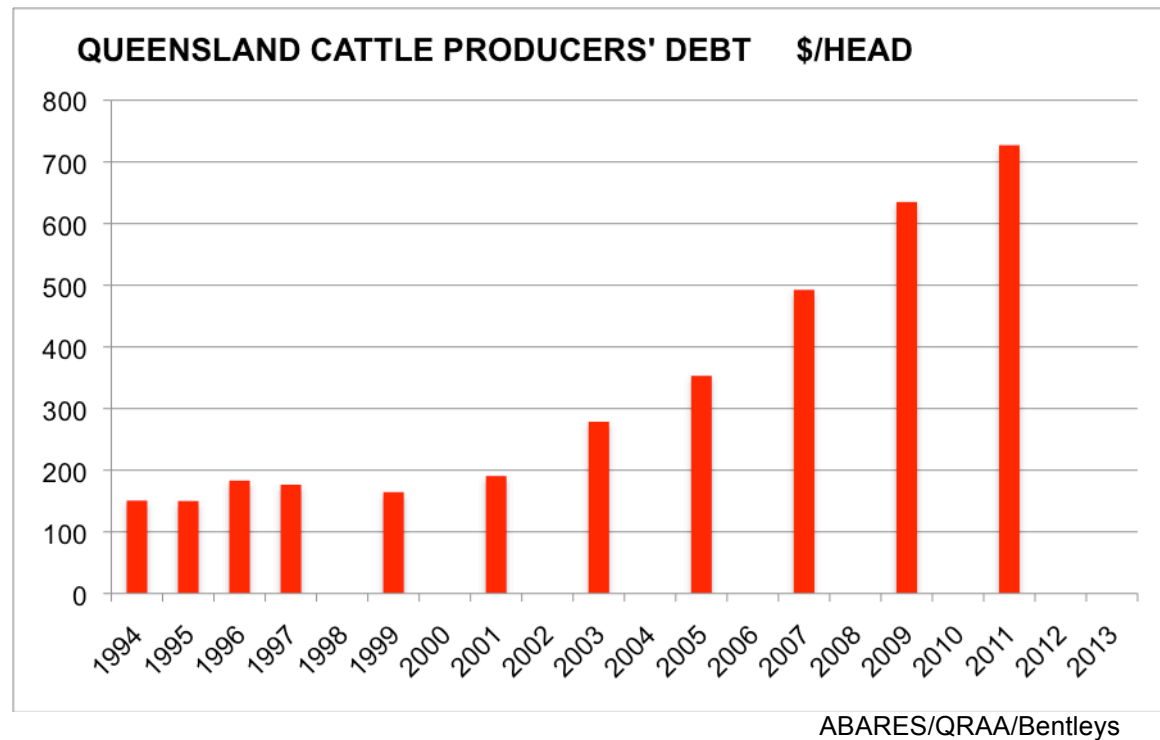
Cattle industry debt represents about 54% of Queensland's total rural debt.

Queensland accounts for 43% of Australia's cattle inventory and a similar share of production. Queensland has the greatest number, and a high proportion, of specialist cattle producers.

Queensland Rural Adjustment Authority (QRAA) has commissioned a debt survey on a bi-annual basis, since 1997. The 2013 survey was not carried out lending institutions were not prepared to provide updated information.

APPENDIX 4 cont

DEBT PER HEAD



Debt per Head is derived by dividing the total Queensland Cattle Producers' debt by the number of cattle in Queensland. Between 2001 and 2011 Queensland cattle numbers increased from 11.3 million and 12.6 million.

In 2001 the average debt was \$191 per head. In 2011 the average debt was \$727 per head.

The debt now exceeds the value of the livestock inventory.

Cattle are the income generating entities in a cattle operation. In a pastoral situation, a producer typically turns-off one in six of his inventory. Part of the income from the animal sold is required to service the debt.

The first \$349 of each sale is required for debt servicing - excluding capital repayments.

(\$727 x 6 = \$4362 @ 8% interest = \$349). This compares with about \$40 in 2001.

