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Has Barnaby Joyce Shot Himself in the Foot on Grass Fed Cattle Industry Structural Reform?

Or

Has Barnaby Left the Door Open for Grass Fed Cattle Structural Reform by Plebiscite?

Background of the push for grass fed cattle levy structural reform

Following years of agitation for Red Meat Industry organisational reform by:

- the Australian Beef Association (ABA),
- the Australian Meat Producers Group think tank (AMPG),
- the hugely attended cattle producer forums in Roma in 2004, Armidale and Paradise Lagoons in 2010 which Minister Joyce either attended or spoke at, and
- agitation from the cash strapped Cattle Council of Australia (CCA) for access to some of the grass fed cattle transaction levies to provide it with the necessary funding to enable it to carry out its functions under the current red meat industry organisational structure,

the Minister for Agriculture Barnaby Joyce at a meeting with cattle producers in Townsville in early November 2013 agreed to call for a Senate Inquiry into the current grass fed cattle levy funded structures and systems.

Minister Joyce advised the Townsville cattle producer meeting that it was time that the decade long cattle industry debate over organisational reform was brought to a head one way or another. Minister Joyce counselled those present that they would have to accept the findings of the Senate Inquiry as binding whatever they happened to be and that if the Senate Inquiry findings went against the cattle producers calls for reform they would need to accept those findings as “the umpire’s verdict”.

The Outcome of Barnaby Joyce’s Grass Fed Cattle Levy Funded Structures and Systems Senate Inquiry

Minister Joyce’s Senate Inquiry has been held and the Senate Committee made seven interlocking recommendations, some or all of which are supported by each of the grass fed cattle representative bodies referred to above.

Ten months after the Senate Committee handed down its seven recommendations, the Federal Government has responded through Minister Joyce adopting only one and a bit of the seven Senate Report Recommendations enabling grass fed cattle producers to eventually set up a new representative grass fed cattle corporation whose board is elected by all cattle transaction levy payers but not providing that corporation with a sustainable funding stream. And importantly not giving cattle transaction levy payers direct or representative control over the levies paid.

Twenty months after Barnaby convened the multimillion-dollar Senate Inquiry the grass fed cattle industry levy structures finds itself in the same position that it was before the inquiry was called. The only thing that has changed is that all the grass fed cattle representative bodies expectations have been dashed and all are upset with their Federal Agriculture Minister.

History of the Current Red Meat Industry Organisational Structures

In the 1990s, the statutory red meat industry levy funded marketing and R & D corporations AMLC and MRC were replaced with the current structure as a consequence of:

- a changing economic climate flowing from increasing globalisation, and
- the 1980's push for economic rationalism, and
- the blowout of AMLC/MRC combined annual budgets from \$14m to around \$138m in 1996,
- whilst real cattle prices fell from the early 1980s to mid-1990s and per capita domestic beef consumption declined rapidly from a high of 70kg per capita in 1976-7 to a paltry 43.7kg per capita in 1997.

The 1990's replacement industry organisational structures included a "spaghetti bowl" conglomeration of levy funded corporations, namely:

- Meat and Livestock Australia Ltd (MLA), Australian Meat Processing Corporation (AMPC) and LiveCorp, whose operations are governed by a Memorandum of Understanding (MOU) between them, the Commonwealth and red meat industry Peak Councils, including
 - the Cattle Council of Australia (CCA), Sheepmeat Council of Australia (SCA), Australian Lot Feeders Association (ALFA), Australian Meat Industry Council (AMIC), Australian Live Export Council (ALEC) plus the goat industry Peak Council
- the red meat Peak Councils are supposed to advise MLA on policy matters whilst
- MLA is meant to provide service delivery on behalf of these Peak Councils.

1990's Restructure Implementation Flaws and the Passage of Time

This complex "spaghetti bowl" structure was adopted despite the publication of the Australian Meat and Livestock Reform for the Future: 1996 Steering Committee and Taskforce Report recommending that:

- consideration be given to establishing separate levy funded bodies to represent and service the commercially competing sheepmeat and beef sectors of the red meat industry; and that
- consideration be given to setting up a separate levy-funded processor corporation to reflect the commercial conflicts of interest between the processing and producer sectors; and that
- MLA must be accountable to levy payers and all levy payers be enfranchised in MLA; and
- MLA Board appointments should ensure that directors are highly skilled but also, that the Board is predominantly made up of people with industry knowledge and qualifications.

Unfortunately, the only 1996 Steering Committee Task Force recommendation implemented, and then only in part, was the establishment of the separate contribution, and later levy funded AMPC meat processor corporation. This structural separation of processor and producer interests was only achieved as a consequence of the 60-day rule requiring that processors pay a cattle transaction levy to MLA on feedlot cattle.

