

Small Scale Beef Production and the Livestock Levy

1. Introduction

Context

This submission informs the inquiry by the Senate Rural and Regional Affairs and Transport References Committee (the Committee) into Levies paid by Grass Fed Cattle Producers. The submission has the context of the very small producer, mum and dad partnership, or less than 50 head herd size. The views are those of a former legitimate business turned lifestyle pursuit that has produced both commercial and stud beef cattle, off an essentially grass-fed operation over more than 30 years.

The views expressed here in 2014 haven't changed substantially from those reported¹ in the Land Newspaper in 2005 that then supported the producer Levy increase from \$3.50 to \$5.00. With the benefit of hindsight the view then that this was a complex issue certainly remains valid today. This submission attempts to simplify some of this complexity and suggest solutions where possible, however it does not purport to have all the answers.

While the views here are those of two effectively retired producers who are currently disposing of the last of their herd, the opinions are a considered reflection of where the Australian cattle industry has been, is and may go in future, particularly for the small scale grass fed producers. The submission may provide an alternate perspective for the Committee and hopefully complement those submissions of the major stakeholders.

Structure of this Submission

The structure of this submission addresses the Committee's four terms of reference, plus this brief Introduction followed by a Conclusions. There are accordingly six sections:

- 1) Introduction
- 2) Basis on Which Levies are Collected and Used
- 3) Levy Payers Influence on Quantum & Investment of Levies
- 4) Governance Arrangements Consultation & Reporting Frameworks
- 5) Opportunities and Challenges in Marketing Research and Development
- 6) Conclusions

This submission recognises that the Committee is explicitly focussed on the Levy; however, it is necessary to consider how some ostensibly external issues impact on this. Accordingly some broadly scoped or associated information has been included here to provide another perspective. It should help inform the Committee's consideration of its Terms of Reference (TOR). The TOR are reproduced at Appendix 1 to this submission.

Some issues raised here address more than one of the TOR so the structure is of necessity a fairly liberal mapping of the TOR. Similarly the submission provides some specific illustrations of issues explicitly within the TOR by drawing on some peripheral issues, such as database operations and

¹ Land Newspaper 14 April 2005 Page 4 Upfront News Article by Leanne Savage "Push for cattle Levy rise begins". Attribution of view "A case for self interest" includes Photo of Greg & Ruth Northover and their Poll Hereford cattle.

animal welfare as examples as they directly do, or potentially will, at least partially define the cattle producer's Levy regime in future.

2. Basis on which Levies are Collected & Used

What is being Levied

The basis on which levies are collected and used is formally set out in the Primary Industries (Excise) Levies Act 1999. This legislation is of course the explicit subject of this inquiry, however of necessity this legislation is broad and subject to interpretation.

Unfortunately the term "Grass Fed" is not defined in the Cattle Transactions and this could be a problem for the inquiry. If the target is not well defined and not clearly understood then the prospects of legislation and regulation being effective are poor.

Defining cattle (meat actually) as Grass Fed or Grain Fed may work for the meat consumer, through the sales display shelves, but the terms are misnomers for the producer. While the ideal is for cattle to exclusively graze lush pasture, the climatic reality is that varying levels of supplementation feeds are used. All grain fed cattle have eaten some grass and many grass fed cattle have eaten grain or other supplements. The point here is not one of semantics of cattle nutrition, rather the point is: what exactly is the Committee addressing as the cattle that are candidates for this inquiry and the Levy?

Collection of the Levy

The bill the producer gets is simply the product of the number of cattle entering the meat works times \$5.00. It doesn't matter what they have been fed. This amount is deducted from any monies received by the producer and the Levy is in this sense invisible to the producer. There are no bad debts at the producer level as they have no option of not to pay.

