

**SUBMISSION TO SENATE STANDING COMMITTEE
ON RURAL AND REGIONAL AFFAIRS
AND TRANSPORT**

**Inquiry into Industry Structures and Systems
Governing Levies on Grass-Fed Cattle**

**By
Members
of the
Australian Meat Producers Group
("AMPG")
and the
Concerned Cattle Producers
("CCP")**

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THE CONCERNED CATTLE PRODUCERS

The Australian beef cattle industry is facing major challenges with current cattle prices well below the cost of production and rising farm debt.

On 4 November 2013 the Minister of Agriculture Barnaby Joyce took the unusual step of asking the Senate Rural and Regional Affairs Legislation committee to conduct an inquiry into the collection and expenditure of compulsory levies in the beef industry.

On 12 December 2013, the Senate moved that the Rural and Regional Affairs and Transport References Committee conduct an inquiry into the industry structures and systems governing the collection and disbursement of marketing and R & D levies pertaining to the sale of grass-fed cattle.

Consequently a number of cattle producers around Australia, including some members of the AMPG think tank, have banded together under the banner Concerned Cattle Producers (CCP) to assist those grass-fed cattle farmers worried about the current profitability of their industry and the effectiveness of their current representation.

The following submission reviews the historical background to the creation of the current grass-fed cattle levy organisational structures and systems, provides a comprehensive analysis of the current economic and functional structure of the Australian Beef Industry and outlines the need for a comprehensive review of the structures governing the Australian grass-fed cattle levies and systems.

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LIST OF ACRONYMS

The following acronyms appear at points in this submission

ABA- Australian Beef Association

ABARES – Australian Bureau of Agricultural and Resources Economics and Sciences

ABS – Australian Bureau of Statistics

ALEC – Australian Livestock Exporters Council

ALFA – Australian Lot Feeders Association

AMB - Australian Meat Board

AMIC – Australian Meat Industry Council

AMLC – Australian Meat and Livestock Corporation

AMPC – Australian Meat Processors Corporation

AMPG- Australian Meat Producers Group

AMRC - Australian Meat Research Council

APL - Australian Pork Limited

AWI - Australian Wool Innovation Ltd

CCA – Cattle Council Australia

CCP - Concerned Cattle Producers

EYCI - Eastern Young Cattle Indicator

GICA- Goat Industry Council of Australia

HAL - Horticulture Australia Ltd

LiveCorp – Livestock Export Corporation

MIC – Meat Industry Council

MLA - Meat & Livestock Australia

MOU – Memorandum of Understanding

MSA - Meat Standards Australia

NFF - National Farmers Federation

NLIS - National Livestock Identification System

NTCA - Northern Territory Cattlemen's Association

PGA- Pastoralists and Graziers Association of Western Australia

RMAC – Red Meat Advisory Council

SCA – Sheep Council of Australia

SFO- State Farm Organisation

WAFA - Western Australia Forest Alliance

Preface

This submission:

1. analyses the grass-fed cattle levy funded industry structures and systems in the context of accepted jurisprudential organisational theory
2. sets out the history of the changes to the grass-fed and red meat industry levy funded structures and systems since 1936 as world and domestic economic conditions and the collective needs of those industries have changed over the decades
3. sets out the 1996 Steering Committee Task Force Report recommendations that formed the basis of the current red meat industry organisational structures
4. explores a number of 1996 Task Force implementation decisions that undermined some of the Task Force's key accountability and industry franchise recommendations
5. explores the significant changes that have occurred in the global and domestic economy and the structure and makeup of the red meat production, processing and retail industry since the current levy funded red meat industry structures were put in place in 1998
6. discusses the increasing burden of uncompetitive government influenced costs and charges imposed upon the red meat industry since 1998 in the context of the industry's need to bring Australia's cost structure into line with the cost structures of our overseas competitors
7. explores the sharp decline in State Farm Organisation (SFO) membership since 1998 and the effect that the decline has had on the capacity of SFO Peak Councils to carry out their functions under the current red meat organisational structure in the context of the findings contained in the Australian Farm Institute report into the effectiveness of Australian farming advocacy groups
8. considers the impact that the significant changes in industry and SFO structure that have occurred since 1998 have had on the ongoing collective needs of the grass-fed cattle industry in the context of and the Commonwealth's Levy Principles and Guidelines
9. sets out the key findings and recommendations of the last Senate Committee inquiry into the red meat industry consultative structures in 2002
10. examines some of the fundamental structural flaws in the current grass-fed levy structure and systems and the impact that those flaws have on the ability of the current grass-fed cattle levy structures and systems to meet the collective needs of the grass-fed cattle industry
11. explores some of the reform options that have been put forward to address the structural flaws in the current grass-fed cattle levy structures and systems, and
12. explores some process options that should be put in place to bring about the necessary changes to the current grass-fed cattle levy structures and systems to meet the collective needs of the grass fed cattle industry in the next decade

1. Executive Summary

1.1. The Need for Grass-Fed Cattle Levy Organisational Structure Review and Change

The economic and structural environment in which the grass-fed cattle industry now operates has changed enormously during the 15 years since 1998 when the current grass-fed cattle industry levy structures and systems were put in place.

The red meat industry organisational structures and systems that preceded the current structures were changed and reformed several times during the last half of the 20th century in order to deliver the collective needs of the red meat industry as economic and market circumstances changed during those years.

Collective organisational structures and systems pertaining to other rural industries such as pork, wool, grains, dairy, horticulture and a host of others were also changed and reformed in the late 1990s and the early part of this century, in response to the changing economic and market environment.

An independent reform review is currently being undertaken with respect to the horticulture levy funded structures and systems as a consequence of the economic and industry changes that have occurred in the horticulture industry since that structure was put in place in 2001.

Rural advocacy groups, particularly those Peak Councils based on State Farmer Organisations, who rely on membership fees to fund their activities, are also facing significant challenges in meeting their representative obligations to the sectors of the rural industry they represent as a consequence of falling membership.

Consequently, the Cattle Council of Australia (CCA) recently embarked upon a two year reform process, NSW Farmers and the National Farmers Federation (NFF) are all considering reform and restructure options, and the Australian Farm Institute handed down a report on *Opportunities to Improve the Effectiveness of Australian Farmers' Advocacy Groups* on 4 March 2014.

This Senate inquiry into grass-fed cattle industry levy funded structures and systems has been called in response to grass-fed cattle producer concerns about the effectiveness of current grass-fed cattle industry organisational structures in meeting their collective needs in the current economic climate and enabling them to maximise their ability to respond to profitability challenges and capture opportunities in marketing and research and development.

The current grass-fed cattle levy funded structures and systems were created in 1997/98 and the structures adopted reflected the state of thinking at the time which may have been appropriate to the circumstances that the industry was facing then.

However, in the 15 years since 1998, the environment in which the grass-fed cattle industry and other Australian rural industries operate has changed enormously, with an increasing domestic concentration of supermarket and processing power, declining farmer populations, a 100 million decline in Australia's sheep population, increased reliance on feedlot production, an unsustainable fall in cattle prices and profitability, and consequent increase in farm debt.

The material discussed in section 13 of this submission indicates that there is widespread industry consensus that as a consequence of the significant structural changes that have occurred in the

industry since 1997/98 the current grass cattle levy structures and systems need to be changed to meet the current needs of the grass fed cattle industry

Consequently the time has come for another details industry inclusive review of the grass-fed cattle levy structures and systems to consider reform options that will ensure that the grass fed cattle levy structures and systems are appropriate to meet the collective needs of the grass-fed cattle industry during the next decade.

1.2. Organisational Structure Jurisprudence

It is a fundamental tenant of organisational structure jurisprudence that the industry structures determine the outcomes produced and the manner in which the organisation operates and performs.

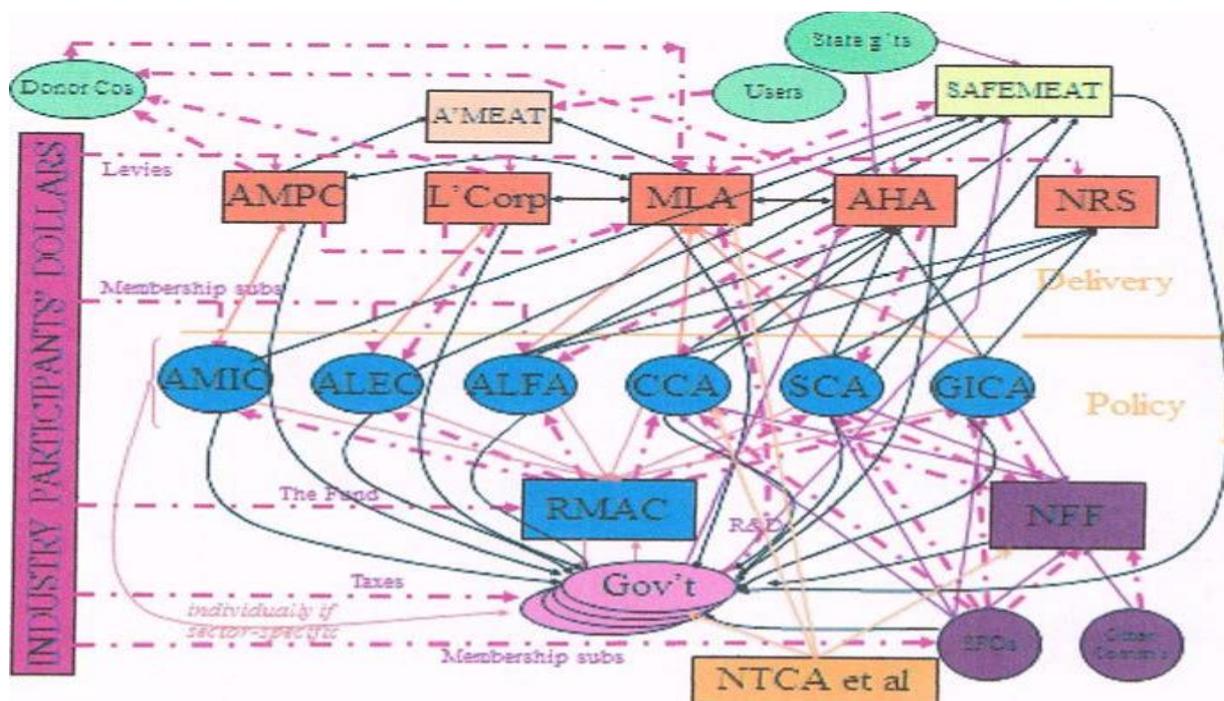
An organisational structure defines how activities such as task allocation, coordination and supervision are directed towards the achievement of the organisational aims

The importance of organisational design and structure to the delivery of collective outcomes cannot be overestimated. It is conventional jurisprudential wisdom that outdated or dysfunctional organisational structures result in policy setting contradictions, role confusion and lack of coordination in policy delivery.

The current red meat industry organisational structures and the Meat & Livestock Australia (MLA) structure in particular are complex bureaucratic divisional matrix organisational structures, which for reasons that can be seen from the diagram set out immediately below (**Diagram 1**), many in the industry refer to as a *spaghetti* structure, where individuals and division are managed through more than one reporting line.

