20 January 2014

Senate Rural and Regional Affairs
and Transport References Committee
P.O. Box 6100, Parliament House
Canberra A.C.T. 2600

Re : Inquiry into Industry Structures and Systems Governing Levies On Grass Fed Cattle

I am a cattle producer from the N.S.W. northern tablelands. I run 2,000 head of cattle and employ 4 staff.

I am writing this submission because of a deep sense of frustration with the industry structure, which , in my view has failed badly. The opinions expressed herein are my own.

1. Summary

I would like to register my strong opposition to the beef industry structure that was set up and operates pursuant to the Australian Meat and Livestock Industry Act 1997 (" the Act") and the Memorandum of Understanding dated 27 April 1998 (" MOU") between the Commonwealth, the Cattle Council of Australia ("CCA"), Meat and Livestock Australia Ltd ("MLA") and other parties.

I support the immediate and complete deregulation of the grass fed cattle industry which can be achieved by,

1. Repealing the Act
2. Dissolving MLA
3. Transferring major MLA programs in particular Meat Standards Australia ("MSA") to the Department of Agriculture.
4. Terminating the cattle transaction levy ("CTL").

2. Determine the Issue by Plebiscite.

The CTL is nothing more than a tax levied on cattle producers. The CTL provides about 52% of MLA's funding according to the Australian Beef Association ("ABA"). Cattle producers receive no benefit from MLA whatsoever. The CTL is being extracted from cattle producers in contravention of the Department of Agriculture's own Guidelines for Levies, specifically ;

1. The CTL is not supported by the majority of cattle producers who unfairly, have never been afforded the opportunity to vote on it democratically, and ,
2. There is no "market failure" which requires a Levy to rectify it.

A plebiscite would give grass fed producers (i.e. it would exclude feedlot owners) the opportunity to vote on a straight forward question ;

" DO YOU WANT TO PAY THE CATTLE TRANSACTION LEVY ? "

It is my opinion that cattle producers would overwhelmingly vote " No ".

3 Cattle Industry Versus Beef Industry.

1. Cattle producers are in a financial crisis. Cattle prices as measured by the Eastern Young Cattle Indicator ("EYCI") were $ 3.21 cents/kg carcass weight-("cwt") in December 2013 down 25% since the December 2011 high of $ 4.27/kg and about the same as 2001.

2. Cattle producers supply the Beef Industry but are not involved in the production or distribution of a saleable meat products.

3. The "Beef Industry" per se after years of consolidation is now controlled by 5 large corporations, namely, Woolworths, Coles (and their captive processor, Australian Country Choice), JBS Swift, Teys/Cargill and Nippon Australia. Collectively I will call these corporations the " Beef Industry ".

4. These corporations wield control due to their sheer size and the fact that they own the interface to millions of consumers as well as the processing and distribution networks to get beef to the point of sale.

5. Four supermarket chains, Woolworths, Coles, IGA and ALDI, control 72% of the domestic market for fresh beef sold at retail. The three largest processors, JBS Swift, Teys/Cargill and Nippon Australia control perhaps 65% of the national kill, although numbers are hard to find due to the secretive nature of these foreign owned and/or controlled corporations. The Beef Industry is massively concentrated and these few corporations set the terms and conditions for the market. They can be relied upon to resist anything that would lead to higher cattle prices, their main input cost.

6. The cattle industry, on the other hand, is highly fragmented comprising thousands of family farms across Australia. Competition is completely asymmetrical in favour of the Beef Industry and government has done nothing to level the playing field.

7. As concentrated as the Beef Industry already is, the trend is to an even greater degree of concentration. Independent butchers continue to close and the supermarket share of retail increases. The few remaining single plant processors (e.g. Bindaree at Inverell, Primo at Scone and the Northern Co-operative at Casino) face an uncertain future and will likely be forced into some form of amalgamation. Every time a processor or retailer is amalgamated, it knocks out yet another bidder from the market for cattle. For cattle producers this process is lethal.

8. The only cattle producers able to bypass this trap are live exporters. It is to be noted that during the 2011 live export suspension, Teys/Cargill , Australia's second largest processor (behind JBS Swift) publically called for a permanent end to all live cattle exports.

9. The overwhelming market power of the Beef Industry is reflected by the cattle producers share of the average retail price for beef. In Australia, as shown below, it is by my calculation about 26.5% ;

Australian Cattle Producers' Share of Retail Beef Price

1)	Average retail price per kilogram of beef for 2012-2013 Financial year (source, the LAND Newspaper 16 December 2013)		$15.57
2)	Over the hook price per kilogram of a 260-280 kilogram (cwt) MSA steer in December 2013 (source, MLA)	$ 3.55	
3)	LESS, co-product credit at $197.46 per head for a 274 kg (cwt) trade steer at December 2013. (source, MLA) converted to dollars per kilogram	$ 0.72	
4)	Net Price per Kilogram	$ 2.83	
5)	Price grossed up for retail meat yield at 68.7% (source, AUS MEAT LTD)		$4.12

CATTLE PRODUCERS SHARE = **26.5%**

Notes :- (3) Co-products include hide ,offal , tallow, bonemeal, etc

(5) AUS-Meat Ltd is a company owned by MLA and the Australian Meat Processors Corporation (AMPC).