The basis of levies differentiating on feed input is not understood. As to whether cattle are extensively produced (grass fed) or intensively produced (lot fed) is immaterial to the meat consumer provided they get a good product. Both sources of livestock cattle are the input to the meat production process. Livestock in – meat out. Perhaps the industry now differentiates between grain fed beef and grass fed beef, but maybe it shouldn't. MLA is doing a good job with meat standards and the meat consumer's eating quality and this should be the focus, not what the cows ate. There is some excellent grass fed beef and some not so good grain fed beef. The organic beef meat market may be a further complication but it too should not be treated any differently regarding the Levy. The basis of the levies sure does need some critical review. What are the fundamentals?

Producers make livestock and it is cattle that are sold out the farm-gate; not meat. A different industry turns livestock into meat. While there is a pure livestock industry and trade, such animals ultimately end up as meat. The dairy industry primarily produces milk, but to the extent that the dairy industry also sources livestock to the processor industry that converts it to meat, means it too should be treated the same as the beef cattle industry so far as the Levy goes.

In the absence of Ministerial direction to the contrary, Meat and Livestock Australia (MLA) effectively sets the rules and applies them to the producer. MLA acts lawfully within the legislation and does a great job for the producer, given the complexity and myriad competing aspects of our

industry. However, if the basis of the Levy was changed from livestock input, to meat output, it might be better targeted and it sure would be more equitable.

Use of the Levy

The use of the Levy is, or should be, simply to get more money for the producer. If the Levy is spent on anything that does not directly increase dollars going back through the farm-gate to the producer, then it is being misused.

3. Opportunity to Influence Quantum & Investment of Levies

There is a democratic process in place and real attempts are made by MLA to engage with processors over all manner of industry systems, including the level or quantum of the Levy for example. This is carried out through national media and industry bodies. The results are invariably put at a Annual General Meeting (AGM) or Special General Meeting (SGM) where every Levy payer (producer) has a right to vote. That they invariably don't bother is another matter.

It is more so the case that the membership (i.e. the producers) don't get as involved in how the Levy is invested. This too is as much an issue of apathy and the culture of acceptance, ultimately up to the point where enough is enough. The inevitable revolt or upheaval when the producers become fed up enough, is probably not very elegant or effective, but it inevitably does make interesting media coverage and conversation for a period leading up to it and shortly thereafter.

It would be hard to change this culture and it may not be all that desirable either.

Market Acceptance of Traceability

The domestic and international acceptance of Australia's mandatory National Livestock Inspection System (NLIS) is a great success story and probably indirectly generates millions of dollars for the industry and national economy. It is as much a marketing tool as it is a management efficiency tool. In this sense NLIS is very effective if not efficient. Culturally NLIS has given the beef cattle unique animal whole life traceability, or at least it has been accepted as capable of doing this.

While the NLIS system is a huge step forward, there are some limitations and improvements are needed and available. The Committee may consider some of these issues in addressing the critical industry governance TOR. Unique and robust animal traceability is a tenet of today's industry and this must continue to be addressed by Government and peak bodies.

NLIS as currently implemented for beef cattle has several flaws. From a fundamental perspective it relies on people doing the right thing. Devices have to be fitted and managed and are therefore subject to human error generally unintentional but also subject to intentional abuse. An opportunity has been missed not to have gone directly to a more robust system where animal DNA is the fundamental and incorruptible form of traceability. That today there are technical DNA collection difficulties is accepted and this at the time made the available Radio Frequency Identification Device (RFID) technology a pragmatic and cost effective compromise.

There are now huge international biometric applications that Australia could benefit from by the Government investing in the R&D to move to a DNA based industry wide traceability system. If we could develop this technology, ostensibly for the beef and livestock industries, then it would be directly translatable and exportable for all manner of applications, from human biometrics to

microbial medicines. We would indeed have a system of true traceability that robustly served all beef industries from conception to consumption. A DNA system does not depend on some artificial device being fitted and remaining on the animal. By eliminating such devices they then can't be accidentally or deliberately corrupted and nothing artificial needs to be attached and maintained as an add-on to a live animal.