Diagram 1- Current Red Meat Industry Organisational Structure

Source - NTCA Katherine Branch General Meeting 16.3.2012 – Submission 102



Under the current red meat industry organisational structure:

- MLA is required to deliver policy for and report to grass-fed cattle producers, lot feeders and sheep producers, live exporters and meat processors, whose commercial interests are often diametrically opposed, and
- RMAC, whose membership is made up of the same disparate and competing sectors of the red meat industry that MLA has obligations to, is meant to act as a one stop shop advisory Council to the government, but on important issues often cannot effectively carry out that role because they cannot reach a consensus when their commercial interests are in direct conflict.

The complexity of MLA's divisional matrix structure is compounded by the fact that the Cattle Council of Australia (CCA), Sheep Council of Australia (SCA) and the Australian Lot Feeders Association (ALFA) are charged with the responsibility of setting levy expenditure policy, while MLA's primary role is to be the marketing and R&D service provider. So in theory, MLA has three divisional masters, CCA, SCA and ALFA and is also meant to act co-operatively with the abattoir owners and live exporters to provide "*willing partnership*" services to those sectors of the red meat industry.

Complex divisional matrix organisational structures generally result in conflict over the allocation of resources and ineffective stakeholder monitoring of projects with consequent project cost and budget blowouts.

The current red meat industry levy funded structures and systems were introduced in the context of dissatisfaction over the blowout in the budgets of the preceding statutory levy funded corporations AMLC and MRC, from \$14 million per year in the early 80s to \$138 million in the mid 90s, while industry profitability, real cattle prices and domestic beef consumption continued to fall.

MLA's budget has blown out from \$96 million in 1998 to over \$170 million per year while industry profitability, real cattle prices and domestic beef consumption have all continued to decline.

Over the last decade, as a consequence of the forces of globalisation, competition and more demanding customers, the structure of many companies has become flatter, less hierarchical and more fluid as they attempt to control costs and become more internationally competitive.

Flatter non-divisional composite functional organisational structures are now generally regarded as more focused, efficient and easier to manage and fiscally control than complex divisional matrix structures.

1.3. Submission Contentions

For the reasons set out below, this submission contends that:

- the complex and convoluted industry structures and systems governing the collection and disbursement of grass-fed cattle marketing and R&D levies no longer meet the collective needs of the grass-fed cattle industry
- grass-fed levy payers do not believe that they are obtaining value for the levies they are paying and the basis on which grass-fed cattle levies are collected and used needs to be reviewed as a matter of urgency

- grass-fed cattle levy payers do not have any opportunity to influence the quantum and investment of their levies
- the current red meat industry governance arrangements, consultation and reporting frameworks do not adequately protect and/or meet the needs of grass-fed cattle producers
- the current grass-fed cattle levy structures and systems need to be reviewed and reformed to enable grass-fed cattle producers to respond to the challenges they are facing and capture opportunities in marketing and research and development over the next decade.

The current grass-fed cattle levy structures and systems' failure to meet the collective needs of the grass-fed cattle industry, at a time when the grass-fed cattle industry is facing an unsustainable profitability crisis, constitutes a market failure in the sense set out in the Levy Principles and Guidelines.

The current grass-fed levy collection and disbursement structures and systems would not obtain majority support if they were put to a plebiscite in accord with the Levy Principles and Guidelines requirements.

Consequently the Government should initiate an urgent comprehensive review of the grass-fed cattle levy industry structures and systems in accord with the recommendations set out below, as a matter of urgency, to establish the best options for the reform of those structures and systems to ensure that the grass-fed cattle industry's collective need over the next decade can be met.

1.4. Rationale

An examination of the matter set out in the body of this submission reveals that:

- the collective needs of the grass-fed cattle industry in 2014 have changed significantly as a consequence of changing world and domestic economic conditions
- grass-fed cattle industry structures and systems that may have been relevant to the collective needs of the industry in 1998 are not necessarily appropriate for the needs of the grass-fed industry in 2014
- there were a series of mistakes made in the implementation of the 1996 Task Force report recommendations with respect to accountability and structural division between industry sectors that undermined the intent of the 1996 Task Force recommendations that formed the basis of the current red meat industry levy funded organisational structures.

1.5. Major Flaws in the Current Structures

The material set out in the body of this submission identifies the following major flaws in the current grass-fed cattle levy structures and systems:

- 1 A dysfunctional divide between policy setting and policy delivery, with the cash-strapped Cattle Council of Australia (CCA) being charged with the responsibility of setting levy payer policy, along with the Sheep Council of Australia (SCA) and the Australian Lot Feeders Association (ALFA), whilst Meat and Livestock Australia (MLA) is charged with the responsibility of delivering that policy.
- 2 A dysfunctional complex metrics divisional MLA structure that:

- requires two State Farm Organisations and one producer Peak Council representing different producer sectors
 - collectively sets policy for and directs MLA
 - also has responsibilities under Corporations Law to its levy payers, and
 - is required to cooperate with live exporters and meat processors who are represented respectively by two non-SFOs Peak Councils and are also required to contribute levy funds to MLA.
- 3 A dysfunctional complex, one stop shop Red Meat Advisory Council (RMAC), that is made up of cattle producers, lot feeders, sheep producers, live exporters and meat processors whose commercial interests are often in direct conflict, which means that they are often unable to reach a consensus position, and are therefore unable to fulfil their advisory role to government.
 - 4 Inadequately funded SFO Peak Councils who have lost their traditional source of income as a consequence of falling membership, who consequently find it impossible to effectively carry out their advocacy role under the current structures.
 - 5 A dysfunctional complex divisional organisational matrix blurring of the separation between levy funded producer activities and levy funded meat processor activities that has arisen as a consequence of an unforeseen degree of vertical integration of meat processors into feedlot cattle, which has resulted in meat processors now being 11 of the top 17 levy payers to MLA.
 - 6 An undemocratic governance, board and voting structure in the complex divisional matrix MLA structure that is compounded by falling SFO membership among cattle producers, which has led to a disconnect between producers and the bodies that are supposed to represent them.

1.6. Consequences

As consequence of the flaws in the current grass-fed levy structures identified above:

- the current grass-fed levy funded structures and systems do not meet the current collective functional and representative needs of the grass fed cattle industry
- the current grass-fed cattle levy does not satisfy the Levy Principles and Guidelines 'cost benefit' and 'market failure' tests, and
- given the current cattle prices being received by a grass-fed cattle producers and the disaffection amongst many cattle producers about the value of programs that their levy money is invested in, it is unlikely that a majority of levy payers would vote in favour of the current grass-fed cattle systems.

1.7. Reform Options

This submission explores a number of red meat industry reform proposals that have been put forward by the Cattle Council of Australia (CCA), the Australian Beef Association (ABA) and the Australian Meat Producers Group (AMPG) and identifies a number of other rural industry representative and service provider models in Australia and overseas which have the capacity, to a greater or lesser extent, to address the flaws in the current grass-fed levy structures and systems outlined above.

In particular both this submission and the Australian Farm Institute have identified a number of non-divisional levy funded rural industry models both in Australia and overseas where strategic policy setting, service delivery and advocacy are combined under the one roof to deliver a seamless, well

funded representative and service delivery organisation that meets the collective needs of the particular industries or sectors of industries that they represent.

1.8. Recommendations

This submission recommends the Senate Rural and Regional and Transport and References Committee:

- **call for an urgent independent review of the current grass-fed cattle levy funded structures and systems to ensure that they are appropriate to meet the collective needs of the grass-fed cattle industry over the next decade**
- **recommend the establishment of an independent Task Force along the lines of the 1996 Australian Meat and Livestock Reform for the Future Steering Committee and Task Force**
 - **comprised of cattle producers from southern and northern Australia**
 - **equipped with appropriately qualified advisors to carry out that review and**
 - **identify options for grass-fed cattle levy structures and systems that would meet the current representative and collective needs of the industry and**
 - **provide a report and recommendations to the Minister for Agriculture within four months**
- **recommend that the terms of reference for the proposed review should require the Task Force to start with a clean sheet of paper and first identify the collective representative and service delivery needs of the grass-fed cattle industry and then outline options and make recommendations for a replacement structure or structures best equipped to deliver those needs based on comparative Australian and international rural industry representative and service delivery models.**

2. History of the Current Grass-Fed Cattle Levy Funded Industry Structures and Systems

A short review of the red meat industry levy funded structures and systems that preceded the current industry structures discloses a history of reform and restructure as economic and world and domestic market conditions changed over the decades.

2.1. The Australian Meat Board 1936

Statutory Boards in the Australian meat industry financed by meat levies originated in 1936. The original Australian Meat Board (AMB) was set up in response to adverse market conditions caused by the depression to administer export quota arrangements in an Australian export market dominated by the United Kingdom. The Board was empowered to issue export licences, regulate shipments of meat, and promote overseas sales by advertising, as well as fostering meat research.

2.2. The Meat Agreement 1951

Initially export trade in Australian meat was confined mainly to shipments to the United Kingdom under the terms of the Meat Agreement, with the guaranteed minimum prices on beef, mutton and lamb in return for an assurance that all exportable surpluses would be provided to the UK market.

The provisions of the UK Meat Agreement were gradually relaxed and by 1963 some 81% of Australian beef exports and more than 50% of mutton exports were shipped to the USA.

2.3. The Meat Industry Act 1964

As market diversification progressed, the roles and structure of the levy funded Meat Board changed and the Meat Industry Act 1964 reconstituted the AMB and widened its powers to include authority to purchase and sell meat for market development in “special “market circumstances.

The Australian meat industry underwent several further changes between 1964 to 1977 by which time Australia had become the largest single meat exporter in the world. This expanded the export portion of Australian meat production from one third to almost a half. These changes made the industry susceptible to even small changes in overseas demand. During this period there was a great emphasis on government involvement in the world meat trade, particularly in Eastern Europe, Japan and the Middle East, and a greater incidence of import restrictions particularly from the US, Japan, Canada and Western Europe.

2.4. The Australian Meat & Livestock Corporation Act 1977

In 1977 the government introduced the *Australia Meat & Livestock Corporation Act* and the AMB was reconstituted as the AMLC, a statutory Corporation with additional powers, which included:

- the introduction of the Livestock Export Charge to collect revenue from live exports;
- the power to issue directions to exporters with respect to
 - classes and grades of meat and livestock;
 - destinations;
 - quantities; and
 - terms and conditions for sale.
- the power to develop and operate export control plans and then control the carriage of meat and livestock and conditions relating to the contract for the shipment of meat and livestock,
- retention of the AMB power to purchase meat and livestock, and export it themselves.

The AMLC was advised by two groups representing the different parts of the supply chain: the Producer Consultative Group and the Exporter and Abattoir Consultative Group.

Research and development was carried out through the Australian Meat Research Council (AMRC) which is a statutory corporation set up under the *Meat Research Act 1960* which provided for the chairman of the AMLC to be a member of the AMRC and was generally controlled and directed by the AMLC

2.5. The AMLC Reforms of 1984

The next major reform of the statutory authority structure occurred in 1984 following the cattle price crash of the 1970s. The government introduced measures designed to improve the commercial focus of the statutory meat organisations, to broaden the membership and expertise base of the statutory boards, and to improve accountability.