Over the last 15 years vertical integration in the cattle industry has led to processors paying increasing amounts of cattle transaction levies to the MLA on top of the slaughter levies that they pay to the AMPC. As a result 18% of all producer corporation MLA levies are paid by abattoirs and at least half of the top 14 MLA levy payers with the highest MLA voting rights are abattoirs.

During implementation of the 1996 Task Force Report the decision was made to establish the levy funded MLA to represent the interests of the competing sheepmeat and beef industries to achieve economies of scale. The inequities of this decision have compounded over time due to

- the decline in Australia's sheep numbers from 170 million in 1990 to around 72 million head in 2014, and
- increase in cattle herd numbers from 21.5 million in the early 1990s, reaching a peak of 29.3 million in 2012, now forecast to decline to 26.5 million head by 2016, and

- the increase of the initial \$3.50 a head 1998 cattle transaction levy by \$1.50 a head during the first decade of this century.

Despite this increasing disparity of levy contributions between the cattle and sheepmeat industries-the sheep meat sector retains equal say in MLA policy direction on important issues.

The 1990's red meat industry structures were perhaps even more fundamentally flawed because of:

- the failure to adequately enfranchise MLA levy payers whose rights to elect MLA board members are restricted to rubber stamping a couple of replacement board members selected by a Peak Council and existing MLA board members at each AGM; and
- the structural dysfunction between policy setting and delivery under the current structure where the CCA (with an annual budget of \$1.3m) sets the policy to be delivered by the MLA (with an annual budget of \$180m) which has its own legal obligations to its levy paying members.

As they say in the classics – *he who holds the chequebook holds the power.*

The effect of this financial resource inequality between the State Farmer Organisation (SFO) based red meat industry Peak Councils has been exacerbated since the 1990's by:

- the decline in SFO membership (from about 25,000 in the 1990's in NSW to current figure of about 6,000 – with QLD SFO Agforce membership now being down around 4,500) which has led to a consequent 75% fall in membership fees, and
- the blowout in MLA's yearly budget from around \$98m in 1998 to around \$180m in 2013-14.

Despite the fact that levy and Federal Government expenditure has almost doubled in the past 17 years, with the exception of the last few months, real farm gate cattle prices have continued to decline at the same rate as they did in the 80's and 90's. Additionally, domestic per capita beef consumption has continued to decline at almost exactly the same rate each year since 1998 as it did in the previous decade reaching a low of 31.8kg per person in 2014.

Consequently by 2013 all Australian grass fed cattle representative bodies recognised that the current grass fed cattle industry representative bodies were no longer meeting the collective needs of the grass fed cattle industry and called for structural reform

The 2014 Senate Inquiry into Grass Fed Cattle Levy Structures and Systems

The Senate Committee Inquiry convened at the request of Barnaby Joyce in response to the universal grass fed cattle call for reform, referred to in the opening paragraphs of this newsletter, received 460 submissions¹ and held hearings in Canberra, Rockhampton, Broome, Katherine and Albury. The overwhelming majority of these submissions addressed flaws in current structures and recommended some form of modification to the existing grass fed cattle levy funded structures and systems.

The Senate Inquiry Recommendations

On 9 September 2014, the Senate Rural and Regional Affairs and Transport References Committee (“the Committee”) released their Report into Industry Structures and Systems Governing Levies on Grass Fed Cattle (“the Report”), which made seven recommendations² for actions to be taken.

The seven interlocking Senate Inquiry Recommendations can be summarised as follows:

1. The establishment of a grass fed producer-owned representative body with the power to receive and disperse all the cattle transaction levy funds.
2. The establishment of a cost-effective automated cattle transaction levy system that clearly identifies levy payers against levies paid for the purposes of allocating voting rights.
3. That levies paid by processors to Meat and Livestock Australia be recognised as processor/slaughter levies rather than producer/transaction levies.

¹ Submissions were lodged by the Cattle Council of Australia, Australian Beef Association, Australian Meat Producers Group, Meat and Livestock Australia, Red Meat Advisory Council, United Stockowners Association, and a host of other major cattle producers, as well as hundreds of medium and small sized cattle producers.

² A copy of the text of the Seven Resolutions can be found at - http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport/Beef_levies/Report/b01

4. That an audit on the levy system be conducted by the Australian National Audit Office to determine how levies are spent.
5. That the Red Meat Advisory Council be dissolved with a new system established to manage and disperse earnings from the Red Meat Industry Reserve Fund.
6. That the approved donor status of the MLA Donor Company be revoked.
7. That an analysis be conducted into the benefits, costs and consequences of introducing the Australian equivalent of the *American Packers and Stockyards Act 1921* and *Livestock Mandatory Reporting Act 1999* to ensure that Australian cattle producers had access to accurate and transparent sale price market information.

