Chapter 4

Grading

4.1 As noted in Chapter 1, the issues of meat marketing, labelling and grading have been investigated by the committee over a number of past inquiries.

4.2 During its inquiry into Meat Marketing,[1] for example, the committee examined, amongst other things:

- the lack of beef grading for quality in Australia and the options for providing better information to consumers;
- concerns about the 'budget' beef labelling agreement misleading consumers as to the nature of what they are purchasing; and
- perceived problems with the use of breed claims in marketing.[2]

4.3 The committee's inquiry into meat marketing was largely focused on labelling and the provision of information to the consumer. However, as part of its inquiry, the committee examined both the AUS-MEAT System and the role of Meat Standards Australia (MSA).

The AUS-MEAT system

4.4 AUS-MEAT Ltd is an industry owned body which operates as a joint venture under the control of a Board of Directors appointed by MLA and AMPC. AUS-MEAT Ltd is the body responsible for the development of uniform specifications for beef through the use of AUS-MEAT Language (the Language). The Language classifies a number of carcase traits at various stages of processing. These include descriptions of dentition (age), sex, weight and fat measurement at the slaughter floor; marbling, meat colour, fat colour and rib fat at the chiller stage; and cut description, cut lines and fat depth in the boning room.[3]

4.5 The AUS-MEAT Language has been adopted across the Australian meat industry, and in addition to providing customers with an accurate way of describing and ordering meat products, AUS-MEAT's objective descriptions are available for use by producers, abattoirs, boning rooms, wholesalers and food service organisations.[4]

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1 The committee's inquiry into Meat Marketing commenced in 2008. The Committee tabled an interim report in September 2008 and a final report in June 2009.

2 Senate Rural and Regional Affairs and Transport References Committee, *Report into Meat Marketing*, June 2009, p. 2.

3 AUS-MEAT Ltd, *Submission 27*, Submission to Senate Rural and Regional Affairs and Transport References Committee, *Report into Meat Marketing*, June 2009, p. 9.

4 Industry Standards - Meat, accessed at https://www.ausmeat.com.au/industry-standards/meat.aspx, 21 February 2017.

Beef/Veal Chiller Assessment Language

4.6 Chiller Assessment Language was developed to enable AUS-MEAT accredited enterprises to assess, grade or class beef and veal carcases using a uniform set of standards under controlled conditions. The scheme provides a means of describing meat characteristics and classifying product prior to packaging. These characteristics include the colour of meat and fat, the amount of marbling, eye muscle area, the fat depth and the maturity of the carcase. Assessments are made by qualified assessors and results are allocated to the carcase and provide a means of (carcase) selection according to individual contract specifications, grading schemes and or company brand requirements. The AUS-MEAT Chiller Assessment Language is only available to AUS-MEAT accredited enterprises, their clients and suppliers.[5]

The Australian Meat Industry Language and Standards Committee (AMILSC)

4.7 The AMILSC is made up of industry representatives and provides advice to the AUS-MEAT Ltd Board on matters relating to the AUS-MEAT National Accreditation Standards. The Committee is made up of representatives from:

- Australian Meat Industry Council;
- Cattle Council of Australia;
- Australian Lot Feeders Association;
- the Sheepmeat Council of Australia;
- Australian Supermarkets/Independent Retailers;
- Australian Pork Limited; and
- the Department of Agriculture and Water Resources.[6]

4.8 As noted in the committee's May 2016 interim report, all beef is graded according to a range of Australian and international standards.[7] These standards are set out in the *Handbook of Australian Meat* which is published by AUS-MEAT Limited. Under these standards, beef is graded according to a number of quality-related traits including the cut, age, sex and fat depth. The standards also specify:

- labelling requirements;
- country of origin;
- date processed;
- weight; and

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5 Industry Standards - Meat, accessed at https://www.ausmeat.com.au/industry-standards/meat.aspx, 21 February 2017.

6 The Australian Meat Industry Language and Standards Committee (AMILSC), accessed at https://www.ausmeat.com.au/about-us/industry-committee.aspx, 21 February 2017.

7 Senate Rural and Regional Affairs and Transport References Committee, *Effect of market consolidation on the red meat processing sector: Interim Report*, May 2016, p. 67.

- the company the product was packed by.[8]

Meat Standards Australia

MSA standards

4.9 Of the two beef grading systems – MSA and AUS-MEAT Language – MSA is currently used only in the domestic market. MSA sets standards regarding:

- fat depth;
- fat colour;
- marbling; and
- other indicators which relate to eating quality.

4.10 During the inquiry, concerns were raised about the separate company specifications that overlay the MSA standards. Producers told the committee that even though they may meet the MSA standards, they might not meet additional company standards (relating to things such as dentition and P8 fat). Some producers suggested that when "they do not meet the company standards, they do not get paid for the MSA – even if they have met the MSA standards".[9]

4.11 The committee heard numerous other comments in relation to the grading system, including:

- MSA grading is hopelessly inconsistent;[10]
- MSA requires immediate and continual development, as producers are currently receiving discounts based on company specifications that have no relevance to consumer requirements;[11]
- supplier confidence in industry developed grading systems is at an all-time low;[12]
- it is time [grading systems] were made more objective, transparent and verifiable given their importance in determining producer returns;[13]
- because measurement is subjective, disputing a grading is made very difficult – this provides scope for the interpretation of an individual classifier;[14] and

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8 Mr Ashley Sweeting, *Submission 1*, p. 7.

