



Submission

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

Senate Rural and Regional Affairs and Transport References Committee

Inquiry Terms of Reference

On 12 December 2013, the Senate moved that the following matters be referred to the Rural and Regional Affairs and Transport References Committee for inquiry and report by 28 March 2014.

The industry structures and systems governing the collection and disbursement of marketing and research and development levies pertaining to the sale of grass-fed cattle set out in subsections 6(1)(a), 6(1)(b), 6(2)(a) and 6(2)(b) of Schedule 3 (Cattle transactions) of the Primary Industries (Excise) Levies Act 1999, including:

- a. the basis on which levies are collected and used;
- b. the opportunities levy payers have to influence the quantum and investment of the levies;
- c. industry governance arrangements, consultation and reporting frameworks; and
- d. recommendations to maximise the ability of grass-fed cattle producers to respond to challenges and capture opportunities in marketing and research and development.

The objects of Cattle Council are:

- To represent and promote the interests of the Australian Cattle sector;
- To function as a specialist Cattle industry organisation with concern for the profitability and livelihood of all Cattle producers;
- To carry out activities necessary for the betterment and improvement of the Cattle industry;
- To collect and disseminate information concerning the Cattle industry;
- To co-operate with appropriate organisations at the State, National and international level;
- To maintain a high level of liaison and co-operation as may be necessary for the fulfilment of the other objects of Cattle Council with Federal and State Government departments, agencies and authorities, with local government, and with other industry organisations;
- To promote the development of the agricultural and pastoral industry and resources of Australia;
- To act as a peak body for the red meat industry in Australia and in so doing to act in any role specified for this purpose in regulation 17; and
- Whenever appropriate having regard to each other of these objects, to develop and promote the policies of the Cattle Council through the Federation.

Executive Summary

The Cattle Council of Australia welcomes this Senate Inquiry as an opportunity to review the current structure of the Australian beef industry. It is the ideal opportunity to make recommendations to develop a more profitable beef industry.

The Cattle Council of Australia is the peak organisation representing Australia's grassfed cattle producers. It was established in July 1979, bringing together for the first time all farmer organisations whose members had beef cattle enterprises. These organisations have a combined membership of more than 15,000 cattle producers and represents more than 50 percent of Australia's cattle herd.

Evolution is an ongoing requirement for the continued success of any industry. In 2014 the Cattle Council adopted a new structure, recognising the need for industry to be flexible to the changing representative requirements of beef producers. This process commenced twelve months prior to the announcement of the Senate Inquiry and will be reviewed in November 2015.

In addition to its traditional advocacy role, the Cattle Council has a prescribed function under the red meat industry structure which is set out under the Australian Meat and Live-stock Industry Act 1997. A Memorandum of Understanding (MOU), signed by all organisations involved in the red meat industry - including the Australian Government - underpins these arrangements.

Under the MOU, the Cattle Council, like the other Red Meat Industry Peak Councils, has an oversight role of its service providers i.e. Levy Expenditure. Through these arrangements, the Cattle Council is intrinsically linked to the levy collection and distribution process.

Since its inception, the Cattle Council has continually delivered for its members. However, due to their nature, many of the wins that Cattle Council achieves for industry are difficult to communicate or quantify. We work closely with other parts of the supply chain and Government, often diverting problems or resolving major market failures before they occur. This is done with minimal fanfare to ensure confidence is maintained in our systems by our export markets.

The Cattle Council of Australia has been the glue that has bound the industry during its toughest times; we have been the key representative voice when one was required and we have always been prepared to dig in to fight when the interests of our members were at stake. We do this gladly, as Australian grassfed producers are some of the most innovative, progressive and hard-working business people in Australia and abroad.

Cattle Council has undertaken extensive direct producer engagement in the last two years to discuss what they require for national representation. This consultation process is outlined in [Attachment A](#). Based on this consultation Cattle Council is well placed to provide an evidence based response to this Inquiry.

Cattle Council makes the following statements:

1. Cattle Council is best placed to continue as the representative body for grassfed cattle producers in Australia guiding grass-fed levy expenditure.
2. The grass-fed levy should be maintained including the matching Government investment in R&D to ensure a productive and sustainable beef industry.

3. Market failure exists in that producers are expected to have their voluntarily contributions funding non-political industry oversight (strategic planning, strategic policy development and industry management) functions of Cattle Council.
4. Industry must utilise the opportunity within RMAC and the development of MISPA to establish the appropriate framework for industry reporting over the next 5 years.
5. The Red Meat Industry Fund does not provide sufficient resources to fund strategic planning, strategic policy development and industry management to the level and quality demanded by industry.
6. Precedent has been established that market failure for some industry representative functions exists and it is appropriate that the Cattle Transaction Levy be utilised to fund strategic planning, strategic policy development and industry management.
7. That with the appropriate governance and reporting requirements, 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.
8. That more flexibility is required within the levy principles & guidelines for altering the apportionment of the various Cattle Transaction Levies which make up the \$5.00 levy (where the total quantum is not altered).
9. That a Government and Industry project be undertaken to assess the pros, cons and cost / benefit of other levy collection mechanisms and the systems available to identify levy payers.

There are many views on how to structure and fund representation, management of research and development and marketing for the beef industry. As the Minister said when announcing his request of the senate to undertake this inquiry - he "...understands the difficulty of establishing a system that satisfies every producer and acknowledges that some producers will always want more control over the statutory levies".

The changes Cattle Council has implemented may not satisfy the exact wishes of every producer in Australia, but they have been implemented after broad industry consultation. If producers support the new structure, utilise the new tools for communication and get involved, they will receive greater control of their representative body and consequently their service providers and their levy expenditure.