These measures included the introduction of a selection committee to advise on board membership and required the development of corporate/operational plans together with annual reports and stakeholder involvement in AGMs.

2.6. Meat Research Corporation 1985

The MRC was formed in July 1985 to replace the AMRC as a result of an industry backed Commonwealth government decision to restructure the existing AMLC and the AMRC in order to manage R&D for the meat and livestock industry through a levy funded Corporation with dollar for dollar matching funds by the government. This represented a new direction for research administration and funding with a greater emphasis on commercial partnerships, coordination, planning dissemination and adoption of research results. Similar provisions were applied to board selection and industry/parliamentary accountability such as those in AMLC and other statutory corporations.

2.7. The Meat & Livestock Industry Act 1995

Following the 1994 Industry Commission Inquiry into meat processing the *Meat & Livestock Industry Act 1995* was passed by Federal Parliament with the intent of phasing government out and replacing the statutory corporations through a staged approach of transferring greater responsibility for industry decision making to the industry itself, and eventually moving to a non-statutory environment.

The 1995 legislation set up the Meat Industry Council (MIC) as an advisory body to AMLC and AMRC and provided a sunset to the statutory structures at 30 June 1998, and required the commencement, no later than 1 July 1997, of a review by government and industry of the arrangements.

2.8. Australian Meat and Livestock Reform for the Future Steering Committee and Task Force 1996

At the Meat Industry Council (MIC) conference on 1 May 1996, then Federal Agricultural Minister John Anderson announced that he was establishing a joint government/industry reform process for Australia's meat and livestock industry structures and on 27 May 1996, announced the terms of reference for a task force to recommend improved structures.

The terms of reference for the Task Force required the Steering Committee to examine and report on:

- (a) options and recommendations for meat and livestock industry organisations to deliver collectively funded industry programs more effectively
- (b) the costs and delivery efficiency of the services provided by MLC, MRC and MIC to provide a cost baseline for the longer term industry organisational structures
- (c) recommendations for key government, or joint industry/government, policy and programme actions, including those that extended beyond the functions of industry organisations to facilitate a more internationally competitive red meat industry in Australia

2.9. The Task Force Report October 1996

The 1996 Task Force Steering Committee noted how the red meat industry levy funded structures had evolved over the decades and that each stage in the process of evolution had been preceded by a review. Each review had been in response to changing market, industry and policy circumstances which tended to demonstrate that non-profit statutory structures with multiple stakeholders do not adapt on their own accord.

The Steering Committee noted that statutory boards and managers are constrained by a combination of legislative imperatives and stakeholder priorities, many of which can be

unrelated to pure commercial objectives. Conflicting requirements can lead to less efficient decision-making and reduce performance, which provides a limit to the full commercial focus demanded by stakeholders.

The Steering Committee also found that the development of meat and livestock statutory authorities was one of a gradual shift towards a more deregulated commercial orientation by successive authorities which reflected broader policy trends in Australia and changing market requirements. The Steering Committee noted that, by their nature, each stage to reform tended to be reactive and that in the absence of free market operations the current challenge was to develop the most flexible and responsive levy base structure to meet industry and market circumstances.

The Steering Committee concluded that change is not a one-off event, but a constant part of the market and policy environment and that adapting to change was essential for success.

2.10. Representative and Involved Ownership

The 1996 Australian Meat and Livestock Taskforce criticised the absence of accountability to stakeholders in the previous structures and commented upon the need for the levy payers to feel that they had ownership of the service provided.

Effective accountability of levy payer ownership structures are particularly important for corporations such as MLA, whose levies are exacted compulsorily, and which do not have:

- requirements to produce profit and loss accounts and balance sheets as the main basis for performance monitoring;
- market accountability through the buying and selling of shares in the company.

The Task Force Report pointed to the growing sense of distance and lack of involvement by stakeholders and emphasised that “representation and involved ownership is necessary to achieve the essential participation of the industry itself.”

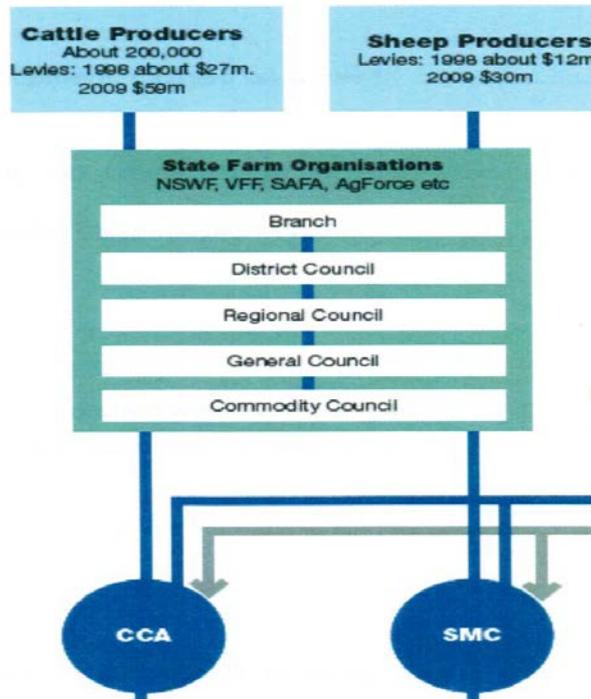
The report recommended:

- greater industry participation in board appointments;
- improved reporting to the AGM, including an annual performance audit;
- an enhanced role for registered levy-paying members; and
- improved evaluation and performance reporting procedures.

The current Cattle and Sheep Meat Council organisational structure means that the membership of the Peak Councils is five (5) times removed from the membership of state farm organisations. This means that the grass roots members feel disenfranchised from the Peak Bodies, and RMAC, MLA and AUS-MEAT that are effectively controlled by the Peak Councils. Members have little ownership of, or say in, the important decisions that affect their livelihood, such as the importation of beef into Australia from BSE affected countries and the expenditure of statutory levies.

Diagram 2 –SFO Structure

Source – *Beef's New Direction Strategic Plan 2010* prepared by Hunt Partners



3. Steering Committee and Task Force Implementation Issues

Many of the recommendations of the Steering Committee and Task Force established to advise on the 1997/98 industry restructure were ignored or inefficiently implemented, including recommendations for voting and Board selection, and separate specie and producer/processor corporations.

3.1. Ownership and Accountability

- The 1996 Steering Committee recommended that the proposed new organisations needed to be accountable to ensure that the levy payers felt that they had ownership of its operations.
- To this end the 1996 Steering Committee and Task Force recommended that:
 - Peak Councils hold 50% of the voting rights (class A members) and levy payers who opted to take up membership in the MLA (class B members) hold the remaining 50% of the voting rights, with all votes being on a one man one vote basis rather than by the amount of levies paid.
 - the Board selection committee should constitute nominees from Peak Councils with the right for any twenty class B registered levy payer members of the company to nominate Board membership candidates to the selection committee.
 - important decisions such as increases or decreases in levies to be passed by a majority of those entitled to vote on a one man one vote basis at the AGM, with director/board and specific program confirmations being allowed from registered levy paying class B members;

- A national agreement between Commonwealth and the States to coordinate regulatory policy to be implemented by the existing regulatory agencies supported by a small departmental Secretariat.

3.2. Industry Organisational Restructure Implementation Outcomes-1998

As the 1996 Steering Committee noted “*The culture of an organisation is inevitably influenced by its ownership and accountability arrangements.*”

- During the implementation phase, the 1996 Steering Committee voting and ownership recommendations were abandoned.
- The two register direct voting and direct election system, without any intervening role by non-levy paying Peak Councils, has been adopted by the Australian Meat Processor Corporation (AMPC). The AMPC constitution allows for one register being on a ‘one man one vote’ basis, and the other register based upon the dollar value of the levies paid. This provides an appropriate balance between basic democratic principles and the rights of those paying the most in levies.
- The two register AMPC direct voting system was not adopted in the MLA constitution. The current MLA voting allocation is tied to the amount of levies paid. The Board selection process vests the right to nominate candidates for election to the Board in a selection committee comprising an equal number of Peak Council’s representatives, producers and representatives of the existing MLA Board.
- Consequently the ownership and accountability principles recommended by the 1996 Steering Committee were lost and many cattle producers now feel disenfranchised from their own corporation. Only about a third of the levy payers have bothered to become members and only about a fifth of those bother to vote at the MLA AGM.
- The structure of many of the Peak Councils is still based upon the 1950’s branch district, regional, state and national committees configuration set out in Diagram 2. This structure leaves representatives of those Councils who interface with government, far removed from the rank and file, in sharp contrast to some of the emerging organisations, which use the internet and teleconferencing to create flatter and more inclusive arrangements.

3.3. Product Specific Corporations

- The 1996 Steering Committee and Task Force recommended that two product specific separate beef and sheepmeat specie split statutory funded corporations be established. This recommendation was ignored;
- In 1996 there were over 170 million head of sheep in Australia and there are now less than 70 million head;
- There are many in the sheep and cattle industry who still believe that their interests would be better served through separate specie corporations. This is especially the case where there is significant and growing domestic and international competition between species for a share of the consumer dollar.

3.4. Producer/Processor Split

The 1998 Red Meat Industry Restructure proceeded on the basis of separate producer (MLA) and processor (AMPC) corporations because it was considered that the interests of the processors and producers were often in conflict and the processors often did not support many of the collective levy funding activities proposed by the producers.

Consequently it was decided that the processors would need to pay reduced slaughter contractual contributions rather than levies to the AMPC and that the AMPC would fund agreed joint functions on a “willing partnership” basis with the MLA. Similar arrangements were put in place for live exporters.

Those implementing the restructure did not, however, realise the full extent of integrated backgrounding and feed lot interests of processors, and the evolution of that integration over the following decade. The result has been very significant voting entitlements vesting in the hands of the larger meat processors. 18% of all MLA levies are now paid by abattoirs and at least half of the top MLA levy payers are abattoirs; JBS Swifts, Australia’s and the world’s largest meat processor, is MLA’s largest levy payer.

There are many processors and producers who believe that the question of split processor and producer corporations should be revisited.

Separation of processor and producer corporations could be facilitated by replacing the current transaction levy with a once only slaughter levy, with the slaughter levy being payable by the entity that owned the cattle (say) 14 days before slaughter. The slaughter levy with respect to all feed lot and background cattle (or sheep) owned by the processor of the cattle (or sheep), would be paid to the processor corporation (i.e. the AMPC) and the slaughter levy from stock owned by producers would be paid to a restructured producer owned MLA.

A recent article in the Northern Star by Peter Weeks claimed that the top fifty levy payers effectively control the vote at a MLA AGM. A copy of the voting entitlements of the top fifty producers at the 2008 MLA AGM is **attached at Annexure A**.

