



Australian Government

Australian Government response to the
Senate Rural and Regional Affairs and Transport References
Committee report:

Inquiry on industry structures and systems governing levies
on grass-fed cattle

July 2015

Introduction

The Australian Government welcomes the Senate Rural and Regional Affairs and Transport References Committee's report on the industry structures and systems governing levies on grass-fed cattle (the Report). The Australian Government thanks the Committee members for the work in delivering the report and associated recommendations.

The Report provides a number of insights into the issues affecting the ability of grass-fed cattle producers to remain viable in a competitive global market place, and how their industry governance arrangements support this objective.

The cattle industry was restructured in 1997 to advance industry towards management of its own affairs and increase its efficiency and competitiveness to continue as a world leader. At the time the industry was losing market share to most of its competitors overseas, many meat exports occurred under restrictive trade conditions and government owned bodies managed the levies for marketing, research and development.

Since that time the cattle industry has managed to deliver productivity increases (average carcass weight per animal has increased from 212 kg in 1997 to 263 kg in 2013) and has increased its volume of beef exports by 163 per cent, including over 1000 per cent increases to China and Middle Eastern markets.

The government has also pursued an aggressive trade agenda resulting in free trade agreements with Australia's largest beef export markets and opening a range of new markets for live export.

Last financial year beef and veal exports rose 29 per cent to more than \$6 billion and six new markets have been secured to further support our \$1 billion live exports industry.

All of this helps more of our farming families on the land, and gets them greater returns at the farm gate. With an estimated 71,300 farms across Australia, cattle production is a business that supports many families and is absolutely vital to the future sustainability of rural communities.

The government also knows there are beef farmers that have been struggling with drought. Being well-informed and well-prepared are the keys to managing any risk. It is important that farmers understand the risks they face and the tools that are available to them. However, even the best prepared farmers can require assistance in extreme droughts. The government recognises the importance of policy certainty, particularly in the context of drought. That is why we are investing almost \$3 billion in a new drought and risk management package that will provide this certainty for farming families and their businesses. The better that farmers can prepare for, manage through and recover from any adverse situation, including drought, the stronger our agriculture sector's contribution will be to the economy.

Innovation through research, development and extension (RD&E) has been a key factor in the rural sector's productivity growth and contribution to Australia's prosperity. Around 97 per cent of farms are classified as small businesses—having an annual turnover of less than \$2 million. Because of this there is a low capacity to individually conduct or invest in RD&E and marketing on their own. There is limited incentive for private investment because it is difficult for a private investor to keep research

and marketing benefits to themselves, and to stop people who did not financially contribute to the research from benefiting from it. Market failure such as this creates the case for the levy system.

The White Paper on Agricultural Competitiveness highlights the government's commitment to co-fund RD&E to deliver results on-the-ground that improve farm profitability and productivity. The evidence is overwhelming – research and development investment across agriculture has delivered productivity returns far in excess of the cost of the investment. The Council of Rural Research and Development Corporations has found that the system provides an average return of over \$10 for every dollar invested.

The White Paper adopts a three-pronged approach to building stronger RD&E. This involves investing in the right RD&E by setting the right priorities; addressing the gaps in the system through more funding for collaborative research and adoption (\$200 million for the Rural R&D Profit Program to 2021-22); and improving the efficiency of the system by reducing administrative costs and improving governance.

On this basis the government is resolute in its support of the levy system. To many of Australia's rural industries it is a vital way of increasing their profitability, sustainability and competitiveness. There is no "one size fits all" model for the system, but the flexibility of the Australian model allows it to evolve and respond to industry needs.

In recent years, Australia's rural and research development corporations have experienced some changes. These include the creation of Sugar Research Australia from a merger of existing bodies and the creation of the Australian Grape and Wine Authority from two existing bodies. These changes are consistent with a small government policy to consolidate existing bodies where possible.

It is vital the beef industry has the right systems and structures in place to capture the opportunities in the coming decades in Asia and elsewhere. Australia is a major player in the global beef trade, but as with anything, there is always room for improvement.

The government wants to ensure that the best possible arrangements are in place for the benefit of the whole industry. This is part of the government's commitment to work with industry to reinvigorate agriculture and help farmers prosper.

The government understands the difficulty of establishing a system that satisfies every producer and acknowledges that some producers will always want more control over the statutory levies.