9 Mr Gary Warren, *Committee Hansard,* 4 August 2015 and Mr David Hill, *Submission 86,* [p. 6].

10 Australian Beef Association, *Submission 23,* p. 15.

11 Cattle Council of Australia, *Submission 83.*

12 Teys Australia, *Submission 55,* p. 16.

13 Teys Australia, *Submission 55,* p. 16.

14 Mrs Maureen Cottam, *Submission 25*, p. 2.

- processing companies provide their own graders of carcases – these people are effectively company employees, which means that MSA grading can amount to a task effectively performed by abattoir owners who have a vested interest in downgrading carcases.[15]

MSA carcase feedback

4.12 The difficulties associated with receiving feedback on meat grading and the reasons for particular determinations was another issue raised – particularly by producers – throughout the inquiry. The committee was told that:

- changes to the colour of meat occur naturally over time – the timeframe for these changes (and other variables that have an impact on grading) are not within the control of the producer;[16]
- producers do not have access to the very information that determines the price they receive for their cattle – and the lack of adequate feedback from processors means that producers of MSA beef are hampered in their efforts to deliver a high quality product;[17]
- processors do not articulate why cattle did not meet the company standard and frequently report only that the product "does not meet company standards";[18] and
- the MSA carcase feedback sheet does not include the MSA grader's registered number – which reflects a lack of transparency.[19]

AUS-MEAT's independence

4.13 As noted above, as a joint venture between MLA and the AMPC, AUS-MEAT is responsible for the development and meat of meat language. It is mandatory for all AUS-MEAT accredited abattoirs to pay on Hot Standard Carcase Weight (HSCW) and AUS-MEAT standard carcase trim and they must also provide carcase feedback.[20]

4.14 A number of submitters to the inquiry have questioned the independence of AUS-MEAT. Many producers argued that as an organisation, AUSMEAT is heavily influenced (or dominated) by processors.[21] Questions were also raised about the relationship between processors, meat retailers, the AUS-MEAT carcase assessment

15 Mr Neil Paulet, *Submission 42*.

16 Mrs Maureen Cottam, *Submission 25*, p. 2.

17 Mrs Maureen Cottam, *Submission 25*, p. 2.

18 Mr Gary Warren, *Committee Hansard*, 4 August 2015, p. 9.

19 Mrs Maureen Cottam, *Submission 25*, p. 2.

20 https://www.ausmeat.com.au/, accessed 5 March 2017.

21 Mr Ian McCamley, *Committee Hansard*, 4 August 2015, p. 18.

process and its internal auditing program.[22] It was also argued by some industry stakeholders that processors are able to exert undue influence over MLA.[23]

ACCC's *Cattle and beef market study*

4.15 Following its investigation of the cattle and beef supply chain, the ACCC indicated that it too had concerns about various aspects of the grading system. [24]

4.16 The adoption of technology (which would allow OCM to be introduced as a matter of priority) was one of a series of recommendations made by the ACCC in relation to grading technology. In addition to recommending that the technology be introduced quickly, it was argued that the processing sector should take the lead in its introduction. The ACCC also recommended that:

- the new technology be underpinned by a robust transparency and integrity regime;
- processors should develop and implement an independent dispute resolution process, (with AUS-MEAT taking on the role of an independent and binding arbiter);
- the industry implement a more robust auditing system for carcase grading;
- AUS-MEAT implement random and unannounced audits (in addition to the current audit regime); and
- buyers, agents and producer representatives (led by the CCA) should increase the level of communication and education regarding the current grading and feedback systems to assist producers to better understand cattle market trends (and the reasons why particular cattle attract a premium price).[25]

4.17 The ACCC's Recommendations – 6 to 9 – which relate to OTH transactions and grading, are detailed in Chapter 2.

Objective carcase measurement (OCM)

4.18 Prior to the tabling of the ACCC's interim report in October 2016, MLA had announced the establishment of a project to develop new technology which would allow for the objective measurement of both sheep and beef carcases. The following provides an overview of events which have taken place over the past year in relation to the development of new measurement technology.

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22 Livestock SA, *Submission 81*, p. 1.

23 Australian Beef Association, *Submission 23*, p. 13 and Mrs Linda Hewitt, Australian Beef Association, *Committee Hansard*, 27 August 2015, p. 67.

24 Beef Central article, *MLA to drive $150 million rollout of objective carcase measurement in 90 abattoirs*, 10 November 2016.

25 Australian Competition and Consumer Commission, *Cattle and beef market study – Interim Report*, October 2016, p. 12.

Chronology of events

April 2016

4.19 In April 2016 an announcement was made regarding the commencement of a joint project. The project, to be led by MLA, was designed to accelerate the development of new technology, including x-ray and 3D digital imaging.[26] MLA indicated that it had received a $4.8 million grant from the Australian Government "to develop advanced measurement technology that will transform the meat industry".[27] MLA also indicated that it had been funded through the *Rural Research and Development for Profit Program*. Under the funding agreement, three measurement technologies would be developed for use on farm and within the processing sector to "objectively determine carcase composition and accurately determine eating quality".[28] It was argued that for processors, the technology would assess lean meat yield, allow for precise valuing of carcases, and assist in making market-based cutting and deboning decisions.

10 November 2016

MLA announcement

4.20 On 10 November 2016, MLA announced at its Annual General Meeting in Hahndorf what it described as a 'revolutionary plan' to install OCM technology across the Australian meat industry. [29] As a first step, MLA would create a platform to install Stage One of the new OCM technology into all AUS-MEAT registered slaughter facilities in Australia.

4.21 In making the announcement, MLA Managing Director, Mr Richard Norton noted that the ACCC's interim report supported the CCA's "focus on how the competitiveness of Australian beef and cattle markets could be improved by the adoption of OCM".

4.22 According to the MLA, the gains to be made from the technology revolved around the scientific measurement of saleable meat yield, industry-wide productivity gains through processing automation, genetic improvement and data-based on-farm decision making. It was suggested that the technology would:

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26 Collaborating with MLA on the project were Australian Pork Limited; Scott Technology Ltd; Murdoch University; University of Technology Sydney; Department of Agriculture and Food, Western Australia; Victorian Department of Economic Development, Jobs, Transport and Resources; NSW Department of Primary Industries; South Australian Research and Development Institute; JBS Australia; Australian Cattle and Beef Holdings; Australian Country Choice Pty Ltd; Teys Australia Management Pty Ltd; Harvey Beef, Carometic; PorkScan Private and the University of Melbourne.

27 MLA Media Release, *New technology investment to "transform" meat industry*, 14 April 2016.

28 MLA Media Release, *New technology investment to "transform" meat industry*, 14 April 2016.

29 The following section is based on information contained in an MLA Media Release, *MLA to install objective measurement across industry*, 10 November 2016.

- assist the Australian red meat industry to continue to be able to compete in global markets;
- drive a shift from the current subjective grading of lamb and beef to a new system of livestock production and marketing where producers can be transparently rewarded against objective data and value measurements;
- reduce wastage and workforce injuries within processing plants and boost productivity through the use of accurate, objective measurement and automation;
- ensure that data generated from OCM is accessible and easy for producers to use;
- further enhance the integrity of the grading system and form the basis of MLA's 'digital strategy'; and
- in the longer term, reduce the cost of grading to the industry.

