HUNT PARTNERS LAWYERS PTY LTD
Solicitors & Barristers
Level 6, 114 Castlereagh Street, Sydney NSW 2000
Tel: (02) 9235 2966 Fax: (02) 9284 9487
E-mail:huntpartners@bigpond.com
A.C.N. 000 344 983

Hunt Blog Newsletter

16 June 2015

Grass Fed Cattle Industry Profitability and the Need for Industry Organisational Reform

The Push for Reform

The February 2010 Armidale Beef Forum in Armidale in northern New South Wales attended by over 1,000 disgruntled cattle producers lit the match for meaningful cattle industry organisational reform to reverse the unsustainable long term decline in grass fed cattle industry profitability. A fire was fanned by the subsequent New Directions Beef Forum attended by over 500 prominent beef producers and held in August 2010 at the Acton family's property Paradise Lagoons near Rockhampton.

During the ensuing years much discussion and debate has occurred within the cattle industry generally and the Cattle Council of Australia in particular regarding the reforms needed to meet the 21st century collective needs of the grass fed cattle industry.

Putting Reform on the Table

The examination of the collective organisational structure of the grass fed cattle industry that followed the 2010 Armidale and Rockhampton Beef Forums culminated in late 2013 when current Federal Agriculture Minister Barnaby Joyce, who spoke at both the Armidale and Rockhampton forums, requested the Senate Standing Committee on Rural and Regional Affairs and Transport to hold an Inquiry into Industry Structures and Systems Governing Levies on Grass-fed Cattle.

When Minister Joyce agreed to ask the Senate Committee to convene the inquiry into grass fed cattle levy funded structures at a meeting of Queensland cattle producers in Townsville in late 2013 he told those cattle producers that they would have to accept the Senate Committee's recommendations whatever they were as the umpire's decision on grass fed cattle industry reform.

The Senate Committee received over 400 submissions from large and small cattle producers and every red meat organisational body in Australia, and held public hearings in Canberra, Broome, Katherine, Rockhampton and Albury.

Senate Inquiry Findings

Following the conclusion of this exhaustive Inquiry, the Senate Committee produced a detailed report in September 2014 which identified the structural flaws of the current grass fed cattle levy organisational structures and set out seven interlocking Recommendations for grass fed cattle levy funded structure and systems reform.

The Senate Inquiry Recommendations

These Seven Recommendations can be summarised as follows:

1. The establishment of a new grass fed levy funded cattle corporation to receive all of the grass fed cattle transaction levies with a board of directors directly elected by all grass fed cattle producer levy payers to replace the Cattle Council of Australia and provide a single vehicle for cattle producer advocacy, policy setting and responsibility for directing R&D and marketing levy expenditure.
2. The introduction of a transparent tracking system that would identify levy payers against levies paid to provide a sound base for the board election process of the new cattle corporation.
3. Amendments to the levy collection legislation to ensure that all processor levies including levies currently paid by processors to Meat and Livestock Australia (MLA) on feedlot cattle are paid to the Australian Meat Processor Corporation so that processors will no longer have any influence over the expenditure and management of cattle producers' funds.
4. The Australian National Audit Office conducting a comprehensive audit of the revenue and expenditure of the respective components of cattle transaction levy since MLA was first incorporated in 1998.
5. The abolition of RMAC and the establishment of a new system to manage and disperse earnings from the $40 million RMAC Reserve Fund.
6. The revocation of the MLA Donor Company as an approved donor under the *Australian Meat and Livestock Act 1997.*
7. A departmental review in consultation with the cattle industry of the costs and benefits to the cattle industry of introducing an Australian equivalent to the United States Packers and Stockyards Act 1921 and Livestock Mandatory Reporting Act 1999 to ensure that Australian cattle producers receive accurate and timely market information with respect to prices paid for cattle and prices received by processors for the product from those cattle.

Reform Consensus

These seven Senate Committee Recommendations are broadly in line with the unanimous resolutions passed by over 1,000 cattle producers at the Armidale Beef Forum of 2010 and the subsequent New Directions Beef Forum held in Rockhampton in August 2010 which was attended by over 500 cattle producers.

The Australian Meat Producers Group (AMPG) and the Concerned Cattle Producers (CCP) organisations were both formed following the Armidale and Rockhampton Beef Forums with the specific aim of implementing the unanimous resolutions of those forums.

In February of this year the AMPG and CCP met with the Australian Beef Association (ABA) and the Cattle Council of Australia (CCA) and reached agreement on the structure for the proposed new grass fed cattle levy funded corporation with a board directly elected by cattle transaction levy payers and presented that unanimous position to Minister Joyce in Canberra on 19 February 2015.

Consequently, grass fed cattle producers have now reached a point that is painfully close to a consensus on the actions that need to be taken to achieve real solutions to the long term unsustainable decline in profitability of the Australian cattle industry.

Remaining Issues

Some other aspects of the proposed new grass fed cattle levy funded corporation do, however, still need to be resolved.

