

# Chapter 1

## Introduction and background

### Referral of inquiry

1.1 On 12 December 2013, the Senate referred the following matter to the Rural and Regional Affairs and Transport References Committee (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(1)(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.

1.2 On 15 May 2014, the Senate granted an extension of time for reporting. The committee was required to report by 16 July 2014. Then on 10 July, the Senate granted a further extension to the committee, requiring it to report on 23 September 2014.

### Conduct of inquiry

1.3 The inquiry was advertised in *The Australian* and on the committee webpage. The committee also wrote to government departments, organisations and individuals to invite submissions. Details of the inquiry and associated documents are available on the committee's webpage at

[http://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Rural\\_and\\_Regional\\_Affairs\\_and\\_Transport](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport)

1.4 The committee received 188 public and 4 confidential submissions which are listed at Appendix 1. The public submissions are also published on the committee's webpage.

1.5 The committee held public hearings in Canberra on 7 March, 20 June and 23 June, Broome and Katherine on 6 and 7 May respectively, Rockhampton on 21 May, and Albury on 10 June. A list of witnesses who appeared at the hearings is at Appendix 2.

## Acknowledgement

1.6 The committee acknowledges the organisations and individuals that made contributions to the inquiry through submission and appearances at the hearings.

## Australian red meat industry

1.7 Australia's red meat industry includes cattle, sheep, lamb and goats. It is a multi-sector industry represented by cattle and sheep producers, processors, lot feeders and live exporters. There is significant diversity of interest as well as structure within each sector. Producers themselves range from large extensive to small intensive systems and cover interests which range from large corporate enterprises with foreign ownership involvement to that of the small family farm. The diverse nature of the red meat industry, which encompasses a wide range of interests, has remained a contributing factor to the lack of full industry consensus on reforms.<sup>1</sup>

1.8 Australia's cattle herd, which comprises more than 40 different cattle breeds, is estimated to be between 26 million and 28.5 million head. Of that, 13.6 million comprises beef cows and heifers.

1.9 The grass-fed cattle industry is one of Australia's largest rural industries. The 2011–12 census revealed that of 135,692 businesses with agricultural activity across the country, 38,752 were specialised beef farms (including feedlots), 6,526 mixed beef cattle and sheep farms and 11,552 mixed grain-sheep or grain-beef farms.<sup>2</sup>

1.10 The industry covers approximately 45 per cent of Australia's land mass.<sup>3</sup> Queensland hosts approximately half of Australia's cattle herd (12.6 million).<sup>4</sup>

1.11 The red meat industry employs approximately 200,000 workers across the farm, processing and retail sector. In 2011–12 Australia produced around 2.1 million tonnes of beef and veal with grain-fed cattle accounting for approximately one-third of all adult cattle slaughtered.<sup>5</sup> In 2012–13, Australia produced about 2.2 million tonnes

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1 Steering Committee and Task Force, *Australian Meat and Livestock Reform for the Future*, October 1996, Australian National Audit Office, *Restructuring of Meat and Livestock Statutory Organisations*, June 1998.

2 Australian Bureau of Statistics, Number of businesses with agricultural activity, By industry (a), 2011. 127106.0—Australian Farming in Brief, 2013, <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/7106.0Main+Features22013> (accessed 12 May 2014).

3 Cattle Council of Australia, *Submission 14*, p. 14; Meat and Livestock Australia, Australia's beef industry, Fast facts, <http://www.mla.com.au/Cattle-sheep-and-goat-industries/Industry-overview/Cattle> (accessed 12 May 2014).

4 AgForce Queensland, *Submission 151*, pp 1–2; Victorian Farmers Federation, *Submission 121*, p. [1].

5 Cattle Council of Australia, *Beef 2015 and Beyond*, February 2013, p. 5, <http://www.cattlecouncil.com.au/assets/documents/Beef%202015%20and%20beyond.pdf> (accessed 6 June 2014).

of beef and veal. The estimated value of red meat production in Australia in 2012–13 was around \$16.2 billion.<sup>6</sup>

1.12 Australia is the world's seventh largest beef exporter. In 2011–12, it exported \$4.7 billion worth of beef (amounting to 65 per cent of domestic production) to more than 100 countries which contributed 15 per cent of Australia's total farm exports.<sup>7</sup> In 2012–13, the value of live exports rose to \$5.06 billion, reaching 67 per cent of domestic production.<sup>8</sup>