4.23 At the time of the 10 November 2016 announcement, MLA also stated that:

- the small-stock DEXA technology (for sheep) was ready for commercial deployment;
- the research and development for beef technology was nearing completion (and should be ready for commercial installation trials early in 2017); and
- under the plan, AUS-MEAT would be the whole-of-chain regulator and would calibrate the system, conduct the audits and provide a complaints resolution process.[30]

4.24 In describing how the new technology would be financed, Mr Richard Norton explained that MLA would "acquire a commercial loan on behalf of industry to finance the $150 million one off cost of installing DEXA technology in up to 90 AUS-MEAT registered slaughter facilities".[31]

4.25 It was noted that MLA had received in-principal support from the Minister for Agriculture and Water Resources for the introduction of OCM technology across industry. MLA also indicated that it would continue to consult the industry's peak councils about how best to structure the one-off cost of its introduction.

Beef Central article

4.26 An article published in *Beef Central* on the same day[32] suggested that it would actually be up to each abattoir to decide whether it wanted to install and use the technology. It was noted that some of the larger processors were already down the

30 MLA Media Release, *MLA to install objective measurement across industry*, 10 November 2016.

31 MLA Media Release, *MLA to install objective measurement across industry*, 10 November 2016.

32 The following section is based on information contained in a *Beef Central* article, *MLA to drive $150 million rollout of objective carcase measurement in 90 abattoirs*, 10 November 2016.

path of OCM technology for their own commercial purposes, and it remained to be seen whether the particular technology being proposed by MLA would fit their objectives (or indeed be welcomed by them).

4.27 It was noted that both the CCA and the SCA had been consulted by MLA, and both organisations had indicated their support for the proposed project.

14 November 2016

4.28 On 14 November 2016, the CCA announced that it welcomed MLA's commitment to OCM technology. The CCA described MLA's intention to install DEXA technology in AUS-MEAT registered slaughter facilities across Australia as another positive step towards OCM for the beef industry.

4.29 The CCA also argued that ongoing collaboration would only be successful "if the costs associated with reducing risk and increasing reward are equitably shared, as well as any benefits".[33]

8 December 2016

4.30 MLA announced that a consultation workshop would take place in Brisbane on Monday, 12 December 2016.[34] The workshop would provide an opportunity for industry members to learn more about MLA's work with industry, research institutes and technology providers in developing the application of DEXA as an OCM tool. The workshop included the following panel of speakers:

- Mr Richard Norton, MLA Managing Director;
- Mr Sean Starling, MLA's General Manager, Research Development and Innovation;
- Professor David Pethick, Murdoch University;
- Dr John Langbridge, Manager Industry and Corporate Affairs, Teys Australia; and
- Mr David Hill, CCA, board member and producer.

4.31 In announcing the Brisbane workshop, MLA acknowledged that DEXA technology had been used in other sectors (including the medical sector) for many years. It emphasised that the small-stock DEXA technology was ready for commercial deployment, and that the research and development for beef technology was nearing completion.

31 January 2017

4.32 On 31 January 2017 it was reported in *Queensland Country Life* that the processing company Australian Country Choice (ACC) was examining the DEXA technology in its Cannon Hill processing plant. General Manager, Mr David Foote,

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33 Cattle Council of Australia Media Release, *Another step towards objective carcase measurement*, 14 November 2016.

34 The following section is based on information contained in an MLA Media Release, *Red meat industry to discuss DEXA technology rollout*, 8 December 2016.

indicated that the company has a major red meat supply agreement with Coles supermarkets and has been looking very closely at ways in which the DEXA technology could improve processing operations.[35]

22 February 2017

4.33 *Queensland Country life* reported that both AMIC and AMPC had rejected the idea of an industry-wide roll-out of the DEXA technology. [36] The article quoted a 20 December 2016 letter – widely circulated among peak industry bodies – in which AMIC Chairman, Lachie Hart, stated that:

- the processing sector was not able to support the P150 project (DEXA) in its current form;
- there were many conceptual, methodological and policy-related deficiencies in the proposal (the least of which was that there was no evidence of systemic deficiencies in the grading and reporting system);
- the fact that producers have complaints about feedback does not mean that those complaints are justified and supported by evidence;
- the adoption of OCM technology is one way of addressing specific issues, but this is subject to the technical and commercial viability of the technology in practical processing conditions; and
- the MLA proposal appears to view OCM as a means of transforming the entire supply chain which is entirely disproportionate to the nature and dimension of the issues to be addressed.

4.34 The February article also reported that:

- processing companies – including JBS and Teys Australia – would be forced to 'go it alone';
- JBS had already 'proven' the technology for sheep carcase processing and is currently trialling the technology with beef carcases;
- Teys was involved in the MLA trial work and had announced (in February 2017) that it would introduce the technology into its Rockhampton plant; and
- Coles supplier, ACC has indicated its intention to introduce the new technology.

4.35 The article pointed to the fact that despite AMIC 'claiming to be' representative of the processing sector, neither JBS nor Teys are members of the organisation – although they are required to pay levies to AMPC.

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35 Queensland Country Life article, *ACC is looking at the adoption of DEXA technology at Cannon Hill processing plant*, 31 January 2017.

36 The following section is based on information contained in a Queensland Country Life article, *DEXA: Objective carcase technology roll-out at risk*, 22 February 2017.

4.36 It was noted that producers are currently being asked to consider bankrolling the $150 million cost of rolling out DEXA in all Australian processing plants from industry funds. Interestingly the article also submitted that, in return for their investment, producers would 'own' the data gathered by the OCM.

4.37 However, it was also suggested that there are other models under consideration for funding the roll-out. These included a shared funding arrangement with processors – using AMPC levy reserves – as well as possible federal government funding.

23 February 2017

4.38 An article published in *Beef Central* reported that processors had rejected MLA's proposal because they were not convinced that an industry-wide investment was justified. It was also noted that the processors were not necessarily opposed to OCM as such, but were simply objecting to it in its current form.

4.39 MLA's prior statements regarding OCM technology for beef being close to 'operations ready' were questioned, with some large processors claiming that a "commercially viable system for beef is still years away".[37] Further, it was noted that one of Australia's largest processors was continuing to trial and 'prove-up' OCM technology in its plants, but had reported that there was "still a long way to go"[38] due to the complexity in the beef carcase.