Key Achievements Delivered by Cattle Council to its Members

- Participating in the Five Nations Beef Alliance to improve market access and increase the global demand for beef;
- Implementing policy subcommittees that provide a consultative role for Meat and Livestock Australia;
- Instrumental in the development and ongoing management of LPA and NLIS, which underpin preferred market access into many export markets;
- Implementing a direct membership category and directly elected board members giving Australian beef producers' greater access to their peak council in addition to the long-term input provided by State Farming Organisations.
- Implementing the Pasture Fed Cattle Assurance System (PCAS), a voluntary on farm assurance system for grassfed beef which is currently delivering a \$0.20 premium above MSA and EU premiums.
- Initiating a partnership with the Sheepmeat Council of Australia and WoolProducers Australia to form the Livestock Biosecurity Network - a network of state and territory-based Regional Biosecurity Officers whose role is to disseminate available information that will support a more prepared and responsive livestock sector in the areas of on-farm animal health, welfare and biosecurity.
- Working with senior policy makers and providing them with a detailed understanding of the beef supply chain during the Cattle Council's Rural Awareness Tour – an institution of more than 21 years and 130 participants.
- Australia-Korea Free Trade Agreement (FTA): Cattle Council played an integral role in engaging with Government to ensure an appropriate deal for beef was struck. Cattle Council also engaged with Hanwoo beef producers to ensure they did not see an FTA with Australia as a major threat and lobby against it.
- Australia-Japan FTA: Cattle Council continues to engage with Japanese beef producers to ensure they understand that an FTA with Australia will not flood their market with beef. Cattle Council and MLA also organised a fundraising BBQ for Japanese Beef producers effected by

the Tsunami. This program has been continued in Japan with donations of hay and producer to producer visits both in Australia and Japan.

- Identifying and developing the next generation of beef industry leaders through the Rising Champions Initiative.
- As a member of the Global Roundtable for Sustainable Beef Cattle Council is working on ensuring the principles driven by the major purchasers of Australian beef around sustainable beef production are practical and commercially achievable.
- Representing beef producers during the development of Welfare Standards for Land Transport and Cattle Production ensuring workable and practical standards were developed.
- Continued lobbying to ensure investment by Government in Australia's capacity to diagnose, prevent and manage disease.
- Continued lobbying to ensure maintained investment by Government in beef industry research & development.
- Management of Bovine Johne's Disease (BJD) in Australia including the National BJD Financial and Non-Financial Assistance Package which commenced on 1 July 2004 and is an initiative of Cattle Council of Australia. The package provides financial and non-financial assistance to beef cattle producers whose herds are already known or found to be infected with bovine Johne's disease (BJD).
- Cattle Council's experience with BJD was able to assist with Queensland's BJD incursion.
- Initiating a Cattle Buy back scheme focused on the high risk animals imported into Australia to incentivise the removal of these animals from Australia.
- Developing, with Meat and Livestock Australia, a national guide which provides an objective description system to assess beef cattle in low body condition.
- Engaging at Government forums that include Animal Welfare and Animal Activist groups to ensure the realities and practicalities of all of Australia's beef production systems are well understood and represented.
- Leading the establishment of Animal Welfare Research and Development priorities for Meat & Livestock Australia (MLA) to ensure our industry has science based evidence to underpin our necessary husbandry practices.

- Working closely with the Australian Live Exporters Council and the broader industry to progress improved welfare outcomes for Australian cattle and streamline market access implications of Export Supply Chain Assurance System (ESCAS).
- Working closely with the National Farmers Federation to ensure Agriculture was not a covered sector under the Carbon tax and now to repeal the carbon tax.
- Representing Cattle Producers in Copenhagen at COP 15 to ensure that international accounting rules for Carbon were suitable to producers.
- Providing policy advice on developing lifecycle assessments of the cattle industry to ensure that science based information is used by Government and other policy makers when looking at the Australian beef industry's impact on the environment.
- Initiating a strategic discussion about the future requirements of the AUSMEAT language to determine if many of the subjective measurements that are not related to eating quality can be removed.
- Reviewing and subsequently rejecting the introduction of beta-agonists into Australia - protecting our access into several key export markets
- Monitoring and advising the Department of Agriculture on the residue monitoring programs that maintain access into all of our export markets.
- Joining with the NFF and other bodies to lobby for the removal of shopping bags being sold at Coles with the Animals Australia logo on them.
- Successfully lobbying to ensure the National Dietary Guidelines did not include the influence of environmental factors on the recommended diet for Australians.

Background

The responsibilities that fall to Cattle Council continue to increase. However, the tools and resources to be drawn on in meeting these responsibilities and expectations do not reflect this increase. We are grossly under-resourced to represent a \$12 billion industry.

Cattle Council has delivered significant value to the industry; with limited resources and a high degree of expectation from producers, the broader red meat industry and the Australian Government.

During our producer consultation, an independent computer aided telephone survey found that 59 percent of producers were satisfied (3 percent very satisfied, 29 percent satisfied, 27 percent slightly satisfied) with Cattle Council's role in addressing the current issues facing the industry (CATI Survey Attachment B).

If our organisation was purely a Government lobbying organisation then arguably we would be able to fulfil the role adequately. Cattle Council's role is not that simple.

Cattle Council's core functions can be categorised as follows:

1. Advocacy - Cattle Council's advocacy activities include lobbying politicians, Government and NGOs. These functions are only funded by voluntary membership subscriptions paid by State Farmer Organisations (SFOs) and Direct Membership.
2. Strategic Planning - This function encompasses everything associated with developing and implementing the grassfed sector's Strategic Plan (Beef 2015 and beyond) and contributing to the Red Meat Industry Strategic Plan and its implementation.
3. Industry Management - Cattle Council provides an oversight role and a consultative mechanism for the levy funded bodies such as Meat and Livestock Australia, Animal Health Australia & the National Residue Survey. In this capacity we represent producers on over 90 committees (Attachment C). This function requires significant staff hours and requires a large amount of costly travel for our unpaid volunteer councillors.
4. Strategic Policy Development - Underpinning all good advocacy, strategy and industry management is well researched and consulted policy positions. Cattle Council defines Strategic Policy Development as:
 - a. the collection of information from a range of sources (including consultation within the Industry, and with other industries, government, other stakeholders or the public);
 - b. the balanced analysis of that information in the context of the Industry environment;
 - c. the development of a strategic policy position within the Industry; or
 - d. the communication of that position (including within Industry, and with other industries, government, other stakeholders or the public).

Cattle Council does not have adequate funding to maintain all four functions at the level expected by producers. Cattle Council has been heavily focussed on Industry Management and due to our limited resourcing the other three core functions have received much less attention.

Industry Structures

Despite the challenge in fulfilling its role, the Cattle Council has taken responsibility for its own affairs and strategic direction through the development of the strategic plan 'Beef 2015 and beyond', released in February 2013.

During Cattle Council's consultation process for 'Beef 2015 and beyond', producers repeatedly demanded their representative body be: more nimble, better resourced, more proactive, more influential, more effective and better unified with other red meat industry bodies.

Another consistent theme throughout the plan's development was that the industry lacked the funding required to undertake 'Strategic Policy Development.'