3.5. The Task Force Report Recommendations 1996

The October 1996 Task Force Steering Committee recommended that AMLC, MRC and MIC be abolished and be replaced by levy funded corporations limited by guarantee, and set out a number of alternative corporate structures including, amongst other options:

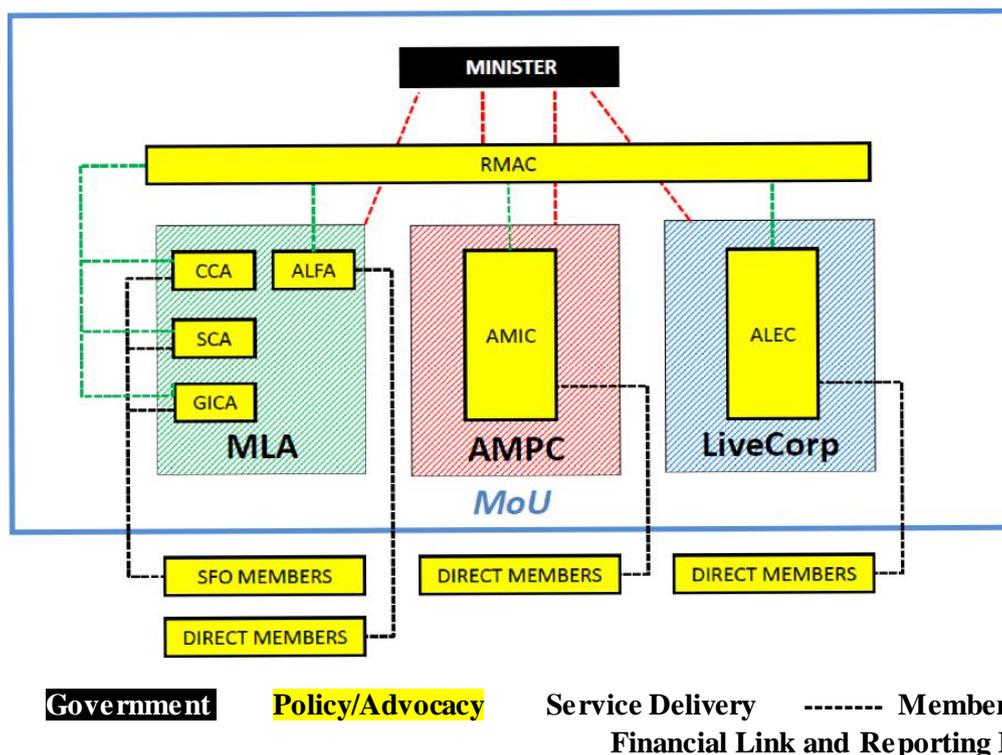
- separate sheep and beef levy funded marketing and R&D corporations, which included both producers and processors (the Steering Committee’s preference) or
- a combined red meat levy funded marketing and R&D corporation, which included both producers and processors, or
- combined red meat levy funded producer marketing and R&D Corporation (the MLA), with separate processor (AMPC) and live export(Livestock Export Corporation) corporations funded by voluntary contributions.

The final option referred was eventually adopted. Meat and Livestock Australia (MLA), the Australia Meat Processor Corporation (AMPC) and Livestock Export Corporation(LiveCorp)were incorporated as companies limited by guarantee and joined together in the current red meat industry structure along

with the various sector Peak Councils CCA,SCA,ALFA and National Meat Association and Australian Meat Council (now combined as Australian Meat Industry Council) under a Memorandum of Understanding (MOU) with the Commonwealth government in 1998 broadly in accord with the arrangements set out in Diagram 2 of the Department of Agriculture submission No. 28 to this inquiry which appears at Diagram 3 in this submission.

Diagram 3 - Australian Red Meat Industry Memorandum of Understanding Arrangements

Source – Submission 28 from Department of Agriculture: Industry Structures and Systems Governing Levies on Grass-Fed Cattle 19.2.14



NB despite the designation of policy/advocacy in yellow with respect to Peak Councils and RMAC in the Department of Agriculture’s Diagram 3 above, under the terms of the MOU, it is only policy advice to the Minister that is the preserve of the Peak Councils and RMAC.

Goals for the vision and strategic imperatives for the industry sectors that CCA,SCA,ALFA and Goat Industry Council of Australia (GICA) represent are required under the terms of the MOU, to be developed jointly by each of those Peak Councils with MLA.

Goals for achieving the vision and strategic imperatives for the meat processing sector of the industry are to be developed jointly by AMPC and AMIC and where services are provided by MLA, jointly between AMPC, AMIC and MLA

Similarly goals for achieving the vision and strategic imperatives for the live export industry are to be developed jointly by Live Corp and ALEC and where services are provided by MLA, jointly between LiveCorp, ALEC and MLA

4. RMAC

The Red Meat Advisory Council (RMAC) was an ill-conceived attempt to set up a one stop shop advisory body for government.

The structure of RMAC makes it virtually impossible for RMAC to meaningfully fulfil its one stop shop advisory role.

A cross sectoral advisory body is singularly ill equipped to advise Government on sectorial regulatory issues.

RMAC is made up of cattle producers, sheep producers, and meat processors and livestock exporters, who represent different sectors of the industry and whose commercial interests are often diametrically opposed.

Each of the industry sectors represented in the RMAC have the same voting rights irrespective of the levy contributions of their sector.

At best RMAC comes up with watered down “consensus” decisions and at worst they can’t reach agreement.

A perfect example of this was the recent support by AMIC of the Government’s ban of live cattle exports to Indonesia which the live exporters were/are desperately trying to revive.

RMAC was also unable to come to an agreed position because of competing single sectorial interests with respect to the allocation of EU & US Beef Quotas.

The Peak Councils and RMAC have received millions of dollars from the interest earned on the reserve fund administered by RMAC.

5. Structural Changes In the Red Meat Industry Since 1998

The red meat industry and the Australian and global economy has changed significantly since the current organizational structures were put into place in the 1990s.

The executive summary of the RMAC submission 165 to this inquiry notes that

“the physical, social and economic environment in which the industry operates has changed dramatically since these systems were initiated in the 1997/98 restructure. While the nature of these changes varies considerably between the sectors, the need for industry entities to adapt accordingly is a challenge common to all.”

The RMAC submission notes that some (but by no means all) of the more notable changes since 1997/98 include

- demographic and sectoral shifts including
 - fewer and older farmers
 - dominance of multinational companies in meat processing
- the decline in the national sheep flock and an increase in lamb production

- ongoing declining terms of trade
- decline in voluntary memberships
- tackling logical improvements in information access and dissemination.

Some of these structural changes and a number of others are discussed below.

5.1. Concentration of Abattoir Power

- in 1998 there were 215 abattoirs in Australia - currently Australia has about 150;
- in early 1996 the five largest processing companies in Australia processed 28% of the national cattle killed and the five largest sheep processors saw 38% of the national sheep kill;
- the five largest red meat processing companies in Australia now account for about 54% of the national sheep and cattle killed, despite the fact that the sheep kill has declined by almost 60% since the mid 1990's.

5.2. Concentration of Foreign Abattoir Ownership

- In 1996 the following abattoirs that are now wholly or partly owned by foreign companies were all Australian owned:
 - *The Tasman Group who owned 3 abattoirs in Victoria and 3 abattoirs in Tasmania with a capacity to kill 600,000 cattle, 3 million small stock and 80,000 pigs annually were taken over by JBS Swifts;*
 - *Teys who owned abattoirs at Beenleigh, Biloela and Rockhampton in Queensland and an abattoir at Naracoorte, South Australia merged with the US based Cargill;*
 - *Greens WA,*
 - *Kilcoy Qld,*
 - *Primo NSW and*
 - *Tabro SA*

The foreign owned abattoirs all have the infrastructure and resources necessary to implement their own overseas marketing, with many of them principally acting as vertically integrated suppliers to their home countries.

5.3. Concentration of Supermarket Power

In the five year period between 1987 and 1992 the percentage of beef sold on the domestic market through supermarkets rose from 20% to 35%.

- According to the latest Nielsen Homescan survey published by Beef Central, Coles and Woolworths now sell about 57% of the beef eaten in Australia and IGA, Aldi and the other minor supermarkets another 21.6%, taking the supermarket share of Australia's domestic beef sales to about 78.6% or 2.24 times the supermarket share of Australian beef sales in the early 1990's.

5.4. Decline in Australia's Sheep Population

The 1996 Task Force Report that was the precursor to the establishment of the current red meat structure included a recommendation for separate sheep and cattle levy funded corporations, but that option was not adopted in the final implementation of the 1990's restructure.

- In the 1990's Australia's sheep population was in excess of 170 million and as of 3 June 2012 Australia's sheep population had declined to 74.7 million (which is less than half of the 1990s sheep population or a decline of 56.5% rather than the 36% decline referred to in the RMAC submission to this inquiry)

5.5. Increased Feed lot Capacity

- In 1998 cattle feed lot capacity in Australia was 885,000 head and by September 2013 Australia's feed lot capacity had reached 1,162,204.
- RMAC note in submission 165 to this inquiry that the number of grain fed cattle on feed has increased by 81% since 1997/98.

5.6. Separate Producer and Processor Levy Paying Corporations

- When the current red meat industry organisational structures were put into place in 1998 MLA was to be the producer corporation and the AMPC the processor corporation. However 18 % of all MLA levies are now paid by abattoirs and at least half of the top 14 MLA levy payers are abattoirs. JBS Swifts, Australia's, and the world's largest meat processor, is MLA's largest levy payer.

5.7. Fluctuations in the Value of the Australian Dollar

- In 1996 the value of the Australian dollar averaged 75 US cents before falling some 24.5 cents to 50.5 US cents in 2001; whilst from the beginning of 2011 until the middle of 2013 the value of the Australian dollar fluctuated between parity and \$1.10 US and is currently trading in band between 86 to 90 US cents.

5.8. Falling Cattle Prices

One of the drivers behind the 1990's red meat industry organisational structural reforms was the major (33%) decline in cattle prices that occurred between 1993/94 and 1996. The last major change to the Eastern Young Cattle Indicator (EYCI) data composition was the inclusion of feeder cattle in November 2004, consequently only post 2004 EYCI figures can meaningfully be used for comparative purposes. The published EYCI figures are not adjusted for inflation.

- On 17 January 2005 the EYCI was 384 cents and by 29 July 2005 the EYCI reached 415 cents. The EYCI averaged 376 cents throughout the whole of 2005;
- on 11 February 2013 the EYCI was 332, the average EYCI for the whole of 2013 was 316 cents;
- On 16 January 2014 the EYCI was 291 cents and last Thursday was back to 311 cents.

The ABS Consumer Price Index Inflation Calculator converts:

- 384 cents in January 2005 to 490 cents in September 2013;

- 415 cents in July 2005 to 522 cents in September 2013; and
- the 2005 average EYCI of 376 cents to 466 cents in September 2013.

In real terms:

- the 16 January 2014 EYCI of 291 cents is 40.6% below the inflation adjusted 17 January 2005 figure of 490 cents; and
- 44% below the inflation adjusted 29 July 2005 EYCI figure of 522 cents; and
- 36.5% below the inflation adjusted average EYCI figure for the whole of 2005; and
- the average EYCI figure for the whole of 2013 of 316 cents was 32 % below the inflation adjusted average EYCI figure for 2005 of 466 cents

This analysis is confirmed by an article by Ian Maclean and David Counsell of Bush AgriBusiness Pty Ltd published by Beef Central on 11 February of 2013 which concluded that Queensland cattle prices had declined by 40% in real terms since 2001.