### ***Regional differences***

1.13 There are considerable variations in cattle production across the country. Northern Australia is predominantly focused on live export while the majority of processors (such as abattoirs) are located in the eastern states. There is wide variation in industry dynamics both within and between the northern states and the south.<sup>9</sup>

#### *Northern cattle production*

1.14 Northern cattle producers account for approximately 75 per cent of farming land in Australia (dedicated to beef) and make up just under 50 per cent of the national herd. Typically, cattle grown in the northern region forage for feed across very large properties, which means that the beef is generally of lower quality than southern-produced beef. Whilst the primary market for northern beef is the Asian live export market, a small percentage of cattle are sent south where they are grain fed before slaughter. This beef is then boxed and sent to countries such as the United States – generally as hamburger meat.<sup>10</sup>

1.15 Northern Queensland cattle production is oriented towards breeding with many corporate pastoral companies and larger private producers having a semi-integrated supply chain involving multiple properties from the north to the south of the state, where most of the processing capacity is concentrated.<sup>11</sup> In the absence of a regional abattoir, slaughter-ready cattle from northern Queensland are transported to coastal and south-east Queensland abattoirs. Regional Queensland producers bear substantial live cattle transport costs and carcass shrink losses resulting in

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6 Meat and Livestock Australia, *Annual Report 2012–13*, p. 3.

7 Cattle Council of Australia, *Beef 2015 and Beyond*, February 2013, p. 5, <http://www.cattlecouncil.com.au/assets/documents/Beef%202015%20and%20beyond.pdf> (accessed 6 June 2014).

8 Meat and Livestock Australia, *Meat and Livestock Australia, Australia's beef industry, Fast facts*.

9 Meat and Livestock Australia, *The Northern beef report: Northern 2013 situation analysis*, April 2014, p. 10.

10 PricewaterhouseCoopers, *The Australian Beef Industry, From family farm to international markets*, 2001, p. 2.

11 Queensland Government Department of Agriculture, Fisheries and Forestry, *Evaluating the commercial viability of a northern outback Queensland meat processing facility*, 2012, p. i, [http://www.northbeef.com.au/downloads/NQ\\_abattoir-study.pdf](http://www.northbeef.com.au/downloads/NQ_abattoir-study.pdf) (accessed 29 May 2014).

significantly reduced net returns.<sup>12</sup> The high associated cost also places the Queensland beef industry at a global competitive disadvantage.

#### *Western Australian cattle production*

1.16 Western Australian cattle producers are heavily reliant on the local Western Australian market to sell boxed beef. They are also reliant on already established live export markets – primarily to Indonesia and the Middle East.<sup>13</sup>

1.17 The committee was told that a proposed upgrade of the Harvey Beef abattoir – particularly if the upgrade meets European Union (EU) accredited export standards – would improve export opportunities for Western Australian producers. Cattle producers are also keen to see the Chinese market open its import cattle protocols to include feeder and slaughter cattle exports.<sup>14</sup>

1.18 A reduction in the distances live cattle are transported (across the supply chain) would also benefit Western Australian producers – particularly those wanting to sell their cattle into global meat markets. Reduced live transport distances would also enhance meat quality and the possibilities of producers qualifying for Meat Standards Australia (MSA) premiums.<sup>15</sup>

#### *Southern cattle production*

1.19 Farms in southern areas of Australia are usually more intensive than those in the north, and producers typically run European and British cattle breeds. New South Wales produces the second largest number of beef cattle, after Queensland, with 5.3 million head, or 21 per cent of Australia's cattle and calves. Whilst beef cattle are raised throughout all the state's agricultural areas, they are mainly concentrated in the Upper Hunter, North West Slopes and the Northern and Central Tablelands.