For instance:

1. whilst there is consensus amongst the grass fed cattle producer representative groups CCA, ABA, AMPG and CCP for two step regional based electorates for the election of the new levy funded grass fed cattle corporation’s board and that the voting system for the new corporation board should fairly protect the interests of both small and large producers, all of these representative groups are yet to sign off on the two register voting system proposed by the AMPG and supported by the

Senate Inquiry Report – a voting system that provides for half of the directors being elected from a one levy payer one vote register and the other half being elected from a register where the votes are determined by the amount of the levies paid in accord with the current MLA voting structure, and

2. despite the clear words in Senate Inquiry Recommendation 1 stating that the new grass fed levy funded cattle corporation should have the authority to receive and disperse the R&D as well as the marketing component of the cattle transaction levies, some old guard sections of the grass fed cattle producer industry have suggested that the new producer-owned corporation should receive only $4 to 5 million of the cattle transaction levy, which is the amount they calculate as necessary for the new grass fed cattle producer corporation to carry out the Cattle Council of Australia's obligations under the current organisational structure.

That $4m to $5m amount will not, however, be sufficient to empower the new producer-owned corporation to address the underlying systemic profitability issues that have confronted the Australian grass fed cattle producing industry in recent years.

The Facts About Cattle Producer Profitability

Farm gate cattle prices are currently the highest they have been for many years in nominal terms.

In real terms, however, farm gate prices in cents per kilo in March this year were still about 50% lower than the 1980 peak and, even after allowing for average carcase weight gains from 181 kg per head slaughtered in 1980 to 254 kg in 2012, on the basis of MLA's figures a cattle producer in 1980 would have received about $1,267 in current real dollars per head for the lighter 1980 beast whilst a cattle producer in 2012 would have received only around $980 per head for the heavier 2012 beast.[1]

This decline in real farm gate cattle prices has been compounded by the cumulative cattle production cost increases which ABARE figures disclose have increased by 40% since the beginning of 2001 in line with the national rate of inflation.[2]

The combination of falling real farm gate cattle prices and increasing real cost of production over the last 35 years have culminated in a perfect storm of unsustainable low profitability for Australia's grass fed cattle producers.

In its 2013 Northern Beef situational analysis report MLA concluded that the majority of beef producers in Northern Australia are not economically sustainable, with the more efficient and larger northern Australian cattle producers only averaging a profit of $94 per head for their cattle whilst the majority are making a loss.

The recent upsurge in nominal farm gate cattle prices is unlikely to go high enough or last long enough to rectify the long term declining trend in cattle producer profitability.

The Fundamental Causes of Declining Grass Fed Cattle Producer Profitability

The cause of this unsustainable lack of profitability in the Australian beef industry can be put down to a multitude of factors, including:

- **Uncompetitively high government-influenced costs and charges –** Australian producers pay in the order of two to three times as much of their gross revenue in direct government costs and charges as their competitors in the United States, amounting to roughly one third of livestock revenue. Charges per beast slaughtered increased by $14.26 between 2001 and 2013, adding an additional $114 million per year burden on the Australian cattle industry.
- **Uncompetitively high slaughter costs –** Australian beef processors pay twice as much in slaughter and processing costs per head as beef processors in the U.S., and nearly three times as much as beef processors in Brazil.
- **High concentration of retail power –** the supermarket share of Australia's domestic beef sales has risen to about 78.5% or 2.24 times the 35% supermarket share of Australian beef sales about ten

[1] Meat and Livestock Australia, March 2015, 'The history of Australian cattle prices since 1970'.
[2] ABARES, 'Cost of production data', Department of Agriculture.

years ago. The combined share of national beef retail sales of Woolworths and Coles amounts to 57% of the total.

The uncompetitive factors burdening the Australian beef industry which are outlined above mean that while producers in the United States capture about 50% of the consumer dollar spent on beef and New Zealand producers capture 40%, Australian farmers only receive a paltry 30%. If Australian cattle farmers were to receive 50% of the consumer dollar as is currently the case in the United States, a typical domestic steer would return the farmer an additional $475 per head (on a steer selling for $720 in 2014), representing a 66% increase in gross revenue and a big leap from the $94 a head profit of the most efficient larger northern Australian cattle producers identified in the Northern Beef situation analysis.[3]

Rather than cattle producers, who are paying most of the levies received by MLA, supermarkets seem to have been the real beneficiaries of the $1 billion plus R&D and marketing activities conducted by the current levy-funded industry bodies since 1998.

The effect of Australia's high concentration of retail power and uncompetitively high government influenced costs and charges and slaughter costs are compounded by the fact that Australia receives internationally comparatively low levels of government funded producer subsidy support. The very fact that Australia is able to compete in the global market at all is a strong testament to the efficiency and resilience of Australian cattle producers.

MLA's Failure to Deliver its Key Performance Indicators

One of the key performance indicator aims set for the current red meat industry structures when they were established in 1998 was to reverse the decline in Australian real farm gate cattle prices that had occurred in the previous decade. Real farm gate cattle prices have, however, continued to decline at roughly the same rate as they did in the decade before 1998.