Although it should be noted that in answers on notice to the Senate Estimate Committee in November last year MLA claimed that the average weighted cattle prices increased by 12.8% between 1997/98 and 2012/2013.

5.9. Blow Out in Levy Funded Corporation Budgets and Failure to Achieve Key Performance Benchmarks

In the 1990's one of key drivers of replacement of the previous corporations, AMLC and MRC, was the blow out in their combined annual budgets from \$14 million in the early 1980's to \$138 million, whilst during the same period:

- real cattle prices had declined by 20%; and
- Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) figures showed that domestic per capita beef consumption had declined at a rate of about 1.3% a year between 1979 and 1996;

Meat and Livestock Australia Ltd started with a budget of \$96 million, which has now blown out to \$170 million. During the same period:

- real cattle prices have continued to decline, falling by 32% between 2005 and 2013 based on published EYCI figures;
- real cattle prices in Queensland fell by 40% between 2001 and the beginning of 2013;
- based on the Mclean and Counsel published figures, per capita domestic beef consumption fell at a rate of 1.49% a year for the first 15 years after MLA's inception (from 41.5kgs per person in 1997 to 32.2 kgs per person in 2012); and
- MLA itself predicts that Australian per capita beef consumption will fall a further 10.6% in 2014, which based on 2012 consumption figures, will result in an Australian 2014 per capita

beef consumption figure of about 28.8kg/s per person; this represents a massive per capita beef consumption drop of 12.7 kg's or 1.8% per year, over the 17 years since 1997.

6. The Ever Increasing Burden of Uncompetitive Costs and Charges

The Australia Red Meat Industry continues to be burdened with ever increasing uncompetitive Government influenced costs and charges.

The 2001 Hielbron Report, commissioned by MLA on the impact of uncompetitive Government influenced costs and charges on Australian Red Meat Industry, found that:

- Australian producers paid one third of their revenue in Government influenced costs and charges;
- New Zealand paid one sixth of their revenue in Government influenced costs and charges; and
- The USA producers paid one eighth of their income in Government influenced costs and charges; and that
- Australian meat processors paid twice as much as USA meat processors in Government influenced costs and charges.

Increasing Australian Government influenced costs and charges since the Hielbron Report published in 2001, such as the National Livestock Identification System (NLIS), increased MLA and AMPC levies and the 100% AQIS fee recovery from 1 July 2011 this year, have collectively increased the Government influenced costs and charges by almost \$15.00 per head.

Until such time as the carbon tax is repealed, the red meat industry is also burdened with Government imposed carbon tax, which has been estimated will amount to another \$8.00 per head on every beast slaughtered, bringing the total increased costs and charges since 2001 on the beef industry to \$23.00 per head every year.

Australia slaughters approximately 8 million head of cattle each year and \$23.00 per head additional Government influenced costs and charges constitutes an additional impost on the beef industry of around \$184 million a year.

Our overseas competitors have not suffered similar increases in their Government influenced costs and charges since 2001.

Additionally, Australian beef processing costs are \$200.00 AUD per head higher for grass-fed cattle processing than the costs for Brazilian grass-fed cattle processing and \$150.00 AUD per head higher for grain-fed cattle than for US processors. These extra costs put the Australian industry at a further disadvantage of over \$1 billion a year on the processing costs of the 8 million cattle slaughtered in Australia each year, vis-a-vis their US and Brazilian counterparts.

These internationally uncompetitive costs and charges are unsustainable and threaten the survival and livelihood of grass-fed cattle producers in Australia.

7. Horticulture Industry Structural Reform

The horticulture industry is currently conducting an independent review of Horticulture Australia Ltd (HAL) and the horticulture levy system. The terms of reference for that review rely on an assessment of the existing HAL model and potential alternatives involving the following criteria:

- Transparency – openness for levy payers in the public to examine what HAL does
- Accountability – to levy paying members, growers and funders
- Effectiveness – whether the HAL model leads to real results for industry
- Efficiency – whether HAL uses resources wisely or whether it wastes money.

ACIL Allen CONSULTING have prepared a consultation paper as part of the independent review which notes that a major barrier to industry accountability and transparency is HAL's role as a levy funded service provider to 43 separate horticulture sector representative body members – 10 of which receive statutory R&D levies only, 20 of which have both statutory R&D and marketing levies and 13 of whom have a voluntary contribution investment program.

In 2013 around \$41.2 million was raised from HAL related levies and HAL currently invests around \$100 million annually in line with strategic investment priorities of Australia's horticulture industries and the Australian Government Rural Research and Development priorities.

The ACIL Allen consultation paper refers to the timeliness of the review and need for change, noting that HAL was created in 2001, adopting a model that reflected the state of thinking at the time and was appropriate to its circumstances.

ACIL Allen goes on to note however that in the 13 years since 2001:

“...the environment in which HAL operates has changed enormously. The industry has grown, diversified, and become more sophisticated and outward looking. Australian government practices have also evolved, in all sectors. The Australian Stock Exchange (ASX) Corporate Governance Council has taken a leading role in improving the governance of organisations. Its corporate governance principle to advice was first published in 2003 – two years after HAL began – and have been updated since. Thinking in Australia about how organisations can be governed to deliver value is very different today than it was in 2001.”

“Reforms in the structure and governance of RDC's have also occurred which highlights that HAL's existing governance is not modern. Although the joint industry and government funding model remains a key element in the success of Australia's R & D in agriculture, the way in which R & D is managed is evolving. This review provides an opportunity to bring the HAL model and governance up-to-date so it can contribute more effectively to a sustainable, efficient and growing horticulture sector. Government has also highlighted the crucial role to be played by levy payers in determining how RDC's invest.”

“This review of HAL is also timely because of increasing challenges being faced by the horticulture sector, despite its successes to date. They include the appreciation of the Australian dollar and associated increased import competition, climate change impacts, consolidation of the

agricultural industry and changing consumer preferences. Challenges such as bio security risks and the need for productivity growth remain a constant for all agricultural industries”

“The horticulture industry is dealing with these challenges while also operating in an increasingly globally competitive sector. Free trade agreements – currently being negotiated with a number of Asian countries – will provide both opportunities and challenges for Australian horticulture. Competition for scarce resources is becoming more of an issue and productivity is vitally important to sustainable growth.”

The ACIL Allen consultation paper sets out five integrated reform options for change that have been suggested during consultation to the independent Review team and invites levy payers and stakeholders to provide the consultants with feedback on the issues and questions raised in the conduct consultation paper.

The horticulture separates service provider levy funded model is one of the restructure options considered by CCA in submission 142 to this enquiry.

8. The Decline in the Number of Australian Farmers and SFO Membership

8.1. Fewer Farmers

The Australian Bureau of Statistics (ABS) and the Australian Farming and Farmers Social Trends publication of December 2012 discloses that there were 157,000 farmers in Australia in 2011 which represents a fall of 11% or 19,700 from the 176,700 Australian farmers recorded in the 2006 census. This also represents a massive decline of 40% or 106,200 farmers between 2011 and 1981 when there were 263,000 Australian farmers.

The ABS figures also disclose that in percentage terms the decline in the number of Australian farmers increased in the 30 years from 1981 to 2011, with the average rate of decline being 1.34% a year or 6.7% every five years compared to 2.2% a year or 11% in the five years between 2006 and 2011.

Probably only about half of the farmers included in the 2011 ABS statistics main source of income is from farming with the rest being hobby farmers or part time farmers, but the decline in farming numbers is not happening at the hobby farm end with incomes of under \$100,000 a year but rather in the middle farm income range of around \$500,000 a year.

Australia's current farmer population of 157,000 represents about .67% of Australia's total population of just over 23.4 million, which in percentage terms is directly comparative to United States whose 2.2 million farmers comprise approximately .69% of the US's total population of 317 million.

8.2. Fewer SFO Members

The fall in the number of Australian farmers has impacted on State Farm Organisation (SFO) membership because it is a small farmer base from which SFO's can attract membership.

However, SFO membership has been declining at a faster rate than the decline in the numbers making up the Australian farmer base.

NSW Farmers chief executive Matt Brand laid out the declining SFO membership situation in detail at the NSW Farmers Annual Conference in Sydney last July noting that the percentage of NSW

Farmers membership of New South Wales farmers had peaked in 1978 at 43% , before falling slightly to 42% by 1988 and dropping to 36% in 1998. Indeed, 1998 was the year that the current red meat industry organisational structures were put in place.

As Mr Brand pointed out, the decline rate in absolute terms and in percentage terms of the number of farmers in New South Wales has increased significantly since 1998, noting that the association had

- 13,273 members in 2002
- this number had reduced to 8,163 in 2010, which is a decline of 38.5% or 4.8% a year, and by 2010 the number of New South Wales farmers had reduced by another 10.25% or the rate of 5.12% per year to 7,326 or a little bit less than 20% of the total number of farmers in New South Wales.

The percentage decline in NSW Farmers membership in recent years has been about twice the percentage decline rate in the number of farmers.

The declining SFO membership numbers and percentage rates has been similar in other states with PGA and WAFA in Western Australia having combined membership of around 6000 and Victorian Farmers Federation also having about 6000 members, which represents a much higher percentage of SFO membership of the total number of farmers in those states. The Northern Territory Cattlemen's Association (NTCA). with around 180 members. has by far the strongest membership of any of the SFO's in percentage terms. AGforce have around 5400 members.

8.3. SFO Reform Moves

The concerns about falling SFO membership and the consequent fall in membership funds, which are the source of income for Peak Council advocacy and lobbying are well documented. Both New South Wales Farmers and the National Farmers Federation (NFF) have embarked upon a reform process to try and deal with this issue, as has the Cattle Council of Australia (CCA).

Victoria's agricultural Minister Peter Walsh, a former Victorian Farmers Federation President, issued a public statement late last year saying the farming sector was suffering because of the decline of its lobby groups. Mr Walsh advised the dairy industry conference in December 2013 that

“I don't think the National Farmers Federation is as well-resourced as it used to be historically. My sense is back in the 80s and 90s the NFF was probably the peak economic lobby group in Canberra and I don't think we are seeing that now and it is to the detriment of agriculture.”

Australian Farm Institute Chief Executive Mick Keogh is reported to have said that state farm organisations were

“bleeding membership” which was “rotting the system from the ground up, I don't think anyone would doubt that there is a major challenge confronting agricultural representation bodies in Australia at the moment.”

“When you look overseas farm organisations have almost without exception moved on in the sense that they are providing a range of different services and functions that actually deliver a benefit to the individual – so in effect the lobbying activities are a by-product. These are

still important, but they're not the primary reason farmers become a member of those organisations."

"There is no doubt that internationally farm service organisations have successfully developed strong business models that make them sustainable long-term and make them attractive to membership."

9. The Federal Government Levy Principles and Guidelines

9.1. 12 Levy Principles

The Federal government introduced 12 Levy Principles in January 1997 which must be met when an industry or group of levy payers proposes a new levy or an amendment to an existing statutory levy.