In December 2013, Cattle Council of Australia finalised a comprehensive restructure, adopting a new constitution (outlined in [Attachment C](#)) and model for the national representation of grassfed beef producers in Australia.

After engaging thousands of cattle producers, Cattle Council has designed a structure that delivers the key outcomes beef producers have been looking for from Cattle Council. The new structure will combine State Farming Organisation (SFO) board representatives with up to four beef producers who are elected directly from a voluntary membership.

The new structure now allows for Cattle Council to be truly representative of producers and beef producer representative organisations. The structure is open to individuals and groups so that there are multiple ways to join and become engaged in national issues.

Cattle Council has undertaken to review the structure in two years (approximately November 2015).

Cattle Council, as an organisation, has evolved to give producers more access and will remain committed to ensuring the best possible arrangements are in place for the benefit of the whole industry and to capture the opportunities for Australian beef producers in the coming decades.

It is vital that a vibrant, resourced and representative organisation is maintained to represent the interests of Australia's grassfed beef producers. Change has been called for and change has occurred, but Cattle Council is only as strong as the individuals that form it. Now it is up to individual beef producers to engage with their organisation. A properly resourced Cattle Council with its new representative structure will deliver the outcomes beef producers are looking for.

1. Cattle Council is best placed to continue as the representative body for grassfed cattle producers in Australia guiding grass-fed levy expenditure.

The basis on which levies are collected and used:

A major part of the foundation of the joint industry/government effort to improve Agriculture is the legislated system that enables industry members to pay levies to fund research and development (R&D), marketing and promotion, animal health programs and residue testing activities that benefit industry. Eligible R&D expenditure is also matched dollar-for-dollar by the government up to 0.5 percent of the industry Gross Value of Production.

The levy system is not unique to the beef sector. In fact, most commodity sectors have a levy system that funds their research and development and marketing through their respective research and development corporations (RDC). Some sectors are not large enough to necessitate a specialised RDC and will rely on 'catch all' RDCs such as the Rural Industries and Research Development Corporation (RIRDC) to undertake this function on their behalf.

In some sectors, the levies are distributed to other organisations. In the case of the beef industry a proportion of the levy is also distributed to the National Residue Survey (NRS) and Animal Health Australia (AHA).

The rate of levy and the point at which it is charged is determined by each industry through a consultation process largely governed by the Levy Principles and Guidelines and implemented through various pieces of legislation.

In the case of the grass-fed cattle sector, a total of \$5.00 in levies is collected per animal each time a transaction involving cattle is made. It is distributed in the following way:

- \$3.66 to Marketing (MLA)
- \$0.92 to R&D (MLA)
- \$0.13 to Animal Health Australia; and
- \$0.29 to the National Residue Survey.

The investment of levies in Marketing & R&D by MLA has delivered significant value for the industry and the Australian economy. As an example, the following four programs have been independently evaluated by the Centre for International Economics (<http://www.mla.com.au/About-MLA/Planning-and-reporting/Evaluation>):

1. Food Safety - Since the late 1990s, food safety has been an important issue in maintaining global consumer confidence and market access for Australian beef. Following bans on US beef after BSE was detected in 2003, Australia's market share in Japan and Korea increased in large part due to Australia's meat safety credentials. In net present value terms, the \$173 million invested by MLA between 2000 and 2009 has helped to increase recognition of the safety and quality of Australian beef within North Asia. This has seen Australian beef secure the majority market share in Japan and Korea, delivering benefits conservatively valued between \$815 million and \$994 million with a benefit-cost ratio ranging from 4.7:1 to 5.8:1.
2. Meat Standards Australia - MSA is industry's supply chain program designed to give consumers a consistent eating quality experience of beef. Launched 15 years ago, MSA was developed to scientifically assess the impact that livestock management practices, processing systems, cuts, ageing periods and cooking methods have on eating quality. MSA has delivered net returns to producers of \$440.9 million up to the end of 2010-11, with a benefit:cost ratio for producers of 5.3:1.
3. Market Information - MLA's market information is highly valued by producers, lotfeeders and processors in assisting their business decision making. The CIE conservatively valued the benefits of MLA market information from 1998-99 to 2007-08 to be between \$255 million (consultation method) and \$582 million (online survey) for a \$45.2 million aggregate cost – a benefit cost ratio of between 5.6 and 12.9 to 1.

4. R&D - \$90 million (including matching government funding) invested by MLA between 2000 and 2007 has contributed to improvement in on-farm productivity and product quality, generating an additional \$307 million in industry value. This represents a benefit-cost ratio: 3.4:1.

The vast majority of producers consulted during the development of 'Beef 2015 and beyond' have indicated strong support for their levy being used to fund research and development and marketing and support the continuation of the \$5.00 Cattle Levy.

During our investigations an independent computer aided telephone survey found that 57 percent of producers were satisfied (4 percent very satisfied, 27 percent satisfied, 26 percent slightly satisfied) with MLA's role in addressing the current issues facing the industry.

There was no appetite for increasing the quantum of the levy during our consultation although there was a strong view amongst many producers that they expected their levy to fund their representative body (Cattle Council or other) and already believed it did so.

2. The grass-fed levy should be maintained including the matching Government investment in R&D to ensure a productive and sustainable beef industry.

The opportunities levy payers have to influence the quantum and investment of the levies

The red meat industry has primary responsibility for its own affairs and future strategic direction. The Australian Government provides matching research and development funding, collects and disperses levy monies and facilitates the management of issues of national importance.

Additionally, the Government works closely with the industry on market access and development opportunities and in furthering the interests of the industry in dealing with overseas governments and in multilateral negotiations.

When discussing the current mechanisms for producers to influence their levy and its expenditure it is easier to discuss it in two separate categories. Firstly there is the process and mechanisms available to influence the quantum of the levy and secondly there is the process and mechanisms available to influence the investment of the levy.

Producer mechanisms for influencing quantum

In 2005 the Federal Government accepted recommendations from industry to increase the marketing component of the CTL by \$1.50 which commenced in January 2006. In 2009 a review was conducted to evaluate the effectiveness of the increased marketing component of the cattle transaction levy since 2006, and to determine the appropriate level of funding for beef marketing and trade development to ensure Australia's beef industry is competitively positioned.