New Body to Represent Grass Fed Cattle Producers

In February 2015, cattle industry organisational representative bodies CCA, ABA, AMPG and the Concerned Cattle Producers (CCP) met in Brisbane at Minister Joyce's request and agreed on:

- a structure for a new corporation funded by grass fed cattle transaction levies to replace the CCA, with
- the board of the new levy funded cattle corporation being directly elected by cattle transaction levy payers through a two-step regional based voting system, and
- 15 regionally elected candidates being eligible to be directly elected by all Australian cattle transaction levy payers to a seven-person board.

The grass fed cattle representative bodies proposed that the new levy funded grass fed cattle corporation would be a well-resourced, truly representative body that could direct and control cattle transaction levy expenditure.

Minister Joyce presided over a press conference with representatives of the CCA, ABA and AMPG/CCP in Canberra on 17 February 2015 describing the unified representative proposed for a new levy funded grass fed cattle corporation as an "*historic and essential contribution to the governments formal response to the Senate Inquiry into the grass fed beef levy*"

Minister Joyce went on to say:

"Throughout this whole process the Australian Government has been committed to listening to as many voices as possible within the sector and in ensuring that any potential changes to industry structures enjoyed the overwhelming support of grass fed levy payers across the country"

It was, and is, common ground between the CCA, ABA, AMPG, and CCP that the proposed new representative grass fed Cattle Corporation won't and can't get off the ground unless it has a sustainable source of funding.

Barnaby Joyce's Disappointing Response to the Senate Inquiry's Recommendations

On 15 July 2015 Barnaby Joyce released a Response to this Report on behalf of the Australian Government ("the Government Response") addressing each of the seven recommendations made by the Committee.

Of the seven recommendations the Government ruled out the key recommendation that the proposed new grass fed cattle producer body to replace the cash strapped Cattle Council of Australia be given authority to manage all cattle transaction levies and the only recommendation that the government agreed to adopt in full was the recommendation to establish an automated cattle transaction levy system that clearly identifies levy payers against levies paid for the purposes of allocating voting rights.

The adoption of only one of the seven Senate Inquiry recommendations ignores the functional interlocking relationship between each of those seven recommendations and has been met with almost universal disappointment from the Australian cattle producing community.

As outlined in yesterday's Hunt Blog Newsletter the technical argument against allocating all or some of the cattle transaction levy to the new levy payer grass-fed cattle corporation ignores a host of precedents both in Australia and overseas and ignores the reality that the existing red meat Peak Councils are already receiving interest off levy reserves to fund their advocacy activities.

Consequently the Government Response has pleased none of the representative grass fed cattle industry bodies, and, in practical terms, if the Government's option of no levy funds for the new grass fed cattle corporation is implemented, then the proposed new grass fed cattle levy payer corporation will not have sufficient fund to allow it to carry out its functions under the current or proposed organisational structure.

On the face of it, as it currently stands, instead of winners and losers – with the losers having to abide by the Senate Committee's decision in accord with Barnaby's original November 2013 Townsville dictate – Barnaby appears to have

ignored the umpire's decision and put up *his own* finger and effectively struck out all the grass fed cattle representative body proposals leaving them all disaffected and cranky with him.

Cattle Producer Representative Organisational Reaction to Minister Joyce's Opinion Piece

The 15 July 2015 announcement made by Minister Joyce on the Government's Response to the grass fed cattle levy funded structures and systems Senate Inquiry Recommendation has been criticised by all the grass fed cattle industry representative bodies, including CCA, ABA, and AMPG/CCP.

The CCA said in its 15 July 2015 Beef Central Opinion Piece response to the Government's Response that it is "*disappointed that the Government and Minister has not been able to deliver a better outcome for grass-fed representation*" and that it is "*...time for industry to take control of its destiny*".

The ABA and AMPC/CCP have each published similar criticisms to the Government's Response. By necessary implication it follows that the majority of the 278 000 voting levy paying grass fed cattle PIC holders are also deeply disappointed in the Australian Government's decision on the 7 Senate Recommendations.

Lost Opportunity?

Minister Joyce is already under fire in his own electorate, through no fault of his own, due to the Federal Government apparently overruling him and conditionally approving the Liverpool Plains Watermark mine in one of Australia's most fertile food bowls and right in the middle of Barnaby's own electorate of New England.

As we demonstrated in yesterday's Hunt Blog Newsletter, arguments against the utilisation of levy funds by representative bodies for advocacy are specious and logically unsustainable.

Australian political parties fund their political campaigns from Consolidated Revenue, the current red meat industry representative bodies fund their advocacy activities from interest earned on levies and levy funded "service fees" and there are a host of Australian and overseas rural representative bodies that utilise levy funds for policy development, policy delivery and advocacy.