9.2. New and Amended Levy Guidelines

The January 1997 Levy Principles were amended in January 2009 by the issue of new and amended Levy Guidelines.

The new and amended Levy Guidelines provide, amongst other things, that the initiator of a new levy must be able to demonstrate:

- market failure and net industry benefit (i.e. industry benefits must exceed the cost of raising and funding the levy);
- that the application of the levies is practical;
- where a substantial change to the level of the levy is made, the initiator must take effective steps to inform all actual or potential levy payers of the proposal;
- new or amended Levy proposals must provide a clear case for net industry benefit and market failure and be put to a vote of all levy payers and the levy proposal will only be considered by the Government if there is majority support from actual and/or potential levy payers ;
- whether the levy approach will provide the lowest cost means of finance for the proposed expenditure;
- where there is demonstrated a net industry benefit and market failure statutory levies will not be supported;
- statutory levies must not be used to fund agri-political activities.

Market failure is defined as situations where;

- the nature and dispersal programme benefits are such that a private investor would not profit from supplying them, and
- industry wide levy funding of research, promotion and other industry programs and the example given is where a research produces results that help industry participants but the financial benefits cannot be accessed by private investors; and
- levies represent a source of funds with low enforcement and collection costs, largely because industry participants recognise the benefits of cooperative behaviour.

10. The Restriction on the Use of Levy Funds for Agri-Political Activities

The restrictions on the use of levy funds for agri-political activities contained in paragraph N of the new and amended Levy Guidelines has to be understood in the context of the provisions contained in the Funding Agreements between the Commonwealth Government and the levy funded corporations and the equivalent provisions contained in the Constitution of the levy funded corporations.

The wording in the Funding Agreements and constitutions of the various levy funded corporations differ and change from time to time as a consequence of changes in government policy.

The pork industry levy funded corporation Australian Pork Limited (APL) was established in 2001 in reaction to the flood of Canadian pork imports that decimated the Australian pork industry at that time. APL was formed by combining the pork industry Peak Council and the previous pork industry statutory marketing Corporation and separate statutory R&D Corporation under the one roof and it has operated in that fashion with those combined functions ever since.

The agri-political activity provisions of the Australian Pork Limited 2011 Funding Agreement prevent them from *engaging in or financing any form of external or internal political campaigning* and clause 7.5 of that Funding Agreement specifically states that agri-political activity does not include *strategic policy development*.

As the Cattle Council point out in page 52 of submission 142 to this inquiry, the agreed approach taken by the government and the pork industry during negotiations for the formation of the APL was that agri-political activity means:

any activity intended by the Company to exert political influence on government to advantage one political party or political candidate over another, and included, but is not limited to the following activities:

- (a) funding or making donations to a political party, member of Parliament or candidate for Parliament;*
- (b) advertising, all funding advertising, that supports or opposes a political party, member of Parliament or candidates the Parliament;*
- (c) developing, designing, participating in or funding a parliamentary election campaign or other party political campaign; or*
- (d) recommending or advising, through whatever media, how a person should vote at a Parliamentary election.*

Consequently, under that definition, agri-political activities were limited to party political actions with no restrictions on using levy funds to further development and implement strategic public policy development.

The egg industry levy funded corporation effectively operates in a similar way to APL without the intervention of a separate Egg Peak Council.

The red meat industry Peak Councils already use grass-fed cattle levy money to fund their Peak Council activities through the interest earned on the industry reserves levy funds inherited from the statutory corporations MIC, AMLC and MRC, which are now administered by RMAC. Indeed, last financial year CCA received about \$400,000 from the Red Meat Reserve Fund and almost \$500,000

of grass-fed cattle marketing levy funds from MLA for the provision of uncontested 'contract services' to MLA. It is understood there is a service agreement between MLA and CCA in place or being contemplated, which will provide CCA with \$800,000 of cattle transaction levy money in the current financial year.

The Australian horticulture industry levy funded structure involves levies being paid to various horticulture peak bodies representing mushroom growers, vegetable growers, fruit growers et cetera who then pay the horticulture industry service provider Horticulture Australia Ltd (HAL) to carry out R&D on their behalf and implement various strategic marketing policies developed by the various horticultural representative bodies.

11. The Key Findings of the 2002 Senate inquiry Into Australian Meat Industry Consultative Structures

Despite the recommendations of the 2002 Senate Committee Inquiry into the Red Meat Industry Organisational structures there have not been any meaningful reforms.

The Senate Rural and Regional Affairs and Transport Legislation Committee reviewed the performance and appropriateness of the existing government advisory structures in the Australian meat industry in 2002 and the key findings and recommendations handed down by the Senate committee included:

In relation to RMAC:

- the existing RMAC structure inhibits its capacity to effectively represent the whole industry and that the RMAC's structure will continue to be challenged by the development of new organisations which emerge as the industry changes and the market evolves
- RMAC members are required to undertake and represent a role that extends beyond their own RMAC membership and that consequently, the existing RMAC model can place the Peak Council's in a position of simultaneously representing multiple constituencies, and

The Committee recommended that:

- the Minister initiates discussions with signatories to the MOU concerning reformed advisory arrangements and following those negotiations the Minister engages in detailed and open consultation with all sections of the Australian meat industry on options for reform
- any new advisory body established for the Australian meat industry be empowered to initiate advice to the Minister and that individual industry participants, whether represented on the advisory body or not, must retain the right to make representations to the Minister on any matter of concern.

In relation to MLA:

- the Committee noted and supported industry concern about the undemocratic process by which MLA Board members are appointed and;
- changes to the MLA Board appointment process may be accompanied by amendments to MLA's constitution, or by the replacement of MLA with another company; identical in all respects except for the amended provisions with respect to the Board appointment process

The Committee recommended that:

- The MLA board consult with its membership on democratic reform of the MLA's constitution and in the absence of progress on that matter prior to the 2003 MLA Annual General Meeting, the Minister engage in detailed, open consultation with levy payers on reform options for a more democratic board selection process.

In relation to the Industry Reserve Fund:

- the current rigid disbursement formula for dispersing proceeds from the Red Meat Industry Reserve Fund to the Peak Councils did not take into account actual expenditure of funds by the beneficiary organisations;
- the funds were not allocated in response to the budget submissions by the Peak Councils but were rather determined by the success or failure of the fund's investment strategies for that particular year, and
- if a more competitive and responsive allocation formula may deliver greater benefits to the industry it should be explored as part of negotiations for reformed or alternative advisory models.

The Committee recommended that:

- The Minister negotiates with signatories to the MOU on alternative arrangements for the disbursement of earnings of the Red Meat Industry Reserve Fund; and
- RMAC develop a detailed industry strategic plan, and that consideration be given to the use of competitive contracts to deliver elements of the strategic plan.

11.1. Post 2002 Cattle Producer Forums

- In 2004 1,500 cattle producers convened at Roma in central Queensland calling for a root and branch industry organisational reform and a reduction in the level of uncompetitive Government influenced costs and charges.
- In 2010 over 1,000 people attended a Beef Forum in Armidale and over 500 producers attended a follow-up Beef Forum in Rockhampton which passed unanimous resolutions calling for urgent industry reforms along the lines of the reforms suggested in this submission.

12. The Case For a Review of the Current Grass-Fed Cattle Levy Structures and Systems

The overwhelming majority of the individual submissions lodged on the Senate committee inquiries website call for a review of the current grass-fed cattle levy structures and systems.

The Red Meat Advisory Council (RMAC) submission 165 to this Senate inquiry notes the dramatic physical, social and economic and environmental changes since the current structures and systems were initiated in the 1997/98 restructure and note the need for the red meat industry entities to adapt accordingly.

The RMAC submission notes

in the context of the changes and challenges outlined it would be very rare that any representative (or corporate) structure that was assigned nearly 20 years ago – in the absence of some level of reform – continues to serve its customers with optimal efficiency.

The RMAC submission refers to some of the solution options contained in the 2013 MISP Mid- Term Evaluation, which it states was the first ever independent evaluation of the industry's performance against MISP. The solution noted by RMAC as being worthy of consideration includes:

1. A direct membership structure with a clear line of sight "between representative organisations and their members."
2. Targeted, systematic focus in operations, noting that identifying and focusing on the highest priority issues for each sector is likely to yield quicker and/or more money from results to levy payers.
3. A sustainable funding base which RMAC sees as essential for the longevity of organisational bodies, noting that under the current red meat industry structures and systems, *the need for industry bodies to maintain sufficient capacity to deal with a wide ranging portfolio of responsibilities has left little option but to deliver some of these activities via levy funded service Agreements.*

The CCA submission to this Inquiry No 142 states that:

"Cattle Council of Australia and other levy industry stakeholders that national producers represent require significant reform"

"Evidence gathered from the strategy process, alongside the experience from the Indonesian live export ban incident, the loss of representation from the failing SFO model and the inadequacy of resources for CCA to deliver on its obligations under the red meat industry MOUs, collectively sets the scene for reform of structures and allocation of funding."

CCA consequently calls for reform of the current grass-fed cattle levy structures and systems to provide CCA with a portion of the cattle transaction levy so that it can undertake strategic planning, strategic policy development and industry management functions on behalf of beef producers.

The CCA submission 142 to this inquiry refers to the survey of 675 beef producers that it commissioned Kaliber Research to conduct on its behalf in 2012 and noted that 53% of those surveyed felt that MLA was best placed to act as the single co-ordinated voice of the beef industry, whilst only 18% preferred the CCA is the single co-ordinated voice. Presumably the remaining 29% of those surveyed did not express an opinion one way or the other.

Apparently 36% of those surveyed in South Australia preferred CCA as the single co-ordinated voice, as did 61% of those surveyed in the Northern Territory, which suggests that the percentage favouring MLA as the single co-ordinated voice of the grass-fed cattle industry was higher than 53% in the other states.

AgForce submission 151 to this inquiry supports the Cattle Council reform proposal to give CCA the opportunity to access a portion of the levies and notes that there are *significant systemic issues with various organisations across the red meat industry that need addressing.*

Those issues include but are not limited to

- MLA's organisational culture, noting that *concerns raised with MLA management on strategic and operational issues can be met with resistance and are often deselected with the argument of corporate responsibilities.*
- Ausmeat structure, governments and technical issues

- MLA's governance and organisational reform and MLA's constitutional amendment to allow levy payer members a simpler process to bring resolutions before the board and a more balanced structure in terms of the amount of grass-fed levies paid by each sector. This suggests that the MLA Board Selection Committee should only be composed of Peak Councils and reflect the proportion of levies that each sector pays.

NSW Farmers submission 168 to this inquiry recommended amongst other things that:

- the MLA selection committee present more candidates than are needed for the vacant positions on the MLA board
- an investigation into the implication of the introduction of a reduced levy rate for lower value cattle be undertaken

NSW Farmers did not however support the proposal that a portion of the levy be directly allocated to the Cattle Council.

Therefore there seems to be widespread common ground that the structural changes that have occurred in the red meat industry since 1998 are as big as, or greater than, the structural changes that led to the 1964, 1977, 1984, 1985 and 1996 /1997 reforms and there is clear evidence that the current grass-fed cattle levy structures and systems are no longer meeting the collective needs of the grass-fed cattle industry.