While the current industry structures and systems governing the levies on grass-fed cattle are not perfect, they do provide a solid basis for the future. The government will work with industry to develop a more coherent and robust system for grass-fed cattle levy payers and assist in providing every opportunity for the re-invigoration of a strong and effective representative organisation.

Recommendation 1

The committee recommends that a producer-owned body be established by legislation. The body should have the authority to receive and disperse the research and development, as well as marketing component, of the cattle transaction levy funds. The producer-owned body should also be authorised to receive matching government research and development funds. Reforming the Cattle Council of Australia to achieve these outcomes should be examined as part of this process.

Response to recommendation 1

The Australian Government agrees in part with this recommendation and thanks the committee for its consideration of this complex issue.

The government notes that the intent of this recommendation is to address two clear problems; the lack of effectiveness of grass-fed producer say over levy expenditure due in part to the absence of a truly representative grass-fed cattle body, and funding for that body to perform its role effectively in the red meat system.

The government has facilitated industry discussion on this recommendation over a number of months, culminating in an industry round table discussion in December 2014. As a result of this meeting, it was agreed that grass-fed stakeholders would undertake to seek agreement on a new industry body which better represented the views of grass-fed levy payers. Representatives of grass-fed levy payers delivered a unified position on the structure of a new grass-fed levy organisation to the Minister for Agriculture on 17 February 2015.

The government agrees that producers should have an opportunity to influence the use of levy-funds, however it does not agree that this can be best achieved through a new rural research and development corporation. Rather, the government believes that transparent understanding of the expenditure of the levy can be achieved through several initiatives, not the least of which are current reforms being enacted by Meat & Livestock Australia.

Further options for a stronger role for the grass-fed sector within Meat & Livestock Australia and strengthening the governance of the red meat sector as a whole include continued reform to its skills based board through, for example, clearer representation of not just the grass-fed sector, but other red meat industries also. Revision of the Red Meat Memorandum of Understanding is also necessary to more clearly define the roles and responsibilities of each entity around consultation requirements and agreement on forward work plans and levy expenditure. Finally, the creation of a viable grass-fed levy representative organisation will assist in ensuring the views of levy payers are reflected in the way levy funds are spent.

Regarding the funding of a new industry body, the government does not agree that the best outcome can be achieved through the redirection of the R&D and marketing grass-fed component of the cattle transaction levy to a new organisation. The government has formed this view on the basis that the full redirection of the grass-fed levy would fundamentally destabilise Meat & Livestock Australia, to the detriment of other components of the red meat industry. The administrative duplication associated with another rural research and development corporation is not efficient or

cost-effective and is not consistent with the government's agenda of reducing regulation and the number of bodies. The government has therefore concluded that there would be little, if any benefit to grass-fed levy payers over and above that which can be achieved through modification of the current structure.

The government will however consider proposals from industry for funding arrangements for the new industry representative body. The government's preference is that industry representative bodies are funded from non-government sources and encourages the new entity to develop proposals for full financial viability through appropriate provision of services to its members.

The government recognises this may take some time and will work with industry on appropriate transition funding through existing mechanisms, such as the Red Meat Advisory Council fund. An important part of that will be the continued support of existing members of the Cattle Council of Australia until the new representative body agreed to by industry has completed its first Annual General Meeting.

Into the longer term there are a range of options open to the new body to ensure its ongoing financial viability. The government will work with industry on those options through the transition period and consider proposals which have the support of grass-fed cattle producers.

Additionally, the government will ensure the terms of reference for the independent performance review of Meat & Livestock Australia to commence in 2015 examines options to improve transparency, accountability and engagement with levy-payers, which will form the basis for considered industry consultation and potential reform.

Recommendation 2

The committee recommends the establishment of a cost-effective, automated cattle transaction levy system. The system should identify levy payers against levies paid. The automated system should provide for more immediate settlement of levy fees paid and the allocation of voting entitlements. It should be subject to regular independent auditing and verification.

Response to recommendation 2

The Australian Government agrees with this recommendation. The government is currently working with the red meat, horticulture and grains industries in a pilot project to establish levy-payer registers, including design options that are cost-effective and efficient. The government is also considering the recommendations of the Senate inquiry on industry structures and systems governing the imposition and disbursement of marketing and R&D levies in the agriculture sector.