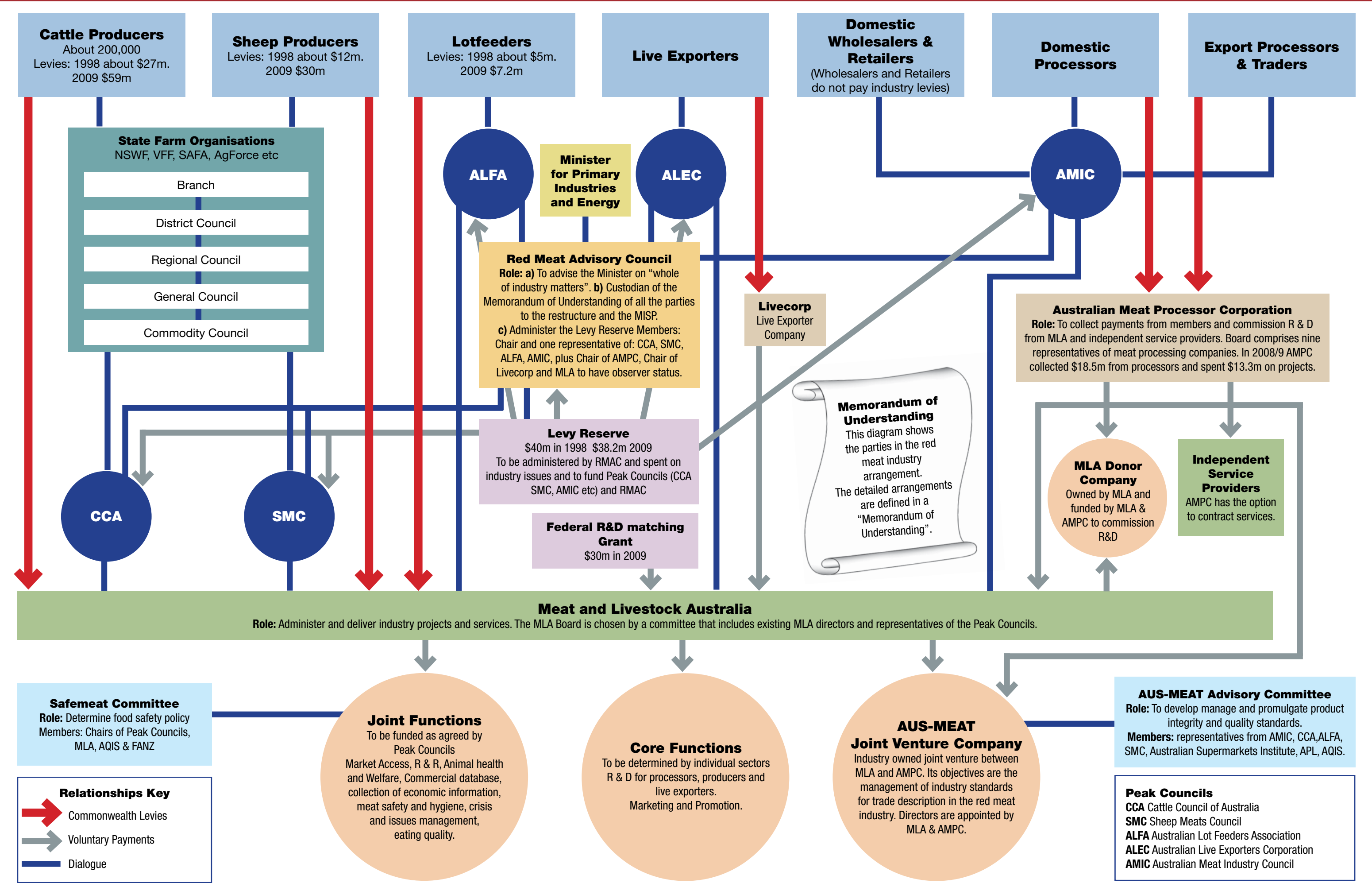
The Roma Sale Yard reported the average price of the cattle sold in 2012 was \$674 per head. This leaves a margin, after debt servicing of \$325 per head to cover sale expenses, operational costs and provide family income. This margin reflected a more "normal" non-drought situation, where producers mainly sold their market ready production.

The average price at Roma in 2013 was \$452/head. This leaves a margin of \$103 per head after debt servicing.

2013 saw 40% increase in throughput and a sharp increase in the sale of female cattle as producers sold part of their breeding inventory as they ran-out of feed and scrambled for cash.

Appendix 5 Industry Diagram

Red Meat Industry Structure 1998-2011



Appendix 6

Issues

Following is a list of issues raised by Cattle Producers, Australian Beef Association and others concerning the operation and accountability of Cattle Council of Australia and Meat and Livestock Australia. The R&D concerns were articulated by the Productivity Commission enquiry in 2010.

Live Exports Indonesia 2011

MLA spent more than \$25m on R&D on live exports to SE Asia in the years immediately pre the live export animal welfare debacle. Most of this expenditure, where it can be located or quantified, was on domestic and international Public Relations.