1.20 Most of the state's beef cattle are grazed, with only around 3 per cent held on feedlots at any one time. Cattle on feedlots are grain fed, leading to the majority of feedlots being located throughout the grain belt – from the Riverina to Moree.<sup>16</sup>

1.21 In 2010–11 there were just over 16,000 properties across Victoria, carrying just over 2.36 million beef cattle. Of these, 8,029 were specialised beef cattle farms and 1,645 were mixed beef and sheep farms. The number of beef cattle in Victoria has fluctuated between two and three million over the past 30 years. In 2011–12, the value

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12 Queensland Government Department of Agriculture, Fisheries and Forestry, *Evaluating the commercial viability of a northern outback Queensland meat processing facility*, 2012, p. i.

13 James Nason, 'Cattle Council needs more 'grunt', Senate inquiry told', *Beef Central*, 8 May 2014, p. 1, [www.beefcentral.com/p/news/article/4620](http://www.beefcentral.com/p/news/article/4620) (accessed 15 May 2014).

14 James Nason, 'Cattle Council needs more 'grunt', Senate inquiry told', *Beef Central*, 8 May 2014, p. 1.

15 Queensland Government Department of Agriculture, Fisheries and Forestry, *Evaluating the commercial viability of a northern outback Queensland meat processing facility*, 2012, p. ii.

16 New South Wales Government, *Atlas of New South Wales, Agriculture – Livestock*, [www.atlas.nsw.gov.au/public/nsw/home/topic/article/agriculture-livestock](http://www.atlas.nsw.gov.au/public/nsw/home/topic/article/agriculture-livestock) (accessed 20 June 2014).

of Victorian fresh, chilled and frozen beef and veal exports was \$606 million, which represents 12.3 per cent of the Australian total of \$4.94 billion.

1.22 Whilst most of Victoria's cattle are kept on managed pastures, a small percentage of the beef cattle herd is grown out in feedlots. Victorian feedlots are largely geared to produce beef for the domestic market – with shorter feeding regimes and higher turnover rates compared to feedlots in Queensland and New South Wales. Victoria's major export markets are the high value markets such as Japan, the Republic of Korea and the United States.<sup>17</sup>

### ***Grass-fed cattle industry***

1.23 Evidence to the committee upheld the view that the Australian grass-fed cattle industry is currently at a crossroads, if not in crisis. Producers argued the current situation (particularly in relation to the industry's declining profitability) has come about for a number of reasons, including; declining real term export sale prices, rising input costs, and the live cattle bans to Egypt between 2006 and 2010 and to Indonesia in 2011. Other challenges include the high Australian dollar, high government-influenced compliance costs and charges, as well as droughts which have impacted grass-fed cattle country.<sup>18</sup>

1.24 The expectation of grass-fed cattle producers within this context is that industry structures and systems already in place should provide the necessary assistance and support for it to survive and prosper. Low returns to grass-fed cattle producers and high costs of production (as well as the challenges of drought) have brought questions about the effectiveness of grass-fed cattle levy investment in research and development (R&D) and marketing, into sharp focus.

1.25 The committee received considerable evidence from grass-fed cattle producers who raised concerns regarding the return for their levy investment, representation of their sector and their ability to influence the decision making process in regard to levy investments. While the committee was mindful of focusing on the grass-fed cattle component of the cattle transaction levy, evidence provided by many submitters revealed problems and constraints which went beyond the grass-fed cattle component of the cattle transaction levy and implicated the entire red meat structure.

1.26 In many ways, the concerns expressed about effective management and representation of the grass-fed cattle industry also highlighted the need for a fair return at the farm gate. The concerns raised in relation to the levy were also symptomatic of a wider belief that the industry structures underpinning the levy system are too complicated to provide for adequate transparency and coherence, particularly in relation to roles and responsibilities. At the same time, the industry has been through substantial changes since the structures were established in 1997–98. In light of these dynamics, the inquiry has brought to the fore what is growing

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17 Victorian Department of Environment and Primary Industries, *Victoria's Beef Cattle Industry*, [www.depi.vic.gov.au/agriculture-and-food/livestock/beef/victorias-beef-cattle-industry](http://www.depi.vic.gov.au/agriculture-and-food/livestock/beef/victorias-beef-cattle-industry), (accessed 19 June 2014).

18 Heytesbury Cattle Company, *Submission 145*, p. 1.

momentum for a holistic, independent examination of the red meat industry structures with a view to substantial reform.<sup>19</sup>

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19 Bindaree Beef Australia, *Submission 155*, p. 2.