



HUNT PARTNERS
Solicitors & Barristers

Level 1, 99 Elizabeth Street, Sydney 2000
Tel: (02) 9235 2966 Fax: (02) 9235 2988
E-mail: huntpartners@bigpond.com
www.huntpartners.com.au



WHY OUR SECRET GRADING SYSTEMS ARE NOT WORKING
And what we can do to fix the problem.

Principal
Norman Hunt B. Juris, LL.B.



“Liability limited by a scheme approved under
Professional Standards Legislation”

Secret Grading Systems letterhead

In a Nutshell

Australia's MSA is the best grading system in the world and MSA graded cuts attract a price premium. But Australia has failed to develop a whole of market grading system that accurately describes eating quality to consumers.

Some of the better beef is MSA graded and some of the old cow beef is labelled Budget. But most beef sold to Australian consumers is not graded and consumers buy a good steak one day and a bad steak the next.

Most consumers have never heard of MSA and do not know that Budget Beef means beef from old animals.

Beef is generally retailed as a commodity and the price of the bad steak brings down the price of the good. Consumers do not know how to tell the difference between the good steak and the bad, become dissatisfied and switch from beef to chicken or pork and beef consumption continues to fall.

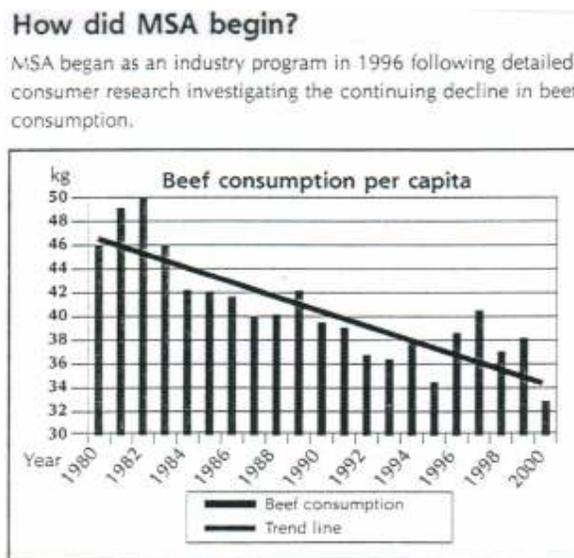
The Original Plan

In 1999 MLA introduced MSA grading to halt the Australian decline in demand for beef resulting from inconsistent eating quality.

In 2001 major beef retailers signed up to a Voluntary Retail Agreement to describe beef from animals with eight teeth as "Budget".

Trend Decline

The MSA 1998 Business Plan noted that per capita beef consumption was on a long-term trend decline of about 1.7% per year (see chart: *How did MSA begin?*).



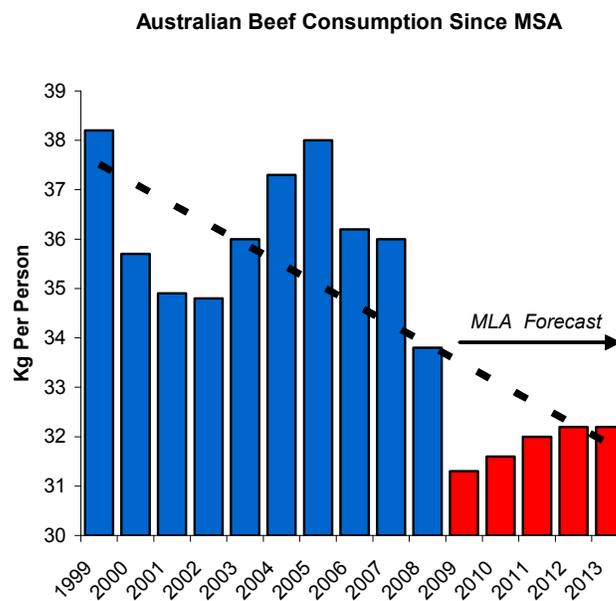
Source: MSA

The Outcome

Ten years and \$74m later MLA has forecast a further decline in per capita consumption for the next five years (2009 to 2013) of 15.7% or 6 kgs less per person than it was in 1999.

Continued Trend Decline

The per capita consumption trend decline between 1999 and 2009 was 17.6% or about 1.76% per year. The trend decline which laid the foundation for the development of MSA has therefore continued at the same rate since the introduction of MSA 11 years ago (see chart: *Australian Beef Consumption Since MSA*).