MSA

MLA with the support of CCA has spent \$200m developing MSA – a grading system that reflects eating quality.

The 2002/3 MLA Annual Report states: “ The MSA program has entered an new development phase . . . moving towards partial cost recovery with fees payable for training and grading services.” Recent MLA Annual Repots do not record progress on the recovery of the \$200m spent on the MSA program.

Given farm gate cattle prices have not increased in a decade and per capita beef consumption has declined, MSA has delivers virtually no value to cattle producers.

NLIS database

Compliance with NLIS costs producers \$50m per annum. The database has never been audited to test its correlation with reality in terms of livestock location, transfers or slaughterings.

MLA has never revealed the cost of developing and operating the NLIS database. MLA operates the NLIS database through a wholly owned subsidiary NLIS Ltd. The board of NLIS Ltd is not elected but selected, presumably by MLA. Some NLIS operational activities are paid for with R&D funds.

NLIS Ltd does not publish accounts.

Mandatory NLIS was justified on the basis it was needed to access certain markets. A decade later, it turns out that none of our competitors in foreign markets are required to operate a mandatory ID tracking or trace back system.

Recently the MLA/NLIS was found to be secretly negotiating options as to how to best sell producers’ NLIS data to financial/other institutions.

CCA has a conflict of interest

Cattle Council of Australia claims to oversee the operation of MLA on behalf of Grass Fed Cattle Producers. CCA has an income deficiency and is reliant on “consultation fees” provided by MLA (in excess of \$700,00 in 2013 – possibly half CCA income) CCA cannot discharge its responsibility/objectively to Cattle Producers when it depends on MLA funding.

MLA Voting Gerrymander

Multinational processor/lot feeders corporate cattle operations dominate the MLA voting register. The effect of this can be seen in the disproportionate MLA marketing and R&D funds directed to these organizations. (Ref MLA Annual Reports). Corporates, many of which

receive R&D and marketing funds from MLA, account for a majority of votes cast at MLA AGMs.

MLA Directors - selected not elected

MLA directors are selected by a selection committee, comprised of MLA directors and Peak Councils. Levy payers have no say in their selection. Thus directors are only accountable to those who selected them, not the Cattle Producers who fund the company.

MLA Director Selection based on “skills”

Skill based board selection by Peak Councils and existing MLA board members has proven to be of little value. Mr David Crombie and Mr Don Heatley were both long term Chairs of MLA. Both were in the main selected because of the knowledge of live exports. Mr Heatley oversaw the expenditure of more than \$25m on live export marketing and R&D in the years immediately before the 2011 Indonesian ban. Industry was well aware of the problems. MLA's expert leadership was unable to anticipate or provide solutions for northern producers when this ongoing issue became a crisis.

CCA is a subcommittee - not a representative organisation

Cattle Council of Australia is, in-reality, a sub-committee nominated by the State Farm Organisations (NSW Farmers, AgForce, VFF etc). CCA board members' first duty is to report to their respective SFO, not to levy paying Grass Fed Cattle Producers. Some SFOs require their CCA representatives to consult with their SFO before they vote on each CCA issue.

Some SFOs are not “paid-up” member of CCA

CCA has confirmed that some SFOs do not pay/have not paid their CCA membership fees. CCA has not advised if “non financial SFO representatives” can vote or deliberate on CCA issues. CCA has not indicated if/how it plans to remedy this financial and ethical issue.

CCA does not publish its accounts or minutes/outcomes of board or committee meeting.

Why can't MLA/CCA count Australia's cattle businesses?

Despite the collection of \$55m in levies from cattle producers, despite the requirement to complete a vendor declaration for every sale transaction, despite the mandatory requirement to have a PIC for every cattle property and despite the existence of NLIS that tracks the movement of all cattle, MLA/CCA are unable to provide a count or schedule of Grass Fed Cattle Producers for purposes of developing a voters role, for MLA AGMs for an industry plebiscite.

Directors Conflict of Interest on R&D expenditure

The MLA Annual Report 2010 states 25% of R&D was spent with organisations associated with MLA directors. MLA never explained how Directors voted on R&D allocation when more than half the board had a conflict of interest on specific allocation while voting in support of allocation to their fellow directors.

Continues page 9

R & D

MLA has commissioned more than 4000 R&D projects or contracts, valued at about \$800 million since its inception in 1998.

Productivity Commission 2010 enquiry made a negative assessment of Rural R&D management by RDCs, including MLA.