Another key performance indicator of the current red meat industry organisational structures when they were established in 1998 was to reverse the 1.7% decline in annual Australian per capita beef consumption that had occurred in the previous decade, but despite Meat and Livestock Australia (MLA) spending hundreds of millions of dollars of cattle producers' levy funds on MSA and eating quality programs, Australian per capita beef consumption has continued to decline at about 1.5% per year. According to ABARE figures, per capita consumption declined from 41.5 kg per person in 1997[4] (the year before MLA was incorporated) to 31 kg per person last year.[5]

Based on Australia's population in 1997, the 41.5 kg per capita domestic beef consumption rate would mean that 768,479 metric tonnes of beef were consumed in the Australian domestic market in 1997. Despite Australia's population growing by more than 5 million since that time, domestic beef consumption actually decreased by 5.1% from 1997 levels to 731,290 metric tonnes in 2014.

Assuming that MLA achieved its objective and maintained the Australian domestic beef consumption rate at 41.5 kg per capita, domestic beef consumption would have been an additional 247,695 tonnes or about 34% higher than actual 2014 levels. Based on MLA's estimate that domestic expenditure on beef amounted to $6.3 billion in 2014[6], this additional consumption would have been worth $2.14 billion to the Australian beef industry. By comparison, the value of beef exports to Japan was worth $1.65 billion in 2014[7], while beef exports to South Korea were worth $944 million that same year.[8]

Profitability and productivity

The factors discussed above demonstrate that whilst levy funded R&D has contributed to significant productivity gains over the years, these gains have not been enough to offset declining real farm gate prices.

---

[3] Meat and Livestock Australia, 16 April 2014, 'Northern beef situation analysis'.
[4] ABARES, 'Agricultural commodity statistics 2013', Department of Agriculture.
[5] ABARES, 3 March 2015, 'Agricultural commodities: March quarter 2015', Department of Agriculture.
[6] Meat and Livestock Australia, February 2015, 'Fast Facts 2014'.
[7] Meat and Livestock Australia, 13 May 2015, 'Japan Beef Market Snapshot'.
[8] Meat and Livestock Australia, May 2015, 'Korea Beef Market Snapshot'.

The MLA's 2013 Northern Beef Situation Analysis, which concluded that a majority of Northern Beef producers are not economically sustainable[9], demonstrates that productivity improvements that have been made in recent years have been insufficient to combat the long term decline in real cattle producer profitability.

Unless the fundamental causes of declining grass fed cattle producer profitability outlined above are addressed, MLA' s suggested solution in the Northern Beef Situation Analysis of a "focus on increasing income... through producing more kilograms of beef" will not provide value for R&D levy reinvestment. The dumping of more beef on the market, with farm gate prices at the real level that they have been in recent years, would simply further reduce per kilogram beef prices and profitability even further and drive smaller producers with inferior economies of scale out of the market.

Consequently, the focus of MLA and other grass fed cattle industry bodies on improving productivity rather than bottom line profitability appears to be misplaced.

The Need for a Truly Representative Well Funded Grass Fed Cattle Producer Corporation

It follows that it is imperative that the new grass fed cattle transaction levy funded corporation be given sufficient funds to effectively develop and advocate for the implementation of the necessary policy changes to address the systemic fundamental causes of the current long term unsustainable profitability of the majority of Australian grass fed cattle industry producers.

The new levy funded grass fed cattle corporation should receive all of the grass fed cattle transaction levies in accord with Senate Inquiry Recommendation 1 so that it can properly control and direct the expenditure of grass fed cattle producer levies in the same way that wool and pork producers currently do.

The Way Forward

Australian grass fed cattle producers are very close to creating a truly democratic cattle producer representative corporation with the capability to lobby the policy makers down in Canberra to address these issues, put their industry on a level playing field with the rest of the world and deliver meaningful change for Australian cattle producers.

But it is now three and a half months since all of the grass fed cattle organisational groups presented Minister Joyce with their agreed structure for the proposed new levy funded cattle corporation and many are concerned that the reform process that was ignited in 2010 has stalled and that the old guard are trying to undermine and white ant the implementation of the seven Senate Committee Recommendations.

What can you do?

The grass fed cattle industry needs your help to get each of these much needed and long overdue seven Senate Inquiry Recommendations across the line with Minister Joyce and the Federal Government.

If you are a grass fed cattle producer and think that the Seven Recommendations of the Senate Inquiry should be implemented in full, we encourage you to write to or email Agriculture Minister Barnaby Joyce, the Senators from your State and your Federal Member of Parliament urging them to support the full implementation of the Seven Recommendations of the Senate Committee arising from the Inquiry into Industry Structures and Systems Governing Levies on Grass-Fed Cattle.

Minister Joyce's email address is barnaby.joyce.mp@aph.gov.au.

For further information and commentary on Australian cattle reform issues, please visit www.huntblog.com.au.

[9] Meat and Livestock Australia, 16 April 2014, 'Northern beef situation analysis'.