Cattle producers voted to maintain the cattle transaction levy at its current rate of \$5 per head at the 2009 MLA AGM, with a convincing 72.5 percent of votes cast in favour of the resolution (grassfed producers - 70.7 percent; grainfed producers - 75.8 percent). The vote was the culmination of a 12-month process including the Beef Marketing Funding Committee's review and a six-month campaign to create awareness among producers and encourage them to participate.

The 2009 review was conservatively costed at nearly \$350,000, without accounting for the volunteered time of the review committee. A detailed report of the review and the process undertaken is available on the MLA website (<http://www.mla.com.au/About-MLA/Who-we-are/How-MLA-is-funded/Beef-levy-review-2009>).

As it was for the 2009 review, for a grass-fed beef producers to change the quantum of a levy again, they would be required to influence a peak council (Cattle Council) to adopt a policy to implement a process of reviewing the levy and if the review so determined it, a levy change would be put to the vote of the industry. Even then the review and vote would need to satisfy the Government's Levy Principles & Guidelines and then be signed off by the Minister.

Under Cattle Council's old structure this policy would need to have emanated from a State Farming Organisation. Under Cattle Council's new structure, direct members could also put such a policy to the Cattle Council for consideration.

As mentioned above for any proposed change to have success, a sound case must be considered by all industry members and be undertaken in line with the Levy Principles and Guidelines. This process would include getting support by industry bodies representing the relevant levy beneficiaries and other interested parties. The industry would also make all reasonable attempts to inform all relevant parties of the proposal and allow opportunity for all to comment on the proposed change.

Cattle Council does not believe this process requires reform.

Producer mechanisms for Influencing Investment

As indicated above, one of Cattle Council's core functions is playing a significant role in the oversight of MLA. This includes undertaking consultation with producers to determine the best use of levy expenditure.

According to the Productivity Commission Review in 2011 into RDCs MLA was found to be one of the leading RDCs. It has high-level profile with offices in key markets such as Japan, Korea, the USA, Indonesia, China, Europe, Russia and the Middle East. It has been at the forefront of ensuring market access is maintained for the industry and has been responsible for developing several industry innovations such as Meat Standards Australia, Livestock Production Assurance, National Livestock Identification, National Vendor Declarations as well as several on farm pasture and genetic improvements for producers.

MLA is a great asset to our industry; however, this does not negate the need for rigorous oversight. The importance of this role cannot be underestimated as it ensures that expenditure is in line with the desires of industry.

There have been a number of instances where the Cattle Council has requested change from MLA through its role as a peak council. For example, Cattle Council recently requested a review into MLA's Livestock Production Innovation (R&D) area. This independent review was requested in response to feedback from producers that they believed improvements could be made in how industry research and development was being prioritised, planned and managed. Cattle Council is now in the process of overseeing the implementation of the review's recommendations with other peak councils.

Producers have indicated to Cattle Council that they expect their levy to fund this oversight; however this is not currently the case. Nor can the Cattle Council consistently and effectively apply the oversight with its limited resources.

To overcome funding limitations, Cattle Council is utilising service agreements with AHA, NRS and MLA to enhance capacity. Service agreements provide Cattle Council with the financial capacity to increase producer consultation in order to receive producer feedback and develop policy, which is implemented by our services providers.

The overwhelming message from producers during the development of 'Beef 2015 and Beyond' in 2012 was that they wanted more direct access to Cattle Council. The introduction of the MLA Service agreement in 2013 allowed Cattle Council to introduce policy subcommittees, develop a new web presence and hold consultative producer forums around Australia.

Our Policy subcommittees provide the opportunity for a producer (regardless of their membership status with state farming organisations) to contribute to the policy development process and gives them direct access to Cattle Council and MLA. A list of our policy subcommittee membership is at [Attachment D](#).

Cattle Council producer forums that were held last year and will be held again this year also give producers across Australia the opportunity to talk directly to Cattle Council, raise their concerns and discuss policy issues. The forums also provide information about MLA programs at the same time.

Through the utilisation of service agreements Cattle Council was able to meet with over 2000 beef producers directly last year. These issues were recorded and fed into the Cattle Council policy development process. These policies ultimately direct how the CTL will be utilised.

Cattle Council has this year commenced the utilisation of a sophisticated website which will enable producers to engage directly with Cattle Council. At the time of preparing this submission Cattle Council was seeking direct comment from producers on:

1. Key issues affecting their profitability (to be fed into Cattle Council's submission on the Agricultural Competitiveness White paper);
2. Other issues producers would like raised in the Cattle Council's submission on the Agricultural Competitiveness White paper; and
3. A poll on if Cattle Council should move the EU Cattle Assurance System from levy funded to user pays.

The new website encompasses online discussions, polls, collaborative document sharing and general comments and suggestions.

Notwithstanding Cattle Council's new mechanisms for direct producer consultation, Cattle Council continues to source information and consultation through the State Farming Organisations who play a vital role in providing grassroots policy development to Cattle Council. With a combined membership of over 15,000 producers this input ensures Cattle Council's policies are well founded.

The valuable part of the SFO policy process is that it ensures policies are well debated before reaching Cattle Council. Producers are able to bring ideas from their local and regional meetings to the state level and then if passed at that level, through to Cattle Council.

With the adoption of Cattle Council's new structure, through the use of service agreements and in response to the calls from industry, Cattle Council has already implemented multiple new platforms that enable beef producers direct access to Cattle Council and the policies we develop. MLA has multiple mechanisms to consult with producers in addition to the processes used by Cattle Council.

Producers must be proactive to make full use of their opportunities to influence their levy expenditure. With over 77,000 properties with cattle in Australia (ABS 2011/12) in an industry that covers approximately 45 percent of Australia's land mass it is too expensive and geographically challenging to engage all producers face to face.

The use of service agreements has enabled Cattle Council to be more responsive to the demands of industry but they do not allow Cattle Council to work with complete autonomy or flexibility.

Activities like Strategic Planning, Industry Management and 'Strategic Policy Development' by their very nature are such that a private investor would not profit from supplying these services. The use of a strategy or policy by one person or organisation does not affect the ability of others to use it. This encourages the 'free rider effect'. Individuals realise that they can benefit from the development and subsequent communication of a strategy or policy without contributing to the process financially.

Innovact Consulting's report 'Strengthening policy services in the grass-fed cattle industry' (Attachment E) discusses in detail the use of the cattle transaction levy for strategic policy development and provides a shared understanding of:

- what strategic policy development involves;
- how it differs from agri-political activity;
- how the governance arrangements are established to provide assurance of integrity to government and levy payers; and
- the extent to which the return on investment of levy funds would be improved.