Key points made to the Productivity Commission and not rebutted by MLA were:

- MLA has spent about \$700m on R&D since its inception in 1998
- MLA has commissioned about 4,000 R&D projects since that time
- MLA lists about 580 projects on the R&D data base
- Of these 580 listed projects, about 260 have a completed report
- In total, only 6% of MLA's 4000 R&D projects have a completed report
- Ninety four percent (94%) of R&D projects do not have a report
- Many projects or contracts are classified "commercial-in-confidence" and no information is released to levy payers
- About 3,740 reports and about \$650m of producers' and taxpayers' money are unaccounted for in administrative and financial terms and importantly scientific output

In its Final Report February 2011 the Productivity Commission said:

Of paramount concern is the absence of robust data on funding and spending flows within the framework. As a result, it is hard to be certain about how much is being spent, with whom it is being spent, and which parties are ultimately providing the funding. Information on private funding for rural R&D, over and above contributions via industry levies, is particularly limited.

And

Suffice to say that a concerted push to improve the framework database should be a high priority.

And

Other framework issues canvassed in the report include: access to information and other building blocks for future rural research, and addressing impediments to the private sector taking a greater role in funding and delivering rural R&D.

In addition the PC said:

PAGE XXXI

For its part, the Australian Government should:

- *clearly articulate the role of the RDCs within the broader rural R&D framework*
- *engage openly and constructively with RDCs and other stakeholders*
- *discharge its administrative responsibilities in relation to the RDC program in a timely and efficient fashion*
- *verify that nominated representative bodies for each of the statutory industry RDCs remain suitably representative of the industries concerned and are not overly dependant on funding from the RDCs they are meant to oversee)*
- *monitor the RDCs' performance in a way that will enable transparent assessment of the outcomes of the program as a whole, and identification of specific performance problems*
- *effectively communicate with RDCs in regard to opportunities to improve performance, and take prompt and appropriate action if performance problems are not satisfactorily addressed.*

From ABA's submission to The Productivity Commission 2010

Summary MLA R&D reporting to levy payers.

HISTORY OF MLA R&D REPORTING

1998/9 R&D expenditure and project numbers not stated in the Annual Report

1999/0 R&D expenditure and project numbers not stated in the Annual Report

2000/1 R&D expenditure and project numbers not stated in the Annual Report

2001/2 R&D expenditure and project numbers not stated in the Annual Report

2002/3 R&D expenditure and project numbers not stated in the Annual Report

2003/4 R&D expenditure and project numbers not stated in the Annual Report

2004/5 R&D expenditure and project numbers not stated in the Annual Report

2005/6 Annual Report listed R & D expenditure for the previous four years.

2001/2	\$45.6m
2002/3	\$53.1m
2003/4	\$65.4m
2004/5	\$78.0m
2005/6	\$80.6m

2006/7 MLA Annual Report stated: MLA spent \$71.3m and commissioned 444 new projects.

2007/8 MLA Annual Report stated: MLA spent \$69m and commissioned 412 new projects and completed or terminated 436 projects. The 2007/8 Annual report also stated MLA had 464 "live" R&D projects valued at \$99.1m on June 30 2008.

2008/9 MLA Annual Report stated: MLA spent \$62.8 million on R & D Commissioned 194 new projects and completed or terminated 382 projects. There were 276 "live" projects valued at \$75.1m on June 30 2009.

The 2013 MLA Annual Report states it completed 546 contracts valued at \$58.2 million. The attached schedule in the MLA AR lists 204 contracts or projects valued at \$42.3m. Some 360 "contracts or projects" valued at \$15.8m are not listed. The average value of the contracts or projects not listed is \$44K well over the \$10K threshold stated in the document.

There is documented evidence that MLA has spent R&D funds on non R&D activities such as the NLIS database and call centers. Presumably Australian tax payers/Commonwealth part-funded these non R&D activities.

VIAscan

MLA and its predecessor AMLC/MRC spent \$17m developing Viascan a system to electronically scan and determine the composition and yield of beef (and sheep) carcasses.

In 2000, MLA in a commercial in-confidence deal "sold" this technology for A\$11 million to a North American company.

The MLA Annual Report 2002/3 states: ". . [a company has] developed a 'convergence' solution for processors to inexpensively and flexibly adopt a combination of VIAscan, MSA and NLIS without the need for duplication of hardware or communication systems."

The 2003/4 MLA Annual Report says the "deal" fell through. VIAscan was subsequently "sold" to another company for \$0.5million.

MLA has reported nothing about VIAscan since.

END