Currently our NLIS system stops when the RFID transducer comes off. Certainly this happens at slaughter which is not the end of the traceability requirement. In many regards the point of conversion of the animal from livestock to meat should be the start of the traceability train or ideally there should be continuous seamless transition. DNA based traceability would certainly span the full range and history of the meat product from conception to consumption.

For Australia to adopt a DNA traceability system would give us an incredible marketing and managerial advantage. DNA technology generally is rapidly developing throughout the world. Australia should seize and exploit those opportunities and adopt them to beef cattle now. We could leverage these vast developments by simply addressing the need to quickly and reliably get a DNA sample of each animal. How this is to be done we do not know here – but probably CSIRO and MLA and the Beef centres of excellence should be able to solve this problem. It isn't rocket science and we already have some capability from our DNA stud ID practiced used routinely today. However, at least an order of magnitude of more sophistication than hair follicles and remote Laboratories is needed, but such detail is beyond scope here. A non-invasive sampling solution seems likely to be developable. We could then patent the result and exploit it domestically and internationally.

The Committee should consider if part of the current Levy may well be applied to this immediately without costing the producer or the taxpayer a cent. The payoff is certainly likely to be more than what we get at present and it could be a whole lot more, not just for the industry but for the national economy and ultimately international society in many ways.

4. Industry Governance Consultation & Reporting Frameworks

The industry governance, consultation and reporting arrangements may be described by some as abysmal or in reality non-existent. However, there is Commonwealth legislation and while the Minister and Government may have over-delegated their powers and responsibility, MLA is generally doing a good job.

A whole range of factional views persist as to what Council, Committee Group or Association is the peak body for grass fed cattle producers. Actually the industry can't agree on just what "grass fed" means. The MLA is effectively a proxy for industry regulation. Notwithstanding this current arrangement, the buck really stops with the elected Minister and Government whose do the delegating.

MLA does a great job trying to provide consultation and reporting functions. Rotating AGM's through States and Territories is at least pragmatic and seeks to be democratic. MLA does an excellent job at Royal Shows in particular, in promoting meat and how it should be cooked. These sessions are well attended by the meat consuming public. Perhaps these sessions should also be made mandatory for all beef producers as we would learn more about our (meat) product and what the domestic market is currently thinking.

There is nonetheless very poor and fragmented consultation and reporting across the industry and this needs to be improved. Governance of this industry is very tricky. Its culture is one of fierce independence, a very healthy contempt for authority and lives or dies on market reality. Attempts to constrain, subsidize or artificially manipulate the industry are likely in the first place to be resisted and ultimately to fail. Irrespective of governance, or in spite of it, the object is to produce excellent animals and beef at world's best practice and at low cost and this more or less happens.

Consultation and reporting systems do need to be improved, but engagement with the myriad of small producers is always going to be difficult and this has to be realised by any would be reformers. More red-tape, forms and rules is not what is needed. There is very limited time for producers to service industry governance processes, especially where the producers feel they will be ignored in favour of the large international processors anyway. While there is some democracy it's not one vote one value in the beef industry.

Given the grass fed cattle producer is invariably an independent minded individual. The reality is often that they are just too busy inside the farm-gate to be concerned about the devaluing of quantum and levy investment issues and such like. They pay MLA \$5.00 per animal and that ought to be enough for MLA to get on with it! Ultimately there is the ballot box when governance problems become unacceptable for too long.

The NLIS Database Operations

While it may seem a big leap from national industry governance to the minutia of database operations, the NLIS system and its day to day interface with producers is a proxy for governance, consultation and reporting, or the lack thereof. It is accordingly worthwhile for the Committee to consider NLIS in some detail for this inquiry.

Industry regulation, in large measure, has by default fallen to operation of the national NLIS database and its oversight by AQIS and other authorities. MLA currently does a great job operating the database and what we have today would have been unimaginable just a few years ago. It's not perfect but it sure isn't bad either. However, major benefits are now to be had from a review of the entire NLIS and related systems.