Source: MLA

The Cost

The cost to the beef industry of a drop of 6 kgs per capita disappearance of beef consumption $\times .79 =$ a retail weight of 4.74kgs at an average retail sale price of \$16.24 per kg multiplied by 21,800,000 Australians equals \$1.6 billion a year.

The MSA Strategy

“Two of the strategic imperatives of the 1996 Meat Industry Strategic Plan (MISP) were to:

- supply a consistent product to consumers; and
- accurately describe palatability to consumers.”

The MISP concluded this would result in an annual \$1.2 billion payout to the Australian beef industry by 2010.

The Meat Standards Australia Business Plan December 1998 stated that there were two reasons for introducing MSA:

- consumers are clearly dissatisfied with beef. They are reacting to its uncertain and unpredictable eating quality by reducing their beef consumption; and
- MSA would deliver increased profits to the beef industry.

The 1998 MSA Business Plan stated that “a strategy for expanding a *whole of market* grading system must be developed”.

So what went wrong?

Australia has failed to develop a whole of market Grading System.

The Australian Branded Beef Association told the Senate Standing Committee on Rural and Regional Affairs and Transport Inquiry into Meat Marketing that:

“Australia (has) the world’s leading grading system in Meat Standards Australia (MSA); however nothing is perfect and MSA only describes the product that meets its requirements. We believe that we need a system that accounts for and describes the entire product.

Therefore we (the Australian Branded Beef Association) support the Bindaree position on a National Grading System provided that it incorporated the current MSA system/technology for the product that meets the MSA specifications and then ascribed grades/descriptions to the product that does not meet MSA requirements.”

Last year only 20% - 25% of beef sold on the domestic market was MSA graded and less than half the retailers in Australia are signatories to the Voluntary Retail Agreement which requires signatories to describe beef from eight tooth animals as “Budget”.

Secrecy and Misdescription

Most consumers have never heard of MSA and don’t know that “Budget” beef means beef from older animals.

The Senate Standing Committee on Rural and Regional Affairs and Transport Inquiry into Meat Marketing report:

- Slammed the retail practise of selling Mutton and Hogget (i.e. meat from older animals) branded as lamb to unsuspecting consumers;
- Criticised the use of the word “Budget” under the Voluntary Beef Retail Agreement to describe beef from old cows saying that the Budget label was confusing and misleading and not enough to let the consumer know that the meat that they were buying was from older animals;
- Found that a quality based Beef Grading System would benefit Australian consumers and the Australian Beef Industry as a whole and that at the very least consumers should be guaranteed the same objective AUS-MEAT grading classification for beef as those required for export abattoirs.

The Solution

A National Beef Grading System that grades all the product sold to Australian consumers.

Richard Torbay's Beef Grading Bill which is before the NSW Parliament contemplates a National *Voluntary* Beef Grading Code underpinned by legislation which will impose potential penalties on any retailer who adopts the Code and then cheats by mis-describing beef as being a certain grade when it does not meet the standards for that grade.

Richard Torbay's proposed National Beef Grading Code *embraces MSA* and recognises the general improvement in beef eating quality in recent years but, if adopted, will apply to *all* the beef products sold on the domestic market, not just MSA graded products and Budget beef.

Under the proposed legislation if a retailer purchased beef from an AUS-MEAT accredited abattoir labelled, for instance, PRS (up to 42 months old) and sold it to their customers as yearling, they would be subject to substantial fines.

Similarly, if a retailer purchased beef from an AUS-MEAT accredited abattoir labelled "Budget" and sold it to his customers under a label that did not include the word "Budget" that retailer would be subject to substantial penalty.

If all the beef is graded consumers will know the quality of the product before they buy and will no longer have to enter into the lottery of getting good steak one day and bad steak the next.

This will lead to an increase in per capita beef consumption and good quality beef and cattle will attract the premium price they deserve.

The potential payout to the beef industry will be well over \$1Bn a year.

Truth in Labelling

If those retailers that are signatories to the Budget Beef Voluntary Retail Agreement really intended to label beef from animals with eight teeth as "Budget" in their shops it is difficult to understand why they would object to that Voluntary Retail Agreement being underpinned by legislation which imposed a penalty if the retailer cheated and failed to disclose to their customers that the beef came from older animals.