By way of comparison, the cattle producer share of the average retail price in the United States was 49.4% for the period 2010-2012 ("Farm to Food Price Dynamics", Congressional Research Service September 27, 2013).

This huge differential between Australia and the United States strongly suggests that something has gone very wrong in Australia.

10. Apart from asymmetrical competition, the other major problem with beef is that It is a no growth industry. Our biggest and most important market is the domestic Australian consumer. Beef consumption at home remains stuck at about 740,000

tonnes per annum. Australia's strong population growth (about 1.5% p.a.) however hides the fact that beef consumption per capita is falling alarmingly. Beef consumption per capita is now estimated at 32.6 kilograms down from 38.6 kilograms in 1998. Every year beef becomes less competitive in relative terms with the white "factory" meats which also benefit from anti red meat propaganda from the health industry.Exports volumes remain similarly stuck at around one million tonnes per annum. Apart from Japan and a lesser extent the Republic of Korea, beef exports mainly comprise low value, commodity type, manufacturing beef. Exporting this kind of product from high cost, unionised , over regulated Australia will eventually prove uneconomic . Based on these settings beef processing is on course to become the next car industry.

11. As can be seen from the above, the pressure on cattle producers is intense. For cattle producers the only way out of this vicious cycle is significantly higher cattle prices. This will require increased consumption. However an increase in consumption is not going to happen unless and until the quality of Australian beef improves and the variability in quality is eliminated. In a nutshell , consumers deserve to get what they pay for. MLA's " bet the ranch " MSA program was supposed to fix this well recognized problem but has fallen short.

4. Meat and Livestock Australia

1. MLA has failed on any commercial test and should be dissolved.

2. Governments are, however, somewhat attracted to the MLA concept as it moves staff and expense " off balance sheet " and raises funds via an unfair tax on cattle producers. It also gives governments someone to blame for disasters like the 2011 live export debacle. There is thus some political inertia to change.

3. MLA is a company;

(a) Owned by its levy paying members and the " Peak Councils " i.e. CCA, Australian Lot Feeders' Association (ALFA) and the Sheepmeat Council of Australia (SCA),

(b) Limited by guarantee,

(c) Under the control of the Minister for Agriculture as a " Prescribed Body" under the Act. i.e. off balance sheet but still effectively part of the government.

4. It is a basic requirement that a company be able to produce, at any time , a register of its members detailing the member's name, address and share entitlement. MLA is unable to do this and therefore fails the first test of being a company. By itself this should be grounds for dissolution.

5. On 30 March 2011, the "Northern Star" newspaper published an article titled " TOP DOGS RULING OUR BEEF INDUSTRY ". The newspaper had obtained secret MLA voting entitlements which named 50 entities that controlled the vote at MLA general meetings. The biggest of these entities comprised the three largest processors and Australian Country Choice (by virtue of their ownership of feedlots) and a clique of large northern cattle producers, including the AA Company,Consolidated Pastoral, North Australian Pastoral Company, and a few others. These northern "cattle barons" run mainly tropical brahman cattle.

6. Control of MLA is important for the processors as it gives them influence over all MLA programs and AUS-MEAT. MLA is also important to the northern cattle barons as it provides an entre via critical programs like MSA, to the large domestic market. It has also resulted in MLA devoting resources to researching problems that are specific to northern producers such as the poor fertility of brahman cattle.

7. I will now briefly highlight areas of MLA failure;

1] **Marketing**

The falling per capita consumption of beef and persistently low cattle prices indicates the complete failure of MLA's marketing. Big budget TV ads featuring Hollywood stars have achieved nothing and MLA itself has admitted that it's generic advertising has been ineffective.

MLA marketing is paid for largely by cattle producer levies yet the benefit, if any, flows through to the Beef Industry. Cattle producers are thus in the absurd position of being forced to subsidize the sales of the very corporations that are driving us out of business.

2] **Research**

MLA research has in my view, yielded no commercial benefit at all to cattle producers.

Research expenditure is directed to government owned institutions like the CSIRO, ABARES, Universities and Departments of Primary Industry. Once again the government is essentially using the “off balance sheet” nature of MLA to fund its own organizations by taxing cattle producers. In my experience all productivity gains in cattle production can be attributed to the private sector, particularly the chemical companies, the seed companies, livestock studs, and the producers themselves.

However all of this needs to be put in perspective. The “ sine qua non” in cattle production is rainfall. Without which all the research in the world is worthless. There is nothing MLA or anyone else can do about rainfall and research expenditure should be viewed in this light. It is just not that important .