Minister Joyce now appears to have missed, or at least fumbled, a perfect opportunity to become known as the reforming Agriculture Minister who called the Senate Inquiry that led to the implementation of universally agreed structural reforms desperately needed to meet the ongoing collective needs of the grass-fed cattle industry. Consequently, Minister Joyce is in danger of becoming known by cattle producers as the Minister who did nothing and fiddled as Australia's great grass fed cattle industry declines into an internationally uncompetitive malaise because of inadequate and ineffective representation.

A Plebiscite of Grass Fed Cattle Producers

To his great credit, Minister Joyce has however left the door open for grass fed cattle levy funded structures and systems by flagging the possibility in his 16 July 2015 Beef Central Opinion Piece of a plebiscite of those paying the grass fed cattle transaction levy to vote in accord with the Commonwealth Governments Levy principles and Guidelines on the redirection of "*...a portion or otherwise of the levy to a new representative body*".

Barnaby goes on in his Beef Central Opinion Piece to pledge his "*...commitment should such a vote achieve convincing support, to assist where possible*".

Such a plebiscite would provide a definitive levy payer answer to the question as to whether or not some or all of the grass fed cattle transaction levy should be directed to a new grass fed cattle representative corporation (in accordance with the Commonwealth Government's Levy Principles and Guidelines).

Levy Principles and Guidelines

As Minister Joyce said in his 16 July Beef Central Opinion Piece article, the imposition and management of levies must be conducted in a manner which complies with the Levy Principles and Guidelines issued by the Department of Agriculture, Fisheries and Forestry.

As we stated in yesterday's Hunt Blog Newsletter the Levy Principles and Guidelines state that the recipients of levy funds are accountable to both the Australian Government and the people and entities that pay the levy.

These Principles and Guidelines provide amongst other things that:

- levies must be reviewed periodically for compliance with the Guidelines.
- proposals to amend levies must be supported by levy payers themselves and representative industry bodies, the Australian Government or be in the public interest.
- steps must be taken if amendment to an existing levy is sought to inform all levy payers, as well as potential levy payers, about the reform and
- widespread promotion of the proposal as well as industry consultation should take place to ensure that there is agreement as to the proposed changes and
- in situations such as those currently facing grass fed cattle industry where there is no formalised industry voting arrangement, arrangements should be made so that actual and potential levy payers may vote on the proposed amendment, and
- where an amendment to a levy is proposed, the net benefit to the industry resulting from the change must be shown.

Barnaby's Suggested Way Forward

In short, the Government Response to the seven Recommendations handed down by Senate Committee Inquiry into grass fed cattle levy funded structures and systems announced by Minister Joyce on 15 July 2015 accepted the need to introduce improvements to the levy collection system in order to:

- identify levy payers and levies paid for the purpose of allocating voting rights and thereby
- enable grass fed cattle transaction levy payers to determine the recipient of their levies.

The CCA has responded to Minister Joyce's announcement by saying that it "*would lead a process to finalise a proposal that will include:*

- *the new structure for beef industry representation, and*
- *a sustainable funding model... which will include commercial and levy revenue options, and*
- *(CCA) will be expecting the Minister to do everything in his power to support Cattle council in developing this proposal and putting it to an industry vote"*

To this end the CCA has convened a meeting in Brisbane on Saturday 8 August with representatives of the ABA and AMPG/CCP and other grass fed cattle producers to discuss the proposed new sustainably funded grass fed cattle producer corporation and associated grass fed transaction levy payer plebiscite.

Barnaby's No Risk Solution

Minister Joyce has opened the door for:

- a levy-payer plebiscite to determine the desired recipient(s) of their levies, as well as to ascertain whether or not levy payers support each or any of the other seven Senate Inquiry Recommendations and should
- arrange for MLA funding to enable the various grass fed cattle representative bodies referred to in Barnaby Joyce's 15 July 2015 Beef Central Opinion Piece to present their respective reform proposals to those grass fed levy payers.

This would allow levy payers an informed vote to demonstrate their support for the interlocking seven Senate Recommendations and the reforms that they desire in the grass fed cattle industry.

As Minister Joyce stated in his recent Beef Central Opinion Piece – the Minister would then not be required to make decisions as to how the industry would be reformed – the reforms desired would be made clear by the levy payers themselves.

The ultimate outcome from such a plebiscite will almost inevitably be the introduction of relevant and meaningful industry organisational reform. Consequently if the proposed plebiscite is held, it is also almost equally inevitable that Barnaby Joyce will go down in history as the reforming Agriculture Minister who instigated the structural reforms needed by the grass fed cattle industry in order to meet the grass fed cattle producers collective needs in the 21st century.

Further material on the RRAT Senate References Committee Inquiry into Industry Structures and Systems Governing Levies on Grass Fed Cattle submissions, hearings and report can be found at www.HuntBlog.com.au and on www.cattlelevysenateinquiryinformation.com.