Meat & Livestock Australia is also investigating more immediate ways to establish a cost-effective, automated cattle transaction levy system. As identification of levy payers is integral to the accountability of the levy system, the government will work cooperatively with Meat & Livestock Australia and industry to deliver this.

Recommendation 3

The committee recommends that the *Primary Industries (Excise) Levies Act 1999* be amended to ensure that levies paid by processors are recognised as processor (or slaughter) levies and not as producer (or cattle transaction) levies.

Response to recommendation 3

The Australian Government does not agree with this recommendation. The government considers that any proposal to change a levy should come directly from levy payers, consistent with the Levy Principles and Guidelines.

The government notes that the development of a register of levy payers will ensure that levies paid by processors, lot feeders and producers can be clearly identified.

Recommendation 4

The committee recommends that the Australian National Audit Office conduct an audit of the cattle transaction levy system, tracing the levy from inception and focusing on the revenue from, and expenditure of, the respective components of the levy.

Response to recommendation 4

The Australian Government agrees with the principle of this recommendation. The Australian National Audit Office does not generally undertake audits of non-government entities, such as Meat & Livestock Australia. As an independent entity, the ANAO will consider undertaking an audit of the administration of levies by the Department of Agriculture as part of its future work plan.

An independent performance review of Meat & Livestock Australia is due to commence in 2015 which will examine levy revenue and expenditure, and make recommendations to improve transparency and accountability as well as options to improve engagement with levy-payers. The government will ensure that the terms of reference for this review sufficiently address the intent of this recommendation.

Recommendation 5

The committee recommends that the Minister for Agriculture dissolve the Red Meat Advisory Council. The committee further recommends that the Minister for Agriculture establish a new system to manage and disperse earnings from the Red Meat Industry Reserve Fund, in consultation with the industry.

Response to recommendation 5

The Australian Government does not agree with this recommendation. The government sees merit in a forum for whole of supply chain co-ordination to maximise the opportunities from the expected growth in the appetite for protein over the next 50 years.

The government does agree that improvements can be made to the efficacy of the Red Meat Advisory Council in terms of the delivery of its core mission and therefore notes the most beneficial course of action is to work with the organisation to make it more transparent and accountable to address the concerns raised in the inquiry.

Recommendation 6

The committee recommends that the Minister for Agriculture revoke the status of the MLA Donor Company as an approved donor under the *Australian Meat and Live-stock Industry Act 1997*.

Response to recommendation 6

The Australian Government does not agree with this recommendation. The government considers that the rural research and development system benefits from voluntary contributions and they should be encouraged through matching contributions.

The government does however believe that initiatives undertaken with the use of voluntary contributions under the *Australian Meat and Live-stock Industry Act 1997* must deliver, and better communicate tangible and beneficial outcomes for both the broader industry and grass-fed producers, particularly where grass-fed levies have been contributed.

The government will therefore review its arrangements with the MLA Donor Company to strengthen its governance and operating framework in response to some stakeholder concerns raised in the Report.

Recommendation 7

The committee recommends that the Department of Agriculture, in consultation with the cattle industry, conduct an analysis of the benefits, costs and consequences of introducing legislation akin to the Packers and Stockyards Act 1921 and Livestock Mandatory Price Reporting Act 1999.

Response to recommendation 7

The Australian Government agrees in principle with this recommendation, and considers that the assessment being conducted by Meat & Livestock Australia will assist in identifying the benefits and costs of addressing deficiencies in price transparency.

The government wants an improved competitive environment for all businesses, including a fair return for Australia's farmers at the farm gate. The Agricultural Competitiveness White Paper has committed \$11.4 million over four years to boost Australian Competition and Consumer Commission (ACCC) engagement with the agriculture sector to strengthen competition through fair trading investigations and enforcement actions. This will include more resources to get out into the field and the appointment of a commissioner with specific responsibility for agriculture. A further \$13.8 million has been committed for a two-year pilot programme to provide farmers with knowledge and materials on cooperatives, collective bargaining and innovative business models.

Dissenting and Additional reports

The government notes the dissenting views of Senator the Hon. Ian Macdonald in relation to Recommendations 1 and 5, and Senator Rachel Siewert and Senator Peter Whish-Wilson's additional comments relating to long term farm gate prices and the processing industry.