3] **<u>MSA</u>**

Buying Australian beef has been described as a “lucky dip”. Sometimes it is good and sometimes it is tough and dry. This is the key factor behind declining per capita consumption. Alienated consumers have switched to white meats and quite rightly, are annoyed at spending their money on a disappointing piece of beef. Consumers resent being ripped off and vote with their feet. No amount of MLA marketing can repair the damage done.

Australia desperately needs a national beef grading system. MSA was rolled out in 1998 (the United States has had a beef grading system run by the USDA since 1926). MSA has failed to arrest the decline in per capita consumption and cattle prices are now literally at “ going out of business” levels.

MSA was poorly conceived, developed and implemented by MLA. There are many things wrong with MSA but the system can and must be saved because it is pivotal to our survival.

MSA should be taken out of MLA and moved into the Department of Agriculture where impartial decisions can be made. MSA does not exist for the exclusive benefit of producers or processors or retailers. It is, in essence, a system to protect consumers and the interests of the consumer should be its one and only focus.

After 13 years of MSA consumers still cannot buy better quality (4 or 5 star) beef from a butcher or a supermarket. Now under MSA beef is either “ graded “ (3 star) or “ ungraded “. Producers are unable to capture any premium from supplying better quality cattle.

It should be noted that the beef grading systems of the United States, Canada, Japan and the Republic of Korea are all managed by the relevant departments of agriculture. Only in Australia is the grading system run by a company that is effectively controlled by the most vested of vested interests, the processors.

4] **National Livestock Identification System (NLIS)**

The NLIS was introduced on 1 July 2004 in NSW over and above the protests of many cattle producers and has been managed by MLA. The NLIS was spruiked as providing whole of life traceability for all cattle in Australia from property of birth to point of slaughter.

The main problem with the NLIS is that it doesn't work. When an animal is transferred from one property to another and then loses its "white" breeder ear tag on the second property, the new owner must attach an " orange " non-breeder ear tag to the animal before it can be sold and/or transferred off the property. As soon as this happens, whole of life traceability is lost forever totally destroying the original purpose of the system. The NLIS cannot purport to claim lifetime traceability and thus loses any credibility with respect to market access or disease control. What is the point of keeping a system that has failed?

The other major problem with the NLIS is it's cost. These costs extend all along the supply chain. Cattle producers have to pay around $3.00 for an ear tag and every calf born on property has to be tagged. However as cattle age more and more lose their original tags which than have to be replaced. Bulls in particular will all lose their tags by 3 to 5 years of age due to fighting. Cattle producers then must engage in the difficult and dangerous task of putting a new ear tag onto a 900 kilogram, angry bull. Why didn't MLA consider all of these problems before mandating the NLIS ? Why didn't they listen to cattle producers ?

5] **Livestock Production Assurance/National Vendor Declaration**

The Livestock Production Assurance (LPA) was rolled out to cattle producers by MLA in 2004 basically as a fait accompli.

The LPA requires cattle producers to keep detailed records of chemical treatments used on cattle, to ensure cattle are fit for transport and that cattle have not been exposed to on farm chemical residues. Further the LPA was subject to on farm audits.

MLA incorporated the LPA in the National Vendor Declaration (NVD). MLA announced that the new LPA/NVD was voluntary but that the major processors would only accept cattle consigned under the LPA/NVD. In other words unless producers used the LPA/NVD they would not be able to sell their cattle and would go bankrupt. Now that it has been enshrined in the NVD the LPA is capable of expansion by module e.g. a climate change module, an animal welfare module, a sustainable grazing module etc. It has become a back door mechanism for controlling cattle producers. It has in fact become a law, but it has not been enacted or even debated by any parliament.

MLA should not have the right and ability to create laws by threatening producers with financial ruin. This is a blight on our freedom and our democracy and has to be removed.

6] **Live Exports**

MLA at its then Chairman were the very public face of the 2011 live export debacle created by the TV footage of Australian cattle being brutally slaughtered in Indonesia. The notorious Mark I restraint boxes with MLA's name printed on the side were also noteworthy. MLA failed to address the unacceptable and cruel treatment of these cattle.

5. The Cattle Council of Australia ("CCA")

CCA is a Peak Council and, on paper, is meant to represent grass fed cattle producers in the "beef industry structure". It has one seat on the board of MLA and is supposed to represent the interests of cattle producers . Like MLA, The CCA is a " Prescribed Body " under the Act. It is basically a committee made up exclusively by members of the State Farming Organizations (SFO).

In reality it does not represent cattle producers because ;

1] As a Prescribed Body it is under the control of the Minister.

2] The SFO have been losing membership for many years. Numbers are hard to come by but it seems that the SFO now represent less than 20% of farmers.

The CCA has failed in its duty to oversee MLA's activities and thus must share the blame for all of the MLA failures listed above. Most cattle producers don't belong to a SFO and resent being dictated to by the unelected representatives of agri-political lobbying organisations.

6. Final Comments

This Senate enquiry is our last chance for major reform that will allow cattle producers to throw off the shackles of the failed and decaying industry structure put together in 1997/1998.

Respectfully yours

J. B. Carpenter