On the basis of the key performance indicators that underpinned the creation of the current grass-fed cattle levy structures and systems, grass-fed cattle levy payers have not received a net industry benefit from their levies.

Real cattle prices and domestic beef consumption and with it grass-fed cattle industry profitability have continued to dramatically fall despite the \$1.5billion expenditure of levy payer and taxpayer funds by MLA since 1998.

If the current grass-fed cattle levy structure was being proposed today it would not meet the New and Amended Levy Guidelines requirements for the imposition of a levy to demonstrate a net industry benefit and market failure. In those circumstances the guidelines state that statutory levies would not be supported.

At the very least the proponents of the current levy structures would have to show that there was majority support from actual and/or potential levy payers. It is difficult to see how this could be achieved through the current structures.

The AMPG think tank identified a number of key flaws in the current cattle industry structures, which included:

- the dysfunctional divide between Peak Council policy setting and MLA policy delivery;
- the CCA's inability to obtain adequate funding to carry out its charter under the MOU;
- confusion under the current organisational structures between both government and industry about who speaks for the cattle industry;
- the disenfranchisement of grass-fed cattle levy payers under the current levy funded structures and systems, which gives them little or no opportunity to influence the quantum and investment of their levies.

Other industry participants have pointed to the failure of the current grass-fed cattle levy structures and systems to bring together the *authority* to represent the industry with the *means* to represent industry in a way that is *accountable* to the levy payers.

12.1. Clarification on the Dysfunctional MLA Structural Divide between Policy Setting and Policy Delivery

- Under the terms of the MOU the Peak Council's, Cattle Council of Australia (CCA) the Australian Lot Feeders Association (ALFA) and the Sheepmeat Council of Australia (SCA), are charged with the responsibility of setting levy expenditure policy for MLA for their sector of the red meat industry, whilst
- MLA's role is to be the marketing and R & D service provider

So in theory, MLA has three masters, CCA ALFA and SCA, and MLA is also meant to act co-operatively with the abattoir owners and live exporters to provide “*willing partnerships*” services to those sectors of the industry.

13. Industry Organisational Structure Jurisprudence

When considering industry organisational structures and regulations

- the first step is to consider the necessary regularity functions, such as export licensing for livestock and meat health inspection requirements, which need to be maintained by the Government in the public interest.
- the second step is to look at the collective commercial outcomes that cannot be provided by market forces because of market failure.

The outcomes needed should define the structure rather than the structure defining the outcome.

Historically R & D corporations have been governed by scientists or people with suitable expertise in consultation with industry along the lines set out in Section 131 of the *Commonwealth Primary Industries & Energy Research & Development Act 1999* (“PIERD Act”) (i.e. the CSIRO or the Cotton Research & Development Corporation (“CRDC”)) whilst marketing corporations have been governed by marketing directors and not scientists.

Lately there has been a move from companies outsourcing their R&D to outside research and development entities such as the CSIRO and a move towards combining R&D and marketing functions under the one roof to ensure a seamless interaction between the company's marketing function and its research and development. This has resulted in an overlay of directors with corporate governance and financial skills to supervise people with marketing and R&D expertise.

There has also been a move away from large and complex bureaucratic hierarchical divisional matrix organisational structures towards flatter, more responsive and inclusive single-divisional organisational structures.

Large bureaucratic divisional matrix organisational structures such as MLA, who are managed through more than one reporting line and have obligations to different sectors of the industry, with competing commercial interests, are rarely as cost efficient or outcome focused as single divisional or

sector organisations, with flatter management structures, who don't have to concern themselves with competition for resources.

Specialised corporations set up to service the collective commercial needs of an industry in rapidly changing economic circumstances need to have flat, uncomplicated governance structures which encourages the management of that corporation to keep in touch with, and respond to, the rapidly changing needs and circumstances of their grass root members and levy payers.

The projects undertaken by the specialised corporations should be driven by the specific needs of the grass roots levy payers on the basis of cost benefit analysis and not by corporate staff with marketing expertise who may be tempted to spend much of their time, effort and levy payer funds "selling" and "promoting" projects that they have designed rather than just delivering the outcomes that their constituents need.

The levy funded budget and expenditure of specialised corporations should be determined by the collective functions needed by industry rather than devising projects and promoting outcomes to justify a pre-determined budget.

13.1 The Structural Causes of Bad Industry Outcomes

As stated above, industry structures define the outcomes. If the structures put in place to provide the outcomes are inappropriate it is likely that bad outcomes will be achieved rather than good.

The 1998 industry restructure arrangements were designed to:

- provide industry with greater responsibility to run its affairs and to move it towards a less Government regulated environment;
- enable collectively funded meat and livestock industry programs to be delivered more effectively;
- facilitate a more internationally competitive red meat industry in Australia.

The current red meat organisations were structurally flawed from the outset and ill equipped to provide the outcomes recommended by the 1996 Steering Committee.

As stated above in sections 4 and 6, the global economy and the structure of the domestic economy and the red meat industry and the viability of the State Farm Organisation advocacy bodies have all changed enormously since 1998 and during the last decade there has been a worldwide move away from complex matrix organisational structures towards flatter more inclusive single division sectoral structures.

14. The “Marketing” Approach to Functions

Critics of complex bureaucratic divisional matrix organisational structures often point to the need for divisional project managers operating with more than one reporting line without direct stakeholder monitoring to *market* or *sell* the outcomes of their projects. This in order to promote career enhancement opportunities and maintain their future budgets.

A number of the MLA’s critics suggest that as a consequence of the MLA, with multiple divisions and lines of authority, and a governance structure that disconnects the board and senior officers from grass roots levy payers, the expenditure of levy money becomes an end in itself, without sufficient emphasis on lifting the bottom line profitability of levy payers.

These MLA critics then suggest that the MLA “*market*” their projects and project outcomes with glossy brochures to justify their expenditure in order to maintain their levy funded and taxpayer budget.

The perfect example of the “marketing” approach to functional activities, such as improving animal welfare standards, can be found in the final report of the Beef Marketing Funding Committee, as part of the MLA 2009 Beef Levy Review, which identifies animal welfare issues as a major threat to the live cattle trade and responds by budgeting for:

- an \$186,000.00 annual expenditure on animal welfare issues and \$725,000.00 on expenditure for the media management of any public outcry with respect of animal welfare issues in the live export trade.
- an increased annual expenditure of 137% (from \$.8 million to \$1.9 million a year) for “*increased defence activities against welfare and environmental claims.*”

Instead of dealing with the actual animal welfare cruelty issues with traceability protocols and animal welfare audits, the supply of stun guns, remodelling of restraining boxes and appropriate conditions of licence as the MLA, LiveCorp and the Government are now belatedly doing, as a matter of urgency, the Funding Committee emphasis had been on “media management” and “defence activities.”

One of the official aims of MLA when it was incorporated in 1998 was to increase per capita consumption and according to an independent review of Meat Standards Australia (MSA) chaired by Don Heatley in 2007 over \$210 million had been spent by the MLA on MSA at that time. (Although in answers on notice to the Senate Estimate questions last November MLA stated they had invested \$93.8m on MSA since 1998).

Despite the early promotion of the MSA science by MLA, domestic beef consumption has continued to decline at the same rate per year as it did prior to the introduction of MSA.

Having failed to meet their increased beef consumption KPI’s, MLA have changed their reporting response by reducing the emphasis on per capita beef consumption and concentrated on publishing the total *value* of the beef being sold by Australian retailers without any adjustment for inflation and without publishing the share of that value that goes to the retailers and back through the other members of the supply chain to the producers.

Compared to their overseas competitors Australian cattle producers receive a relatively small percentage of the total retail value of their product.

The Australian Beef Association claimed two years ago that American producers received approximately 47% of the retail value of their feeder steers, while Australian producers only received approximately 27% of the retail value of their feeder steers.

If the ABA claim is essentially correct, it follows by necessary implication that the MLA have utilised the total value of beef sold by Australian retailers to promote the effectiveness of the MSA program and domestic promotional activities, without reference to the return their levy paying producers are receiving on their investment.

15. Reform Proposal Options

A number of industry organisations, including the Australian Meat Producers Group (AMPG), the Australian Beef Association (ABA) and the Cattle Council of Australia, have put forward red meat industry reform proposals that are pertinent to the grass-fed cattle Levy structures and systems over the last few years.

15.1. The AMPG Think Tank Reform Proposal

In 2011 the AMPG think tank made a detailed submission to the Senate committee inquiry into the role and effectiveness of government, MLA, LiveCorp and relevant industry bodies in improving animal welfare standards in Australia's live export markets.

The AMPG submission recommended that:

- the current MLA and LiveCorp and the other relevant industry bodies be reformed so that they can effectively provide the collectively commercial outcomes required by the Red Meat Industry in the current decade; and
- consideration be given during that reform process to:
 - identification of those necessary industry functions that need to be carried out collectively because of market failure;
 - the raising of the funds necessary to provide collective functions through a slaughter levy rather than a transaction levy;
 - separate sheep and beef marketing corporations;
 - separate producer and processor corporations; and
 - steps that can be taken in consultation with Government to set up an action plan for government and industry to achieve greater international competitiveness for the red meat industry and improve responsiveness to consumer requirements in domestic and overseas markets.

The AMPG proposed a separate grass-fed Cattle Producer Corporation which combined the current Cattle Council policy setting role with the MLA service provider role under one roof. This is to ensure the delivery and policy can be delivered through a Peak Council.

In other words, combining the advocacy, representation, policy setting and policy delivery levy funded functions in one body, the AMPG proposes a simple multi-function single sector industry body based on the precedent of combined policy setting, and service delivery found in the egg and

pork industries and a number of rural industry models in New Zealand and America. In such countries levy funded marketing and R&D services are combined with advocacy under one roof.

The Australian Pork Limited (APL) combined strategic policy setting and marketing and R&D service delivery model, which is also cited by Cattle Council in submission 142 to this inquiry, has a nine member board, including four specialist directors and five levy payer elected directors and all levy paying pig producers are members with voting rights proportional to the scale of their production.

The new separate grass-fed Cattle Producer Corporation proposed by the AMPG would also have:

- A board directly elected by levy payers, based on a two tiered voting system, to balance the interests of both the large and small producers with;
- every levy payer having a vote in each of the voting registers;
- one register based on “one man, one vote” and the other based on the amount of the levies paid similar to the two tier voting register enshrined in the AMPC constitution.

Under the proposed two tiers voting system there would be no need for a specific number of directors to represent each of the northern and southern sectors of the cattle industry as equality of the number of directors on the board would be achieved through the two tiered voting structure. This would “self manage” any need for separate north and south regional representation because the northern cattle producers have the largest herds and own almost half of Australia’s cattle herd.

Under the AMPG proposal the requirements that processors pay cattle transaction levies if they have owned cattle for more than 60 days prior to slaughter would be removed, and integrated processors would simply pay a slaughter levy to the AMPC and would have no involvement in the new grass fed cattle Corporation.