24 February 2017

Ernst and Young Review

4.40 The following day – 24 February 2017 – it was reported that AMPC and AMIC had jointly commissioned Ernst and Young (EY) to undertake an independent review of MLA's plan to introduce OCM. It was noted that the review team would be headed by Mr Andrew Metcalfe, former Secretary of the Department of Agriculture and Water Resources.[39]

4.41 In announcing the review, AMPC Chairman, Mr Peter Noble, was reported as saying that:

> Without adequate consultation, cost-benefit analysis or due diligence there can be no level of comfort in investing substantial industry funds in DEXA technology which is yet to be sufficiently proven. [40]

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37 Beef Central article, *Processors reject MLA's objective carcase measurement proposal – in its current form*, 23 February 2017.

38 Beef Central article, *Processors reject MLA's objective carcase measurement proposal – in its current form*, 23 February 2017.

39 Beef Central article, *Processor bodies commission independent study into carcase measurement technology*, 24 February 2017.

40 Beef Central article, *Processor bodies commission independent study into carcase measurement technology*, 24 February 2017.

4.42 EY was requested to provide an independent assessment of whether MLA's proposal to install DEXA units in AUS-MEAT registered processing facilities (Project 150) is a "prudent operational and commercial decision for the industry at this time". The review also requested EY to evaluate the "strategic, financial, technical, commercial, operational, governance and implementation aspects of what has been proposed".[41]

4.43 Further, it was noted that AMPC had already invested (and committed to invest) $6.6 million of processor levy funds in jointly-funded projects related to carcase measurement technologies. AMIC Chairman, Mr Lachie Hart, was also reported as saying that:

> …capital investment of the scale proposed in Project 150, that is without appropriate governance, consultation and feasibility assessments could encumber an industry already facing unprecedented cost pressures related to regulation, utilities, livestock and labour. [42]

4.44 It was reported that processors would be looking to the independent trials undertaken by Teys at its Rockhampton plant which, it was suggested, would better inform the industry as to the merits of the technology and provide the necessary confidence on which to base investment decisions.

AMIC and AMPC in 'damage control'

4.45 In announcing the appointment of EY to evaluate the feasibility of DEXA, *The Land* suggested that AMIC and AMPC were in 'damage control' after having been placed under the spotlight by the leaking of Mr Hart's 20 December 2016 letter.

4.46 It was also suggested that the AMIC Chairman's refusal to support the MLA roll-out in its current form and the EY review were 'delaying tactics' which were:

> …set against a backdrop of both AMPC and AMIC agreeing to the introduction of OCM by 2020 – as stated in the Meat Industry Strategic Plan.[43]

MLA response

4.47 On 24 February 2017, MLA responded to AMIC and AMPC in an article in *ABC Rural* by saying that transparency is the number one issue for producers. Mr Norton indicated that he had met with "14,000 key levy payers in the past two years who want objective carcase measurements installed in the meatworks".[44]

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41 Ernst and Young, *Independent Review of the proposed installation of DEXA in AUSMEAT registered processing facilities, Issues Paper #2,* p. 4.

42 Beef Central article, *Processor bodies commission independent study into carcase measurement technology*, 24 February 2017.

43 The Land article, *Processor bodies put slow chop on DEXA*, 24 February 2017.

44 ABC Rural, *Meat processors say rollout of objective carcase measurement technology not prudent until commercially tested,* 24 February 2017.

4.48 In response to concerns that a feasibility study had not been conducted, Mr Norton stated that the Meat Industry Strategic Plan (MISP) released two years previously contained economic modelling around the feasibility of OCM and what industry needed to do to reduce some of the high costs of processing. Mr Norton went on to say that the "whole of industry has to decide whether or not they want MLA to take out the commercial loan".[45]

27 February 2017

4.49 CCA announced that it was backing MLA's plan to install "the ground breaking objective carcase measurement system DEXA on a voluntary basis in Australian meatworks".[46]

4.50 Councillor David Hill said the CCA would continue to work with MLA, other peak councils and industry stakeholders on how best to structure the $150 million one-off cost of the roll-out. Mr Hill also indicated that while the MLA model centres on producers funding the roll-out of DEXA, the method of funding is yet to be determined.

8 March 2017

4.51 An article published in the *Weekly Times* reported that in announcing its plan to roll-out OCM technology in 90 AUS-MEAT accredited processing plants, it was MLA's intention to use levy funds to raise the $150 million needed to fund the project. It was also noted that while the project would not go ahead without the full support of industry, Mr Norton argued that it is MLA's preference for a whole of industry roll-out rather than processors installing OCM technology on an individual basis. Mr Norton continued:

> MLA's proposal was for data from DEXA (dual energy xray absorbtiometry) units to be amalgamated and collated for the whole industry to use, while if processors pay for it they can share whatever data they want with the producer and not the whole supply chain.
>
> If we funded it, we could have uniform DEXA in every processing unit that wanted one – it isn't mandatory – and then could collect all the data to come out of those DEXA units. [47]

4.52 Mr Norton further argued that processors controlling the implementation of OCM could also lead to further concentration within the sector, and suggested that if the industry decides not to go ahead with a whole of industry funding model, there are enough processors now investing in these units "that they will have a huge range of data to gain a competitive advantage".[48]

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45 ABC Rural article, *Meat processors say rollout of objective carcase measurement technology not prudent until commercially tested*, 24 February 2017.

46 Queensland Country Life, *Cattle Council backs voluntary DEXA roll-out*, 27 February 2017.

47 The Weekly Times, *Objective carcass measurement: A matter of how*, 8 March 2017, p. 1.

48 The Weekly Times, *Objective carcass measurement: A matter of how*, 8 March 2017, p. 1.

4.53 Mr Mark Inglis, JBS' Farm Assurance supply chain manager, argued that OCM technology was the "biggest issue holding the lamb industry back".[49] Further, Mr Inglis stated that:

> …while the DEXA technology in their Bordertown, South Australia, plant was primarily to run an automated cutting robot, it had the side benefit of providing more accurate prediction of lean meat yield: up to 88 per cent accuracy compared to the less than 20 per cent accuracy offered by fat palpitation.[50]

4.54 It was noted that there appears to be a lack of clarity regarding whether OCM technology is ready for use. The Executive Officer of the ABA, Mr David Byard, for example stated that he had been assured that the OCM technology was not ready to be commercialised. At the same time, questions remain regarding machinery and intellectual property ownership in relation to MLA's proposal. Mr Byard argued that:

> …common sense suggests a demonstration model would be a good starting point to show the capabilities of the equipment".[51]

24 March 2017

4.55 EY published its first issues paper on 24 March 2017. The one-page paper provided a brief overview of the independent review EY had been requested to undertake into the proposed $150m installation of DEXA technology across AUS-MEAT registered processing plants – a project referred to as *Project 150*. EY's introduction to the review stated that:

> *Project 150's* stated aim is to provide accurate and objective carcase grading through the use of objective carcase measurement (OCM) technology. On 10 November 2016, the announcement to install objective measurement across the industry, indicated that 'the initiative paves the way for scientific measurement of saleable meat yield, future value based marketing and industry-wide productivity gains through processing automation, genetic improvement and data-based on-farm decision making'. The DEXA independent review will be examining these claims.[52]

28 March 2017

4.56 An article published in *Beef Central* included a statement from MLA's Mr Richard Norton. In the statement, Mr Norton announced the findings of a year-long examination of the value of adopting advances in objective measurement and systems across the red meat industry. The inquiry, which was jointly commissioned by MLA and AMPC, had been undertaken by Greenleaf, Miracle Dog Consulting and S. Williams Consulting.

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49 The Weekly Times, *Objective carcass measurement: A matter of how,* 8 March 2017, p. 2.

50 The Weekly Times, *Objective carcass measurement: A matter of how*, 8 March 2017, p. 2.

51 The Weekly Times, *Objective carcass measurement: A matter of how,* 8 March 2017, p. 2.

52 Ernst and Young, *DEXA Independent Review: Issues Paper #1*, 24 March 2017, [p. 1].

4.57 Mr Norton noted that the 'Greenleaf Report' had identified a $420 million potential annual benefit to the industry from the full adoption of objective measurement technology. The inquiry also found, however, that unless the roll-out of the technology was fast-tracked, "only $72 million per annum of benefit is likely to be realised by 2020 on current rates of adoption".[53]

4.58 Mr Norton also suggested that the report's findings had prompted MLA to work hard (with industry) to find solutions; and were also behind its proposal to fast track the adoption of DEXA technology as an objective measure of lean meat yield in meat processing plants.

4.59 The *Beef Central* article also included a statement from AMPC regarding the release of the first Independent Issues Paper on DEXA technology. Mr Noble told *Beef Central* that AMPC and AMIC had commissioned the EY review because they have a responsibility to their membership; to ensure that investments made on their behalf are thoroughly evaluated and that they deliver commercial benefits to the entire industry.

3 May 2017

4.60 EY released a report titled *Independent Review of the proposed installation of DEXA in AUS-MEAT* registered processing facilities: Issues Paper #2 (Issues Paper 2).

4.61 The purpose of Issues Paper 2 was to invite further input from industry stakeholders regarding MLA's Project 150 proposal. As such, the paper provided a broad overview of Australia's red meat industry, examined various aspects of the MLA proposal and outlined the key issues being considered by EY, including:

- whether the proposed application of DEXA meets the needs of industry;
- whether consideration should be given to alternative OCM technologies;
- the costs associated with the implementation and operation of DEXA (as proposed by MLA);
- the commercial, contractual and financial considerations of the proposal – including intellectual property rights, data ownership etc;
- the identification of an 'industry standard' use of DEXA;
- the facilitation of data access for the industry;
- the benefits to be gained by the collection, storage and analysis of DEXA data;
- the benefits to processors of the proposed technology;
- the key implementation and operational considerations in relation to both small and large processing plants; and

53 Beef Central article, *MLA report says fast-tracking OCM worth $420m, AMPC says more study needed*, 28 March 2017, [p. 2].

- the suitability of rolling out DEXA technology (following consideration of the options and the associated risks).[54]

22 May 2017

4.62 MLA announced that it would proceed with its plan to install OCM systems across the red meat processing sector, despite the review commissioned by AMPC and AMIC.

4.63 MLA stated that it would be investing up to $10 million to co-fund the installation of DEXA systems in sheep meat and beef meat processing plants following "multiple requests to accelerate the adoption of the technology".[55]

4.64 Under the $10 million co-funding project, MLA would be working with "willing partners to develop a single scientific measurement of lean meat yield".[56] MLA also signalled that the project would assist in the development of systems to collect and use information across supply chains for future research and development.

4.65 Mr Norton, noted that MLA was continuing to work with the PICs regarding its proposal to install stage one of the DEXA technology into all of the AUS-MEAT registered facilities who wanted it. Mr Norton also indicated that:

> This $10 million project that we've announced today is funded through the MDC [MLA Donor Company] and simply allows MLA and those companies who want to get on with implementing DEXA to do so.[57]

4.66 Mr Norton went on to say that:

> If the industry's peak councils and processors do decide to accelerate the adoption of objective carcase measurement across the industry through an investment of producer levies, we can do so.[58]

Ernst and Young Review – final report

4.67 EY's *Independent Review of the proposed installation of DEXA in AUS-MEAT registered processing facilities* was officially released on 9 June 2017.

4.68 EY explained that it had approached the review in a consultative and collaborative way. In addition to conducting its own research and analysis, it had

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54 Ernst and Young, *Independent Review of the proposed installation of DEXA in AUS-MEAT registered processing facilities, Issues Paper #2,* 3 May 2017, pp 6-7.

55 Sheep Central article, *MLA pursues DEXA roll-out with $10 million red meat processor project*, 22 May 2017, [p. 1].

56 Sheep Central article, *MLA pursues DEXA roll-out with $10 million red meat processor project*, 22 May 2017, [p. 1].

57 Sheep Central article, *MLA pursues DEXA roll-out with $10 million red meat processor project*, 22 May 2017, [p. 2].

58 Sheep Central article, *MLA pursues DEXA roll-out with $10 million red meat processor project*, 22 May 2017, [p. 2].

sought the views of various stakeholder groups, through interviews, surveys and seeking feedback to two issues papers.[59]

4.69 The EY review found that OCM technology had been used successfully in relation to sheep and lamb processing and is currently being used to support automated beef processing by a major processor.