Cattle Council believes market failure for strategic planning, industry management and strategic policy exists, as the market is failing to provide desirable outcomes in this area as communicated to Cattle Council during recent producer consultation. Cattle Council believes there is a case for government action.

3. Market failure exists in association to producers voluntarily funding the non-political industry oversight (strategic planning, strategic policy development and industry management) functions of Cattle Council.

Industry governance arrangements, consultation and reporting frameworks

The Red Meat Advisory Council (RMAC) is comprised of the Cattle Council of Australia, the Sheepmeat Council of Australia, the Australian Live Exporters Council, the Australian Meat Industry Council, the Australian Lotfeeders Association and the Goat Industry Council of Australia.

The industry's structural arrangements are set out under the Australian Meat and Live-stock Industry Act 1997 and an MOU which defines the roles and responsibilities of signatories under the agreement. The Cattle Council is a prescribed body under the AMLI Act and a signatory to the

MOU. The Cattle Council fully supports the need for a forum that represents the entire supply chain. It is RMAC that the Government refers to when seeking a policy reflective of the entire red meat industry - a position of significant influence for RMAC. However, for this influence to be reflective of the entire industry it must be well informed and operate within a cooperative environment.

As directed by the Meat Industry Strategic Plan, efforts to reinvigorate RMAC as the single and effective touch point between our industry and Government has met mixed results, with members of RMAC demonstrating an inability on many occasions to unify and devise strong and clear cross-sectoral policy positions.

The 3rd and current Meat Industry Strategic plan states "Feedback from those our industry wishes to influence is that we appear fragmented. This must be remedied." The importance of the entire red meat supply chain being able to cooperate as a unified voice on whole-of-sector policy issues cannot be underestimated.

Cattle Council holds the view that RMAC is the perfect vehicle to be responsible for cross-sectoral issues such as Market Access, allowing Peak Councils to focus on sector specific policy issues. The Cattle Council has put forward this view around the RMAC table on many occasions.

The requirements of the Red Meat Industry MOU are outlined in Attachment F. One of the requirements of all signatories to the MOU is the development of a Meat Industry Strategic Plan (MISP) – of which the Red Meat Advisory Council (RMAC) is the custodian. The Red Meat Advisory Council comprises all of the red meat industry Peak Councils – including Cattle Council – and its role is to advocate on the interests on the entire red meat industry on issues that affect the entire industry.

Producers will be able to contribute to MISP 4 in 2014 either through their respective Peak Council or at the red meat policy forum held by RMAC at the MLA AGM in November 2014. At this forum RMAC and each Peak Council provide a report on the years activities and then producers are given the floor to ask question of the CEO's and Presidents of all of the organisations. This forum is typically very robust and discussion is maintained until all questions are exhausted.

Cattle Council firmly believes that MISP4 is the appropriate forum for the whole industry to undertake long term planning and instigate an appropriate framework of reporting to ensure effective levy expenditure.

4. Industry must utilise the opportunity within RMAC and the development of MISP4 to establish the appropriate framework for industry reporting over the next 5 years.
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Another of RMAC's key functions is as custodian of the Red Meat Industry Fund. This fund was originally comprised of residual industry reserves held by the Statutory RDC that predated MLA. It is RMAC's responsibility to ensure that this fund is appropriately invested for the benefit of the sector. Each Peak Council receives an annual allocation of the fund based on a formula contained in the Red Meat MoU.

A continual frustration of industry is the insistence by Government that RMAC funding is available for industry to use for non-advocacy functions; and therefore we do not require an additional source of socialised funds. Cattle Council receives approximately \$520,000 per annum from the RMAC fund to undertake the MOU responsibilities. Whilst this distribution is of assistance, it is

inadequate to cover all of our non-advocacy functions to the satisfaction of industry. The current RMAC contribution represents 0.0002 percent of the gross value of Australian cattle and calf production (including live cattle exports) estimated at \$7.4 billion (ABARES 2012-13).

The application of the Red Meat Industry Fund is adequate to fund the development and implementation of MISP 4 and funding a grassfed beef specific plan to implement MISP 4. The funds are not adequate to also fund the significant industry management work or strategic policy development that Cattle Council also undertakes.

5. The Red Meat Industry Fund does not provide sufficient resources to fund strategic planning, strategic policy development and industry management to the level and quality demanded by industry.

Recommendations to maximise the ability of grass-fed cattle producers to respond to challenges and capture opportunities in marketing and research and development.

As the Cattle Transaction Levy is akin to a tax, it must not be utilised for purposes that are political in nature. This principle is reinforced in the terms of the Statutory Funding Agreements between the Australian Government and the Red Meat RDCs governing the use of the Government's matching R&D funding.

There is scope for some flexibility within the interpretation of 'political purposes'. For instance Australian Pork Limited, in a position that is unique within the Australian RDC landscape, is both the levy funded RDC and the industry's representative group.

For APL Strategic Policy Development is not considered a 'political purpose' and is funded by pork levies. Strategic Policy Development is defined in the 2011-2015 Deed of Agreement between the Commonwealth of Australia and Australia Pork Ltd (APL) as:

1. the collection of information from a range of sources (including consultation within the Industry, and with other industries, government, other stakeholders or the public);
2. the balanced analysis of that information in the context of the Industry environment;
3. the development of a strategic policy position within the Industry; or
4. the advocacy of that position (including within Industry, and with other industries, government, other stakeholders or the public).

Precedent exists. The Australian Government has already endorsed the position that an industry representative body can be in the receipt of levy funds to perform a legitimate function that is not political in nature, in this case 'strategic policy development'.

6. Precedent has been established that market failure for some industry representative functions exists and it is appropriate that the Cattle Transaction Levy be utilised to fund strategic planning, strategic policy development and industry management.

As indicated above, the Cattle Council would acknowledge that a narrow interpretation of the MOU meaning that its allocation under the Red Meat Industry Fund is neither for management of the industry nor for strategic policy development.

In the absence of the necessary legislative changes or sufficient funds from RMAC and membership fees, Cattle Council is utilising service agreements with its service providers, AHA, MLA and NRS, to meet the demands adequate for setting the strategic direction and undertaking

planning for the broader red meat industry, but it does not provide for the day-to-day of industry as requested by industry during our strategic planning consultations.

These agreements have evolved to become the major income sources for the Council. However, the agreement has been approached with caution from across the industry as it does create a complication in that it could be perceived to compromise Cattle Council's oversight role of the service providers.