As the CCA notes at page 53 of submission 142 to this inquiry :

“Under the (pork industry) integrated industry services model, the industry places a value on consistent consolidated service delivery arrangement, with the strategic policy development functions being integrated with marketing and R & D.

At pages 55 and 56 of submission 142 CCA notes that the integrated industry services model:

- **is unified and responsive**
- **provides a seamless relationship between policy, research and development and marketing functions**
- **provides levy payers with greater influence and increased accountability for the use of their levy funds**
- **provides government with higher levels of assurance on governance, accountability and performance**
- **provides the resources and skills needed to deliver the outcomes sought by industry and government**

A number of the members of the AMPG think tank also favoured the introduction, similar to that which operates in Australian Wool Innovation Ltd (AWI), of a requirement for levy payers to vote on the amount of the levy every three years and with one of the options put that the levy be set at zero.

15.2. The 2013 ABA Reform Proposal

In July 2013 the ABA presented a reform proposal at a forum in Roma in Queensland that called for a separate grass-fed corporation representative body that would tender out R & D and/or marketing levies to the MLA or others. The voting system for a directly elected board would be on the basis of a number of seats being allocated to each state and territory elected through a two tiered two register voting system, along the lines of the two tiered voting system suggested by the AMPG. This would include one register being one levy payer, one vote and the other register based upon the amount of levies paid.

The ABA Restructure Guideline Proposals presented to the forum in Roma last July can be summarised as:

- a new Grass-Fed Cattle Producers' Board, directly elected by grass-fed levy payers only, including one representative from each State and the Northern Territory. An additional representative from any state with over 3 million cattle, thus including NSW with 5.9 million head, would get 1 extra member, and QLD with 12 million head, would get 3 extra members, forming an 11 person Board;
- all grass-fed producers who sell cattle will automatically receive their voting entitlements, similar to AWI;
- votes are to be based on the two-tiered system, with a 'one vote per levy payer' register, and a 'number of cattle sold' register;
- the New Cattle Producers' Board is to have control of all grass-fed producers' levies, currently raising between \$52 and \$56 million per year;
- a nominee to stand for election to the New Producers' Board, nominations would have to be accompanied by a minimum of 50 signatures from registered levy payers;
- reserve seats would be available to State Farming Organisations on the sub-committees of the New Board, but not on the Board. There will be no reserve seats on the Board.

The ABA's proposal for all grass-fed cattle levies to be paid to the new Grass-Fed Cattle Producer Board, who would then disperse the funds to MLA and/or other dedicated service providers in order to implement the Grass-Fed Cattle Producer Board policy, has direct equivalents in the horticulture industry. In the horticulture industry a number of product specific Peak Councils, such as mushroom growers, fruit growers et cetera receive levy funds flow from their members who engage Horticulture Australia Ltd (HAL) to provide the marketing and/or R&D services necessary to implement strategic policies set by the particular Peak Council.

15.3. Cattle Council of Australia Reform

CCA announced a review of its own structure at the MLA AGM in Longreach in 2011. This review was announced in the context of:

- industry concern about the role and effectiveness of Meat and Livestock Australia, LiveCorp and other relevant industry bodies in improving animal welfare standards in Australia's live export markets; and
- CCA budgetary concerns flowing from falling State Farm Organisation membership.

The review followed much consultation with members and the establishment of two Writing Group Committees, which included ABA directors and the production of various draft recommendations, including:

- proposals for CCA to be funded by an “ Opt Out” 38c portion of the grass-fed cattle transaction levy and
- various size CCA boards ranging from 25 member boards with 11 SFO nominees, 8 members directly elected by financial CCA members and 6 “ purchase a seat on the board” corporate members.

At their annual general meeting in 2013 the CCA eventually approved a reform proposal reducing the board of the Cattle Council from its current size of 24 seats to 10 seats, with each of the eight SFOs appointing one director to the new board, filling 8 of the 10 seats. The remaining two seats will be filled by candidates who are popularly elected by direct members. When the number of direct-paying members increases to 500 the number of popularly elected members of the board will increase to four members (with the entire numbers of seats on the board then increasing from 10 to 12).

Grass-fed levy payers will be able to become a direct member of CCA on the payment of a \$100 per year membership fee. Existing SFO members will not be charged a fee to become CCA direct members.

CCA have now called for a portion of the cattle transaction levy to be utilised to fund strategic planning, strategic policy development and industry management in accord with the Australian Pork Limited (APL) model.

16. Testing the Reform Proposals Against the Six Key Flaws Identified in the Current Structure by this Submission

As stated above in section 12, the AMPG identified four key flaws in the current red meat industry structures, this omission has identified two more key flaws. These 6 key flaws can be summarised as follows:

1. the dysfunctional divide between policy setting and policy delivery
2. the dysfunctional multi-sector divisional matrix structure, with the one service provider company, MLA, providing services to grass-fed cattle producers, sheep producers, lot feeders, live exporters and meat processors whose interests are often commercially diametrically opposed
3. the dysfunctional one stop shop Red Meat Advisory Council (RMAC) and a complex structure that fails to provide a single grass-fed cattle producer voice to government
4. inadequately funded SFO peak councils who do not have the resources to properly carry out the functions required of them
5. the dysfunctional blurring of the intended separation between levy funded producer activities and levy funded meat processor activities
6. a MLA and CCA governance and board election and selection process that disenfranchises levy payers and has led to a disconnect between the levy funded MLA and representative CCA and grass roots cattle levy payers.

16.1. CCA

The CCA direct membership reforms will do little to alleviate CCA's funding direct membership problems.

The \$100 per person direct membership fee will raise \$100,000 for every thousand non SFO members who sign up, which would mean that under any reasonable membership projection CCA will still be reliant on interest from the reserve levy fund and either a portion of the cattle transaction levy or a "service delivery handout" from the MLA to fund its policy setting and advocacy activities.

Indeed the CCA in submission 142 to this inquiry suggests that subject to *the appropriate governance and reporting requirements, the Cattle Council should receive a portion of the Cattle Transaction Levy to undertake strategic planning, strategic policy development and industry management functions on behalf of beef producers.*

The current CCA reforms do nothing to address the following:

- the current dysfunctional divide between policy setting and policy delivery;
- the functional issues flowing from the current MLA dysfunctional multi-sector divisional matrix structure
- the confusion under the current organisational structure as to who speaks for the grass-fed cattle industry
- the separation of processor and producer levy funded activities
- real democratic enfranchising of levy payers.

16.2. ABA

The 2013 ABA proposal that the entire producer cattle transaction levies are to be paid to a new Grass-Fed Cattle Board Peak Council would ensure a well funded representative body for grass-fed cattle producers.

The ABA direct levy payer election proposals would ensure that all grass-fed cattle producers are enfranchised.

Whilst the ABA proposal does not functionally address the policy setting and policy delivery divide, at least the ABA proposal would give the Grass-Fed Cattle Board the power of the cheque book (i.e. "*he who pays the piper calls the tune*"). Consequently this should ensure that the Government understands that the new grass-fed levy funded corporation is the voice that speaks on behalf of the Cattle Industry.

The proposed ABA reforms contemplate a completely separate grass-fed cattle levy funded policy setting entity and a multi sector service provider along the lines of the horticulture industry organisational structure model which would alleviate some, but not all of the issues flowing from the current MLA dysfunctional multi-sector divisional matrix structure.

16.3. AMPG

The only reform model which fully combines the authority to represent the grass-fed cattle industry with the means to represent the grass-fed cattle industry in a way that is accountable to the grass-fed cattle producers is the AMPG think tank model, which combines the representative policy setting and policy delivery functions under one levy funded roof with a board directly elected by the levy payers.

The AMPG think tank reform model would:

- address the current dysfunctional divide between policy setting and policy delivery under the MLA/Peak Council structure
- address the functional issues arising out of the MLA multi sector divisional matrix structure.
- provide a single grass-fed cattle producer voice to government
- provide a well funded representative body for the grass-fed cattle industry
- separate grass-fed cattle levy producer collective activities from collective levy funded meat processor activities
- enfranchise grass-fed levy cattle producers and encourage connection between grass roots cattle producers and their representative policy setting body through the provision of services along the lines of American rural advocacy organisations such as the American Farm Bureau.

17. Testing the Reform Proposals Against the Levy Principles and Guidelines

There are current Australian precedents for each of the levy funded advocacy reform proposals put forward by CCA, ABA and AMPG.

CCA, SCA, ALFA, AMIC and LiveCorp have been funding their operations from interest from levy reserve funds since the current red meat structures and systems were put in place in 1998 and CCA have recently begun receiving levy monies to fund its operations through “service agreements” from MLA.

Australian Pork Limited, and in practice the levy funded Egg Corporation, both combine advocacy marketing and research and development functions under one levy funded roof.

The only advocacy limitation that Australian Pork Limited (APL) has in its levy Funding Agreement with the Commonwealth government are those limitations that prevent APL from *financing any form of external or internal political campaigning*. The APL Funding Agreement specifically states that agri-political activity does not include *strategic policy development*.

Australian Wool Innovations and Dairy Australia are levy funded marketing and R&D corporations with levy payer elected boards. Both corporations do not have any oversight by their industry Peak Councils and set and deliver their own marketing and R&D policies, and when relevant, lobby government to assist them in the implementation of those policies.

The AMPC and LiveCorp are both levy funded marketing and R&D corporations with a levy payer elected board that sets its own marketing and R&D policy in consultation with their Peak Councils, AMIC and ALEC.

The ABA proposal for a levy funded Grass-Fed Cattle Producer Peak Body that outsources its marketing and service delivery to the MLA is similar to the horticultural industry structure where different horticulture industry product sector peak councils receive levy funds, set policy and outsource delivery to Horticulture Australia Ltd (HAL).

It follows therefore that each of the CCA, ABA and AMPG reform proposals would comply with the Levy Principles and Guidelines restrictions on the use of statutory levies for agri-political activities.

18. The Growing Consensus for Grass Fed Cattle Industry Organisational Reform

Many grass-fed cattle producers believe that the grass-fed cattle statutory levy funded grass-fed cattle structures and systems need to be reformed and there is a general view that the current grass-fed cattle levy structures do not provide value for the levies paid, the structures have lost touch with their grass roots and their members feel disenfranchised.

The 1998 restructure that produced the current industry organisational bodies took place in the context of concerns about the then current world beef prices, declining domestic red meat consumption and increased competition in world markets.

As stated earlier in this submission, the terms of reference for the 1996 Steering Committee and Task Force Report into Australian Meat and Livestock Reform for the Future were to:

- identify options for the meat and livestock industry organisations to deliver collectively funded industry programs more effectively;
- assess and document the costs and delivery efficiencies of the previous statutory corporation structure;
- propose key Government, or joint industry Government policy and program actions, including those that extend beyond the functions of industry organisations to facilitate a more internationally competitive Red Meat Industry in Australia.

It is the view of the Concerned Cattle Producers and those members of the AMPG think tank that have contributed to this submission that it is time for another detailed review of grass-fed cattle levy structures and systems to ensure that the grass-fed cattle industry has the right organisational structures to represent its interests in the coming decade.