4.70 EY reported that the consultations undertaken as part of the inquiry revealed that there is general acceptance across the industry about the need for OCM. There was also a common view across stakeholders that the introduction of OCM could have the potential, over time, to restore some trust in commercial relationships and may lead to increased productivity across the value chain. At the same time, however, it was acknowledged that some questions about the technology had yet to be answered and that there is currently no industry consensus on these issues.[60]

4.71 The review also acknowledged stakeholder concerns around whether the widespread installation of high cost capital equipment – owned by a Research Development Corporation (RDC) – at the post slaughter stage of processing plans, is an activity that should be undertaken by RDC's. It was argued that there are still some important questions to be answered regarding data collection, ownership and use of equipment and technology, and intellectual property rights. Some stakeholders also questioned whether the uptake of this type of technology should only be at the request of processors.[61]

4.72 The EY report concluded that DEXA technology has strong promise, and there may be a number of significant benefits to the collection and use of data derived from OCM technology. It was also argued, however that it is still unclear whether these benefits can be achieved on an industry-wide basis, with more proof needed to convince producers and processors that the technology could work for the entire red meat sector.

4.73 The report concluded that all the potential impacts on producers, processors and other industry stakeholders are yet to be identified and will need to be considered further. The review also found that:

> …a significant amount of industry wide change management activity and stakeholder engagement is necessary: so that all stakeholders are clear on the potential impacts of the Proposal, not only for the broader industry, but for their specific businesses as well.[62]

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59 Ernst and Young, *Independent Review of the proposed installation of DEXA in AUS-MEAT registered processing facilities, Final Report,* 9 June 2017, p. 11.

60 Ernst and Young, *Independent Review of the proposed installation of DEXA in AUS-MEAT registered processing facilities, Final Report,* 9 June 2017, p. 15.

61 Ernst and Young, *Independent Review of the proposed installation of DEXA in AUS-MEAT registered processing facilities, Final Report,* 9 June 2017, p. 15.

62 Ernst and Young, *Independent Review of the proposed installation of DEXA in AUS-MEAT registered processing facilities, Final Report,* 9 June 2017, pp. 15-16.

4.74 In terms of taking the issue forward, the review argued that the "potential technological and data-driven advancements represent too important and transformative an opportunity to be missed".[63] It was also argued, however, that the "necessary level of shared purpose and collaboration for such transformational change"[64] does not as yet exist, and that:

> …this area is one which requires overall industry participation and alignment. It impacts on both pre-competitive and competitive areas of the many processor and producer businesses involved. Being a "shared space" it thus needs to involve both key Research and Development Corporations and all industry representative bodies.[65]

4.75 The report suggested that the ALMTech[66] program, which involves all RDC players, and/or the governance arrangements suggested by the OM Strategy Report[67], would appear to be the structures best placed to support these reforms.

EY recommendations

4.76 The EY report made the following recommendations:

1. The industry should advance OCM initiatives: (including the technologies to be researched and trialled, and potentially to be voluntarily deployed by processing companies according to their business model when commercially proven) in an open, consultative and collaborative manner and driven by a clear common purpose.
2. As these issues directly relate to the research and development activities of both the processing and production sectors, AMPC and MLA need to work together to achieve alignment, as they both have key roles in taking these initiatives forward.
3. One way to achieve recommendations (1) and (2) would be for industry governance arrangements relating to technological developments to be revitalized.

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63 Ernst and Young, *Independent Review of the proposed installation of DEXA in AUS-MEAT registered processing facilities, Final Report*, 9 June 2017, p. 16.

64 Ernst and Young, *Independent Review of the proposed installation of DEXA in AUS-MEAT registered processing facilities, Final Report*, 9 June 2017, p. 16.

65 Ernst and Young, *Independent Review of the proposed installation of DEXA in AUS-MEAT registered processing facilities, Final Report*, 9 June 2017, p. 16.

66 ALMTech – refers to the 'Advanced measurement technologies for globally competitive Australian meat' (ALMTech) project, which was established in 2016 under the Commonwealth Government's Rural Research and Development for Profit program. The project focuses on supporting beef, sheep and pig farmers to have access to more accurate descriptions of the key attributes that influence the value of their livestock including: carcase lean meat yield, eating quality and compliance to market specifications.

67 The OM Strategy Report refers to: MLA/AMPC commissioned report prepared by Greenleaf, Miracle Dog Consulting and S. Williams Consulting: MLA, *Development of supply chain objective measurement (OM) strategy & value proposition to stakeholders*, March 2017.

4. To provide the necessary levels of transparency, there should be a series of conferences or open workshops to allow industry participants to be briefed by experts on progress with OCM to date; enabling a clear and agreed roadmap for the future to be established.

5. ALMTech should consider updating its work plan, timetable and key performance indicators.

6. AMPC and MLA, either through the ALMTech structure or in some other way, should work with AMIC and individual processing companies to explore how the potential benefits of an industry wide database of key objective measures could be achieved; and to consider its implications, including the impact on the intellectual property and commercial operations of individual processing companies.

4.77 In releasing the report, EY's Independent Review Leader, Mr Andrew Metcalfe, noted that EY had adopted a consultative and evidence-based approach to conducting its review and formulating its recommendations. Further, Mr Metcalfe argued that:

> We have engaged extensively with major industry bodies, independent experts, and directly with a number of large and small producers and processors. We strongly recommend that these initiatives are taken forward as consultatively and collaboratively as possible, given the significant transformational change that is being considered by the proposal.[68]

Response to EY report

4.78 Representatives of both AMPC and AMIC welcomed the findings and the recommendations contained in the EY report. AMPC Chairman, Mr Peter Noble, restated that the purpose of the review was to provide a fact-based assessment MLA's proposed roll-out of DEXA technology, and indicated that AMPC:

> …stands ready with industry to provide the research, development and education in support of their voice and to answer the many questions raised by the review.[69]

4.79 AMIC Chairman, Mr Hart reiterated AMIC's continued support for the use of technology for OCM and noted that that AMIC's views had been "specifically endorsed through Strategic Recommendation 1 of the report".[70] Mr Hart also stated that AMIC:

> …plans to form a specialised OCM/DEXA committee from within its beef and sheep/goat policy groups to manage progression of the technology

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68 Beef Central article, *Important questions remain over DEXA adoption, report finds*, 12 June 2017, [p. 3].