Thus far Cattle Council has not been compromised and in fact service agreements have improved our capacity which in turn has resulted in greater scrutiny of MLA via:

- producer forums being held to discuss MLA programs;
- the establishment of sub-committee meetings which run through MLA budgets in detail;
- the Cattle Council website providing all producers with an avenue to contribute; and
- more time and resources for Cattle Council staff to focus on MLA and its programs.

Cattle Council proposes that with the exception of its core Political Advocacy function, all the other core functions of Cattle Council (Strategic Planning, Industry management & Strategic Policy) could be funded by diverting a portion of the Cattle Transaction Levy.

Precedent has already been established through Australian Pork Limited that industry management and strategic policy development are not political in nature and are for the benefit of the industry as a whole and can be funded via a levy.

It is the view of Cattle Council that with the appropriate governance and reporting requirements to Government in place, Cattle Council should receive a portion of the Cattle Transaction Levy to directly to fund its strategic planning, industry management and strategic policy development functions instead of using service agreements.

7. That with the appropriate governance and reporting requirements 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.

Cattle Council has also identified other opportunities to improve the industry's ability to capture opportunities. It is currently very difficult to shift funds between services providers (MLA, AHA & NRS), which limits our ability to easily respond to changing needs within the sector.

As mentioned earlier, should industry wish to adjust the direction of each levy to various service providers within the \$5.00 without increasing or decreasing the total \$5.00 paid by a producer we must undergo a costly (\$350,000+) consultation process.

If the industry wants to amend any one of the levies that make up the \$5 levy Cattle Council must forward a proposal to the Minister. The Department of Agriculture assesses the proposal against the Levy Principles and Guidelines and provides advice to the Minister. As outlined previously, developing a proposal is a significant and costly process for industry. If the proposal is approved, the Government drafts the legislation to implement the amendment levy.

The Cattle Council believes that the industry as a whole would benefit from a more flexible approach to adjusting the apportionment within the \$5.00 levy. Having the capacity to adjust levy rates using an appropriate, but less onerous, process would allow the industry to be more

responsive to its changing needs ensuring that as the industry evolves, its levy expenditure evolves with it.

The Government has clearly stated that it has an objective to reduce legislative impediments (red tape). The lack of flexibility to apportion funds to high priority issues within the industry efficiently, is severely limiting the ability of the beef industry to mitigate risks and take full advantage of emerging opportunities.

For example, the industry has agreed that NLIS Limited, the subsidiary company responsible for managing the National Livestock Identification System database, be transferred from MLA to AHA. The reason for this decision is that AHA is a more appropriate organisation to house the system given its disease management responsibilities and to leverage the Government investment already made by utilising the technology in other industries.

The complication that arises from this move is the continued funding of NLIS Ltd. The simplest method would be to reapportion the levy funds MLA puts towards NLIS to AHA. However, under the current arrangements the industry cannot do this without undergoing a consultation process—despite the fact the levy amount has not changed and the use of the levy has not changed.

As discussed earlier, every 5 years the industry develops a Meat Industry Strategic Plan. It is Cattle Council's view that this process would be the appropriate forum to review all industry priorities and determine the funding requirements (within the total quantum) for all industry service providers and recommend the new distribution of the levy to levy payers for their approval by vote.

8. That more flexibility is required within the Levy Principles & Guidelines for altering the apportionment of the various Cattle Transaction Levies which make up the \$5.00 levy (where the total quantum is not altered).

The Cattle Council also believes there are significant opportunities to increase the efficiency of the levy collection and to utilise levy collection data to inform strategic planning and other functions for the industry. There are many different mechanisms under which a levy could be collected. Currently the beef levy is a flat fee on each transaction. During Cattle Council's consultation with producers, many have expressed two major issues with our current levy system:

1. The current system is not able to identify exactly who paid the levy and how much they paid.
2. Some producers have argued that the \$5.00 transaction levy as a percentage of animal value is not equitable between breeders, traders/backgrounders and feedlots.

Cattle Council believes a joint Government and industry project should be established to assess the pros, cons and cost / benefit of other types of levy collection mechanisms including the systems available to identify levy payers and how much they paid. In being able to identify all levy payers we could streamline communications for industry and Government, streamline any industry voting (eg MLA or Cattle Council AGM) and it would improve disease management planning (especially for exotic disease incursions).

9. That a Government and Industry project be undertaken to assess the pros, cons and cost / benefit of other levy collection mechanisms and the systems available to identify levy payers.

Attachment A - Restructure Background

A critical point in the restructure process was the ABC television report about Australian cattle slaughtered in Indonesia which aired in May 2011. The subsequent suspension of the live trade highlighted significant deficiencies within the red meat structure and within Cattle Council.

During this period the bigger profile of MLA was a cause of confusion for media and producers. Many people expected MLA to play a role outside its scope. In an MLA media statement after the event, MLA indicated the Indonesian issue had caused MLA to reflect on the source of confusion about its role and whether it had over-reached on its services to industry above and beyond those it was established to deliver. Since this time MLA has gone 'back to basics', focusing more closely on its core functions of R&D and Marketing.

Cattle Council's lack of resources contributed to MLA over-reaching. MLA had crept into a strategic policy void that had slowly grown over a number of years. This 'scope creep' was compounded by Cattle Council's inability to effectively identify and manage it, again as a result of Cattle Council's limited resources.

Reviews of Cattle Council

Independent reviews initiated by the Cattle Council in 2006/07 (Structure) and 2007/08 (Governance) have recommended changes to Cattle Council's structural arrangements and governance processes, many of these recommendations have been implemented.

The 2007 review contained 26 recommendations, which were the catalyst for Cattle Council to initiating a debate about its structure and funding models. Key recommendations from the review include:

Recommendation 3

That Cattle Council recognise the importance of industry membership coverage and open membership arrangements, and agree to keep this matter under consideration in light of the National Farmers Federation review.

Recommendation 5

That Cattle Council give consideration to drawing on specialist industry skills and knowledge to participate on short-term specific issue task forces. Taskforces to identify and recommend policy and courses of action back to the Council or Executive

Recommendation 8

That Cattle Council develop mechanisms to facilitate more direct communication with cattle producers, in co-operation with State Farming Organisations.