Considerable change could be achieved within existing resources, but if a review is to be effective it ought not to start from a current resource constrained mindset. Given that we have come so far and given that we now have a considerable body of knowledge about NLIS and its role in industry regulation, it is now timely to step back and take a rigorous system engineering approach as to what the system requirements really are. The implementation of a system to deliver those proven requirements then becomes a relatively straight forward process.

There is a culture where the producer facing operators of the database have the power and believe that they know best. The producer is often taken to be a fool with sinister intent, out to corrupt the data. This culture needs to be upended. Only the producer knows the true full life history of the animals they breed and have developed from calves through to slaughter. Accordingly the producer should be able to update the NLIS record of their animals without limit. The producer understands traceability and is committed to its integrity. Self interest alone make this a robust truth. The presumption ought to be that the producers will do the right thing, not the current culture where the producer is seen as the enemy.

The culture should become; its the producer's database and the operators are there to facilitate producer access. At present the processors effectively exclusively hold the right of veto on database changes. When an animal is slaughtered the processor enters this information into the database and from that point on the producer can't change that animal's records. This is even the case when the producer has a substantive piece of information such as transfer of their animal from one property to another. Usually the producer has one week to update the data base but if slaughter occurs before the producer updates the record then this information is locked out. It could be the key to some trace back action immediately there after.

The power of the NLIS database operator is absolute. That they reject producer access at any time is a major problem. If ever Australia really has a traceability problem this culture and the flawed logic of our NLIS operations are a time-bomb than can potentially hurt the industry. In such an event the producer will again pay and shoulder the burden of and consequence of all that.

We have a real logical flaw. Currently traceability stops at slaughter. We need to move to a traceability that begins when the calf is born and ends when the meat is finally consumed. The producer has a major ongoing interest in their product that really only starts at slaughter, it doesn't end there.

Objective Capability Requirements Development

There is much confusion and muddled thinking about the NLIS capability requirement. Some (much) of this arises from the power imbalance between the system operators and the producer users. In particular there is flawed logic behind what is called the Property Identification Code or PIC. It is not clear what is being managed here. Is it the Property, The Herd Management entity or the Animal?

Ostensibly the system covers all these entities and the combination of the PIC and the Animals unique identifier should be effective and in most cases this is so; however when Managers have to move various Animals across several different Properties the system quickly falls apart in practice. While the bureaucrats, administrators and database designers will parochially reject that this problem exists, it is however real for producers and this is likely to be proven if ever we have real traceability stress!

The current unwieldy arrangements have evolved from technocratic and ad-hoc changes arising from a range of internal and external problems. The old "States versus the Commonwealth parochial fears" are of course part of the problem. However, the NLIS system can be readily fixed or dramatically improved by openly and objectively identifying the NLIS problems. These answers would come from a professional systems engineering analysis where the real systems requirements are dispassionately determined and proven. Because no one is clear about what exactly NLIS is meant to do, any variation or short coming of the system is fine.

The NLIS system and its database operations are a great tool and have improved the industry out of sight. However it is now timely to involve all stakeholders and particularly the producers in a redesign of the system under impartial professional requirements engineering facilitators.

5. Opportunities & Challenges Marketing Research and Development

There are many opportunities and challenges in marketing, research and development. Perhaps none greater than animal welfare. This challenge is far reaching and it goes to the fundamental

culture of the industry. MLA has made a start in producing Animal Welfare Guidelines but they are minimalist and probably more ignored than embraced. Enforcement or adoption is invariably reactionary to some public protest or its media exposure. The domestic and international meat market is highly sensitive to the public's perception of any mistreatment of animals and this is especially so for ruminants generally and beef cattle in particular.

The industry should embrace organisations like Animals Australia and the RSPCA and with them forge an arrangement to project a strong positive image of our industry's good animal welfare and husbandry practices.