69 Beef Central article, *Important questions remain over DEXA adoption, report finds*, 12 June 2017, [p. 3].

70 Beef Central article, *Important questions remain over DEXA adoption, report finds*, 12 June 2017, [p. 3].

within industry and provide direction to AMIC executive on responses, positions and partnerships regarding OCM/DEXA.[71]

4.80 In responding to the release of the EY report, the CCA called for MLA and AMPC to jointly invest in, and accelerate, the roll-out of DEXA technology.[72]

4.81 The CCA President, Mr Howard Smith, argued that the EY report reflected the findings of the Greenleaf Report; which found that the potential benefits of the technology relating to measuring lean meat yield were shared between producers and processors.[73]

4.82 Mr Smith also highlighted that OCM technology had been recommended by the ACCC, the Meat Industry Strategic Plan (2020) and MLA's Strategic Plan (2016-2020). He stressed the need to fast track the roll-out of the technology "in order to realise the full financial benefits for the industry"[74], and argued that the adoption of DEXA technology would provide a number of market advantages and would "change the way we do business for the better".[75]

4.83 In mid-June 2017, MLA formally sought agreement from AMPC to jointly fund an accelerated roll-out of DEXA OCM technology. MLA proposed that the $150 million cost of installing DEXA units (in up to 90 AUS-MEAT accredited facilities) should be split between the processing and production sectors. MLA argued that its proposal reflected "the shared benefit that the new system for accurately measuring lean meat yield will provide".[76]

4.84 On 27 July 2017, *Beef Central* reported that the AMPC board had given its unanimous support to MLA's request for processor levies to jointly fund an accelerated $150 million of DEXA technology. MLA's joint funding proposal included:

- 50 percent from the MLA Donor Company (which comprises matching Government R&D funding);
- 25 percent private funding from each processor who installs a DEXA unit under the voluntary roll-out;
- 12.5 percent producer levy funding; and

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71 Beef Central article, *Important questions remain over DEXA adoption, report finds*, 12 June 2017, [p. 4].

72 Beef Central article, *MLA seeks formal agreement with AMPC to jointly fund DEXA roll-out*, 14 June 2017, [p. 3].

73 Beef Central article, *MLA seeks formal agreement with AMPC to jointly fund DEXA roll-out*, 14 June 2017, [p. 3].

74 Beef Central article, *MLA seeks formal agreement with AMPC to jointly fund DEXA roll-out*, 14 June 2017, [p. 3].

75 Beef Central article, *MLA seeks formal agreement with AMPC to jointly fund DEXA roll-out*, 14 June 2017, [p. 3].

76 Beef Central article, *MLA seeks formal agreement with AMPC to jointly fund DEXA roll-out*, 14 June 2017, [p. 3].

- 12.5 percent processor levy funding.[77]

4.85 The AMPC board did, however, qualify its support for the proposal by suggesting that the "number of plants willing to 'opt-in' and the corresponding funding in question were still very fluid and, as such, the AMPC Board decided that greater clarity was required before finalising the exact extent of its specific commitment".[78]

4.86 The AMPC board did, however, confirm its support for the newly formed red meat industry OCM Taskforce being led by industry expert Gary Burridge. AMPC also agreed to jointly co-fund with the MLA, the OCM Taskforce request for an independent review on the plant per plant costings associated with DEXA's implementation. It was noted that the review is expected to be completed within three months.

4.87 Further, it was reported that it would "now be up to peak industry councils to decide on whether levies should be used for this purpose", and that while the SCA, AMIC and CCA have all expressed support for OCM technology in the past, they had not yet given a firm commitment to "spending their sector's levies until they see the full financial details of the plan".[79] It was also noted that the diversion of funds into the OCM/DEXA project could mean that some existing programs would be displaced.

4.88 At the committee's August 2017 public hearing, MLA Managing Director, Mr Richard Norton advised the committee that over the past ten years, MLA had been working to reduce the cost of production – particularly in the processing sector.

4.89 Mr Norton told the committee that MLA has also been working toward providing transparency through the processing sector, and argued that applying objective measures would provide producers with independent data about their livestock. Further, Mr Norton argued that while DEXA technology represents only one piece of the jigsaw puzzle – it represents a very large piece – which will ultimately provide producers with transparency through objective measurement.[80]

4.90 The committee questioned MLA representatives about the oversight measures that would be required to be implemented following the introduction of DEXA – particularly in relation to nationally consistent inspection and calibration of the technology.

4.91 The committee was advised that each DEXA unit will contain a certification block that will calibrate the machinery automatically, which will mean that processors will not be reliant on operational staff to do the calibration on a day-to-day basis. MLA representatives told the committee they envisage that AUS-MEAT will be the body which will verify, manage and control the certification blocks. AUS-MEAT will

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77 Beef Central article, *AMPC backs MLA's DEXA rollout plan*, 27 July 2017, [p. 1].

78 Beef Central article, *AMPC backs MLA's DEXA rollout plan*, 27 July 2017, [p. 2].

79 Beef Central article, *AMPC backs MLA's DEXA rollout plan*, 27 July 2017, [p. 1].

80 Beef Central article, *Senators frustrated at lack of grassfed cattle restructure progress*, 10 August 2017, [p. 3].

also keep a licence number on each block issued to specific facilities and then, as required, replace the certification block.[81]

4.92 MLA General Manager, Mr Sean Starling, acknowledged the possibility that any measurement device could provide a false output, and told the committee that:

> …it's the practices and the operating procedures you put behind how it's calibrated, how it's used and how it's certified that hopefully underpin any measurement device. DEXA would be no different.[82]

4.93 The committee also sought an update on the progress being made during trials of the DEXA technology and asked whether it was intended to calibrate the machines after each unit of inspection:

> **Mr Norton:** If that is possible, that would be best practice.
>
> **Senator O'Sullivan:** Mr Starling, you're saying that there's technology that's being trialled – in the development stage – with the intent to make that possible?
>
> **Mr Starling:** That's correct.
>
> **Senator O'Sullivan:** Do you know what stage of development it is in?
>
> **Mr Starling:** In the design phase, on paper, ready to be trialled.
>
> **Senator O'Sullivan:** Are you brave enough to provide a time frame for when we might know whether or not it's possible to use that technology?
>
> **Mr Starling:** By Christmas time – this Christmas.[83]

4.94 Following MLA's response, the committee indicated that it would be keeping a watching brief on the roll-out of the technology, and requested MLA representatives to keep the committee informed of any changes to the timetable for the DEXA roll-out.[84]

Committee comment

4.95 The committee has – over a period of years – conducted numerous inquiries and examined various aspects of the red meat industry's grading system. Unfortunately, the committee's current inquiry has only served to highlight the fact that while advances have been made in terms of measurement technology, the industry is no closer to reaching a common viewpoint about the benefits (or otherwise) of OCM technology.