In November 2008, Cattle Council introduced a taskforce system to assist in policy development for the cattle industry. Now referred to as the subcommittee system, it allows background material to be debated and resolutions to be properly developed and before being presented to the Cattle Council board. With the introduction of our service agreement with MLA, Cattle Council has been able to afford to include producers from outside the state farming organisation system to contribute to these committees.

In 2009, Cattle Council formed an internal working group to develop a restructure model. Feedback from options presented to CCA meetings in 2010 and early 2011 assisted the May 2011 CCA Board meeting agree to a working group recommendation to pursue restructure.

Cattle Council was poised to adopt a new constitution in November 2011 at its AGM in Longreach. The proposed constitution was for a new structure that was based on trying to further reduce costs and seek external funding through service agreements.

It quickly became apparent after meeting with a number of key industry stakeholders that there was an appetite for more significant reform within the industry. This included exploring longer-term funding solutions such as utilising the cattle transaction levy.

This appetite for reform was confirmed at a producer forum held immediately following the MLA AGM in Longreach, where producers spoke strongly in favour of better resourcing Cattle Council and possibly utilising a portion of the cattle transaction levy for that purpose.

The Development of 'Beef 2015 and Beyond'

When the Government was approached to discuss the outcomes of Longreach and potential paths including Cattle Council gaining access to the levy, Cattle Council was advised that before the industry could establish a desired structure and funding model, it must have a comprehensive strategic plan that will direct and mobilise all industry resources and efforts for the next few years and also align with the framework provided by the wider Meat Industry Strategic Plan.

Throughout the development of the strategy, which commenced in March 2012, a high priority was placed on producing a plan that cattle producers valued, and for which they have a high-level of ownership of its construction and content.

The strategy was developed in three phases:

1. Development of project objectives, measures of success, identification of stakeholders and compilation of all existing relevant information – informing the development of the overall project plan, and a broad communication strategy to raise awareness and encourage input and participation
2. Strategy development, including a review and analysis of existing information, reports and plans, and consultation with key stakeholders (in each state and nationally), concluding with the synthesis and distillation of all information and finalisation of the strategy based on feedback.
3. Consideration of various industry structures that would best support the strategy's delivery (initially running in parallel with phase two), the outputs of which were derived from stakeholder consultation.

Throughout the consultation process to develop the strategy, stakeholders focused on industry structures and were demanding better co-ordination of resources and results associated with policy analysis and advocacy on behalf of the grassfed beef sector. This also extended to an expectation for improved return on investment from R&D investment and marketing services provided by levy-funded industry service bodies.

Producers were seeking a new representative structure that directly engages with producers and facilitates wide and ongoing consultation, can better direct levy expenditure with knowledge and

conviction and actively represent grassfed beef producer interests with industry, government and the community.

Cattle Council commissioned a report through Innovact Consulting entitled Strengthening policy services in the grass-fed cattle industry. The report discusses in detail a number of imperatives for change. In summary four drivers exist:

1. Cattle Council, as the largest sector of the beef industry must be lead the red meat sector to deliver industry unity, a role it cannot play in its current state;
2. The new strategy 'Beef 2015 and Beyond' as determined by the grass fed cattle industry demands more of Cattle Council and itself (the industry);
3. Producers require more direct access to their representative body and that body to have greater resources to support this access; and
4. The Cattle Council of Australia as the Peak Industry Council requires funding that is adequate to deliver properly on all its obligations, including the Red Meat Industry MoU.

Attachment B - CATI survey of a representative sample of 675 beef producers from across Australia as part of the consultation to develop the 'Beef 2015 and beyond' strategic plan.

BACKGROUND

Cattle Council commissioned Kaliber Research to conduct a CATI survey of a representative sample of 675 beef producers from across Australia as part of the consultation to develop the 'Beef 2015 and beyond' strategic plan.

METHODOLOGY

The CATI surveys were conducted between 25 April and 8 May 2012.

Respondents were drawn from Kaliber's Rural Database of around 100,000 producers profiled by farm type, size and location. To ensure survey results were representative, the sample was stratified based on the latest census data from the Australian Bureau of Agricultural Resource Economics and Sciences (ABARES). All results were then weighted to the beef producer population, as given by the ABARES.

To ensure that the survey captured the respondents were required to have minimum herd sizes as 1 April 2012: NSW – 250; VIC – 250; QLD – 400; SA – 200; WA (non Kimberley) – 200; WA (Kimberley) – 3,000; TAS – 100; NT – 3,000.

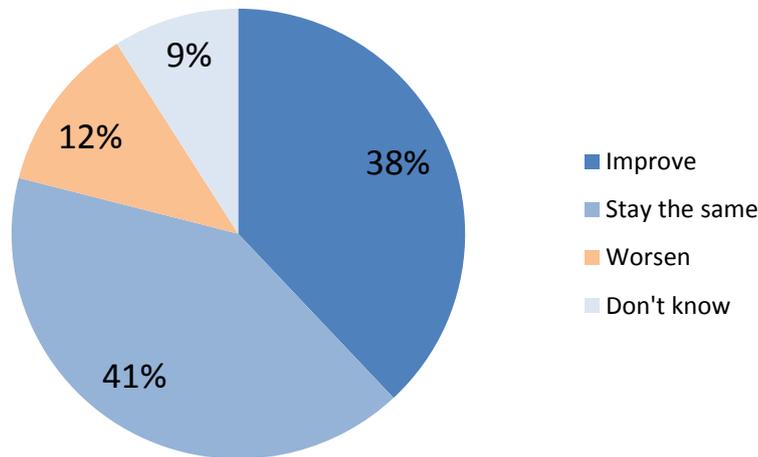
The breakdown of respondents by state, with the margin for error for each, are outlined below:

STATE	POPULATION	SAMPLE	ERROR
New South Wales	11,223	234	±6.3%
Victoria	6,110	91	±10.2%
Queensland	8,478	215	±6.6%
South Australia	1,769	41	±15.1%
Western Australia	1,758	61	±12.3%
Tasmania	789	23	±20.2%
Northern Territory	163	11	±28.6%
AUSTRALIA	30,290	676	±3.7%

The vast majority of respondents were grass feed operations (88%) with the remainder being a combination of grass and grain fed operation. The average herd size was 1,848 ranging from an average of 962 in South Australia to 17,549 in the Northern Territory.