If retailers did not breach the Agreement no penalties would apply.

Grading and Beef Consumption

The relationship between the age of cattle at slaughter, accurate grading and labelling of beef products and beef consumption is pretty clear.

In the US where there is a whole of market grading system and beef consumption has remained high despite increases in poultry and pork consumption, over 80% of the table

beef comes from cattle that are 30 months or younger and most of the cattle slaughtered are under 18 months of age.

Prior to 1996 22% of the beef sold in the United Kingdom came from old cows at the end of their breeding cycle and beef consumption had been declining since the mid 80's as UK consumption of chicken and pork increased.

When the BSE (Mad Cow Disease) outbreak spread to humans in the United Kingdom in the mid 90's the UK Government introduced the 30 Month Rule prohibiting the sale of meat for human consumption from cattle over 30 months. Despite the bad publicity, UK beef consumption actually rose from 16kg per person in 1996 to 21kg per person in 2001, a 5kg or 31% increase in beef consumption.

Once the old cow beef came off the UK market and people could buy a consistent beef product, they switched back from lamb, pork, poultry and fish and ate more beef.

During the same period in Australia where approximately 30% of the beef coming from old cows, beef consumption fell by 4.8kg or 12%. In New Zealand where there is no grading or slaughter age legislation beef consumption declined by 10kg per person or 30%.

In the United States, Canada, Japan and Korea (who all have Grading Systems) beef consumption either maintained or increased.

When BSE broke out in Germany in 2001/02 the German government introduced testing requirements for cattle over 30 months but allowed cattle over 30 months of age that passed the BSE test to be slaughtered for human consumption.

Consequently, German per capita consumption fell from 14kgs in 2001 opposed to 10 kgs per person in 2002 and has never recovered.

In other words, the Germans kept selling old cow beef to consumers after the BSE scare (and in clear contrast to the situation in the UK) the result was a significant and continuing decline in per capita beef consumption.

Inconsistent Eating Quality

Old cow meat is tough, tasteless and pretty hard to chew and as the Australian Consumer's Association say:

“That's why you can buy beef that melts in your mouth one day but when you go back to get more it will be tough and tasteless.”

Both the Australian Consumers' Association and the Meat Industry's Strategic Plan claim that consumer confidence in eating quality is essential to repeat purchase of meat which in turn leads to an increase in per capita consumption.

The 1998 Meat Standards of Australian Strategic Business Plan stated that the *claim* that the then previous decline in demand for beef by Australian consumers had little to do with inconsistent eating quality of beef was *untenable* and pointed to numerous consumer research studies in Australia (and also the US) which identified that *inconsistent quality was a major reason for decline in per capita beef consumption*.

The 1998 MSA Business Plan states that “propensity to repeat purchases is heavily influenced by eating performance”.

Dissatisfied Customers

A dissatisfied customer of a butcher may go to another butcher or substitute another form of meat protein such as chicken or pork if they are dissatisfied with their most recent eating experience.

The correlation between the rise of chicken consumption and the decline of beef consumption as a consequence of inconsistent beef eating quality and the consistency and lower per kilo price of chicken, is well documented here in Australia and overseas.

Australian per capita beef, has fallen by over 30% since the 1970's whilst Australian chicken consumption which is based upon a consistent product at a cheaper price has increased by over 150%.

If the Australian beef industry is to stem or reverse the decline of per capita beef consumption and the increase in chicken consumption it must deliver a more consistent product to the consumer.

Most of the beef sold on the Australian domestic market is not graded and there are no truth in labelling laws to require retailers to describe the quality of the beef that they are selling.

Audit Evidence

Currently there are no effective auditing processes at retail level for those retailers who are signatories to the Voluntary Beef Retail Agreement to ensure that the beef purchased under the AUS-MEAT “Budget” label is being described by the retailer to his customer as “Budget” beef.

MLA advise that they carry out about 1,500 detailed audits a year in MSA licensed retail outlets but only a fraction of the beef retailers in Australia are MSA licensed.

Consequently, under the current system it is very difficult to obtain evidence that would stand up in Court that retailers are selling low grade beef as premium beef.

Under Richard Torbay's legislation retail compliance with the Beef Grading Code will be audited by SafeFood when they carry out their health, food safety and lamb branding audits. If the retailer cheats and misdescribes the beef they are selling they will be subject to substantial fines.