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81 Mr Sean Starling, General Manager, Research, Development and Innovation, Meat and Livestock Australia, *Committee Hansard*, 10 August 2017, p. 4.

82 Mr Sean Starling, General Manager, Research, Development and Innovation, Meat and Livestock Australia, *Committee Hansard*, 10 August 2017, p. 5.

83 Mr Richard Norton and Mr Sean Starling, Meat and Livestock Australia, *Committee Hansard*, 10 August 2017, p. 7.

84 Senate Rural and Regional Affairs and Transport References Committee, *Committee Hansard*, 10 August 2017, p. 7.

4.96 The inquiry has underlined the extent to which the lack of a common understanding, vested interests and a lack of shared purpose can hinder industry cooperation, complicate the process of finding solutions to problems, and delay the implementation of necessary reforms.

4.97 Following its study of the cattle and beef supply chain, the ACCC also detailed its concerns about various aspects of the grading system. The ACCC made a series of recommendations in relation to grading, and argued for the implementation of technology which would facilitate the introduction of OCM as a matter of priority.

4.98 In addition to recommending that the introduction of OCM technology should be prioritised by the industry, the ACCC argued for the processing sector to take the lead in its introduction.

4.99 The committee also notes that by forging ahead with the development and introduction of DEXA technology, MLA pre-empted the findings of the ACCC's *Cattle and beef market study*; a study which ultimately recommended that the processing sector should lead the industry through the process of introducing OCM technology.

4.100 In announcing its decision to invest $10 million to co-fund the installation of DEXA systems in sheep meat and beef meat processing plants, the committee also notes that MLA pre-empted the findings of the study conducted by EY and jointly funded by AMIC and AMPC.

4.101 While it would appear that MLA has the CCA's support in making all of these decisions, the committee questions the extent to which either of these organisations consulted with industry stakeholders – including levy payers – to gauge their views. This is of particular concern to the committee, given that the EY report concluded that all the potential impacts (of OCM technology) on producers, processors and other industry stakeholders had yet to be identified. The EY report emphasised that the changes being proposed are both significant and transformational, but that any new initiatives need to be taken forward as consultatively and collaboratively as possible.

4.102 Further, the committee notes that in its attempts to inform stakeholders – particularly producers – about OCM technology, MLA continues to state that the technology will provide greater price transparency. In making this assumption, MLA has also suggested that producers would be granted ownership of both the technology and the data it is capable of providing.

4.103 The committee acknowledges that the industry-wide roll-out of DEXA technology appears inevitable. The committee also notes, however, that given that both taxpayer and levy-payer money is being used to fund the roll-out of DEXA, it is vital that all sectors of the red meat industry benefit from its introduction.

4.104 The committee supports greater transparency in the grading system, and accepts that OCM technology is one way of addressing some of the problems that currently exist in this area. The committee is aware, however, that while the technology has been tested for sheep carcase processing, it is yet to be completely tested for use in beef carcases. It is also noted that the technical and commercial viability of the technology has yet to be assessed.

4.105 The committee is firmly of the view that it is vital that the data provided to producers through the installation of the new DEXA technology is nationally consistent. The committee is also clear in its view that the installation, inspection, calibration and replacement of the new DEXA technology should be overseen by an expert body.

4.106 The committee notes the evidence provided to the inquiry, and acknowledges that industry stakeholders largely accept that AUS-MEAT is the appropriate body to have responsibility for the oversight of the new DEXA technology. However, given the committee's long-held concerns about AUS-MEAT and its Australian Meat Industry Language and Standards Committee (AMILSC) the committee notes that it has reservations about this role being undertaken by AUS-MEAT.

4.107 The committee is, therefore, of the view that a review of AUS-MEAT's operations and capabilities needs to be conducted. Such a review would ascertain whether it is in fact the most appropriate organisation to provide structured and independent oversight of the installation, inspection, calibration, replacement and quality assurance auditing processes in relation to the new DEXA technology.

Recommendation 3

4.108 The committee recommends that the Department of Agriculture and Water Resources conduct a review into the operations and capability of AUS-MEAT to determine whether it is the most appropriate body to oversight the installation, inspection, calibration, replacement and quality assurance auditing processes of the new DEXA technology. The review should also identify what reforms and resources AUS-MEAT would require to fulfil this role.

4.109 The committee further notes that the installation of the new DEXA technology will also require the establishment of a national complaints resolution mechanism.

4.110 The committee also notes that under current arrangements, it remains unclear who will have ownership – and ultimate control – over the technology. The committee is therefore, very concerned about the prospect that producers may once again see assets that they have made a significant financial contribution to, being controlled by processing companies.

4.111 At this point, it is worth noting that in its *Meat Industry Strategic Plan: MISP2020*, which was released in September 2015, RMAC acknowledged that the "biggest non-economic challenge facing our industry is cultural change".[85] RMAC further argued that:

> …this is a far greater task than delivering any related technologies. Our enterprises, supply chains and industry as a whole must engender, support and reward a business and customer focus. Industry organisations must lead by example in promoting collaboration and transparency across our

85 Red Meat Advisory Council, *Meat Industry Strategic Plan: MISP 2020*, 14 September 2015, p. 12.

> industry. These are essential criteria if we are able to fully realise the value on offer in *MISP 2020*, and if we are to cement community and consumer – and levy payer – confidence in the industry.[86]

4.112 The committee agrees with RMAC's assessment regarding the need for cultural change. The committee also points to the history of grading and OCM in the red meat industry as a prime example of an initiative that is being impeded by vested interests and a lack of common understanding. The events described above clearly demonstrate to the committee that, regardless of any technological advances that can be made in relation to OCM, there is also a need for common agreement and consensus across the industry. Without industry agreement on an integrity regime – based on transparent, consistent standards, that would underpin the implementation and use of this technology – grading and OCM will continue to be initiatives about which there is disunity and divide.

86 Red Meat Advisory Council, *Meat Industry Strategic Plan: MISP 2020*, 14 September 2015, p. 12.