There is no longer a case for inflicting unnecessary pain and stress on animals. The old traditional hacking off of large pieces of ears as ID marks is redundant if we have any faith in our NLIS and other current and new management and traceability systems. Similarly the traditions of fire or freeze branding are outmoded and do the industry harm. If as some practitioners claim that it is illegal not to brand and or earmark cattle, then that law (if there is one) should be repealed. That such practice are traditional and they may have been necessary and good for grandad's time, is no reason to perpetuate them today. The public see them as cruel and they are now unnecessary.

Similarly the images and culture of young bull calves being roughly thrown over and brutally castrated needs to be eliminated. Fertility and growth management is of course critical and the steer trade is the premium market, but the industry needs to adopt world's best practice in this regard. The issue is disproportionately sensitive to our meat consuming public and it is exactly for this reason that improvement represents a great opportunity for benefits at minimal cost or additional action by our industry.

The Committee will no doubt vigorously debate the export and overseas slaughter of live cattle. This too is a highly sensitive and high profile issue, accordingly it is also a huge opportunity for the industry to readily improve its image and help us more effectively market our excellent products. The case for banning live exports with all processing being done in Australia is compelling on several levels. However, a blanket ban on all live cattle exports would go too far, especially where stud and breeding stock are concerned.

While the R&D aspects of this TOR relates strongly to livestock, the marketing aspects probably relate exclusively to meat. The grass fed cattle producer is in the livestock industry, the processors are in the meat industry. Rolling these two quite separate industries together perpetuates complexity in addressing this TOR. We differentiate these two industries when it suits us and we integrate them when that better suits us. We can't have it both ways if we are all to progress.

6. Conclusions

The committee is commended for reviewing the Levy that cattle producers pay on their livestock. That the focus is explicitly grass fed cattle should not limit a broad and general consideration of these issues irrespectively of how cattle are nourished (fed) and developed.

The collection and disbursement of Levy funds needs to be critically reviewed. The issues of equity and objectivity as to why there is a Levy and what it is to achieve needs to be defined. A move to meat output criteria rather than livestock animal input may be more appropriate.

Opportunities for the grass fed beef cattle producer to retake ownership of the Levy and its application should be implemented. A clear distinction between the livestock production industry and the meat processing and packaging industries need to be made. The current cultural push to induce cattle producers to believe they are beef meat producers is commendable, but the blurring or ignoring of the transition between two quite fundamentally different industries shouldn't be perpetuated.

Animal welfare issues are a critical aspect for the industry and have immediate marketing opportunities benefits as well as on farm efficiency advantages to be realised.

Regulation of the Industry and the role of robust unique through life traceability of every animal represents great progress and cultural development. A move to DNA based traceability from conception to consumption is potentially available and may represent a good focus for current R&D resource investment at no additional cost to the producer or taxpayer.

The current industry structure and culture is an impediment for grass fed cattle producers to respond to challenges and capture opportunities in marketing and research and development. Some separation or differentiation between the livestock production and the meat processing sectors of the current industry may help this. The fundamental nature where producers are happy, or less so, for MLA to get on with all that and for the producer to take care of things on-farm are the harsh reality. Resistance to change is healthy and robust and this is particularly so for this industry. But we should continue to try. Change is the only constant!

The NLIS database and its operation are in need of fundamental review. A new objective capability requirements definition is needed. This then needs to be clearly articulated and a system to implement those agreed and proven requirements should be implemented. Greater democracy in the ownership and day to day operation of the system should be extended to all stakeholders.

Appendix 1

Terms of Reference

On 12 December 2013, the Senate moved that the following matters be referred to the Rural and Regional Affairs and Transport References Committee for inquiry and report by 28 March 2014.

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 set out in subsections 6(l)(a), 6(1)(b), 6(2)(a) and 6(2)(b) of Schedule 3 (Cattle transactions) of the Primary Industries (Excise) Levies Act 1999, including:

- a. the basis on which levies are collected and used;
- b. the opportunities Levy payers have to influence the quantum and investment of the levies;
- c. industry governance arrangements, consultation and reporting frameworks; and
- d. recommendations to maximise the ability of grass-fed cattle producers to respond to challenges and capture opportunities in marketing and research and development.