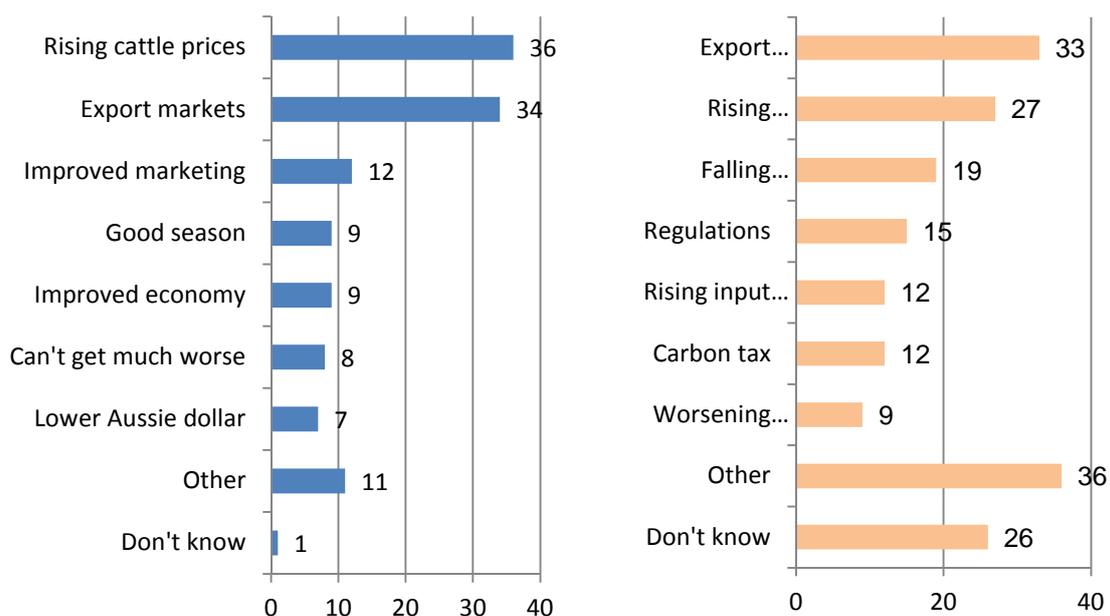
FUTURE OF THE BEEF INDUSTRY

The majority of respondents felt that the beef industry will either improve (38%) or stay the same over the next five years. One in eleven respondents (9%) did not have an opinion on how the industry would look in five years' time.



The main reasons that respondents felt that the industry would improve (38%) were rising commodity prices (36%); overseas markets and economies (34%); and improved marketing (12%).

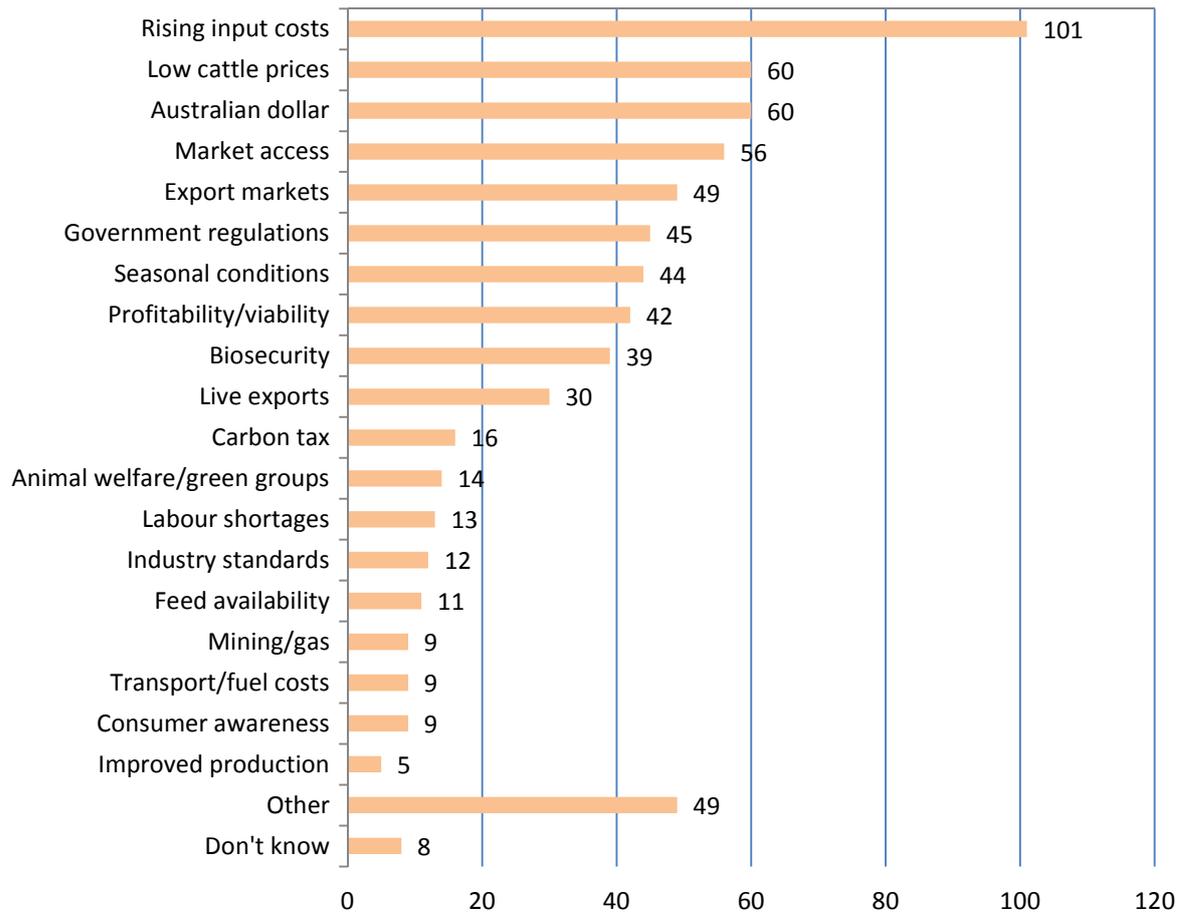
The main reasons that respondents felt that the industry would worsen over the next five years (12%) were: overseas markets and economies (33%); the rising Australian dollar (27%); falling commodity prices (19%); Government intervention and policies (15%); and rising input costs (12%).



CURRENT ISSUES FACING INDUSTRY

The most important issues currently facing the beef industry varied across States and between the northern and southern production systems in Australia. The main issues were rising input costs (16%); weak or low commodity prices (9%); and market access (8%).

The second main issue facing the issues were: seasonal and climatic conditions including drought (14%) and rising input costs (9%).



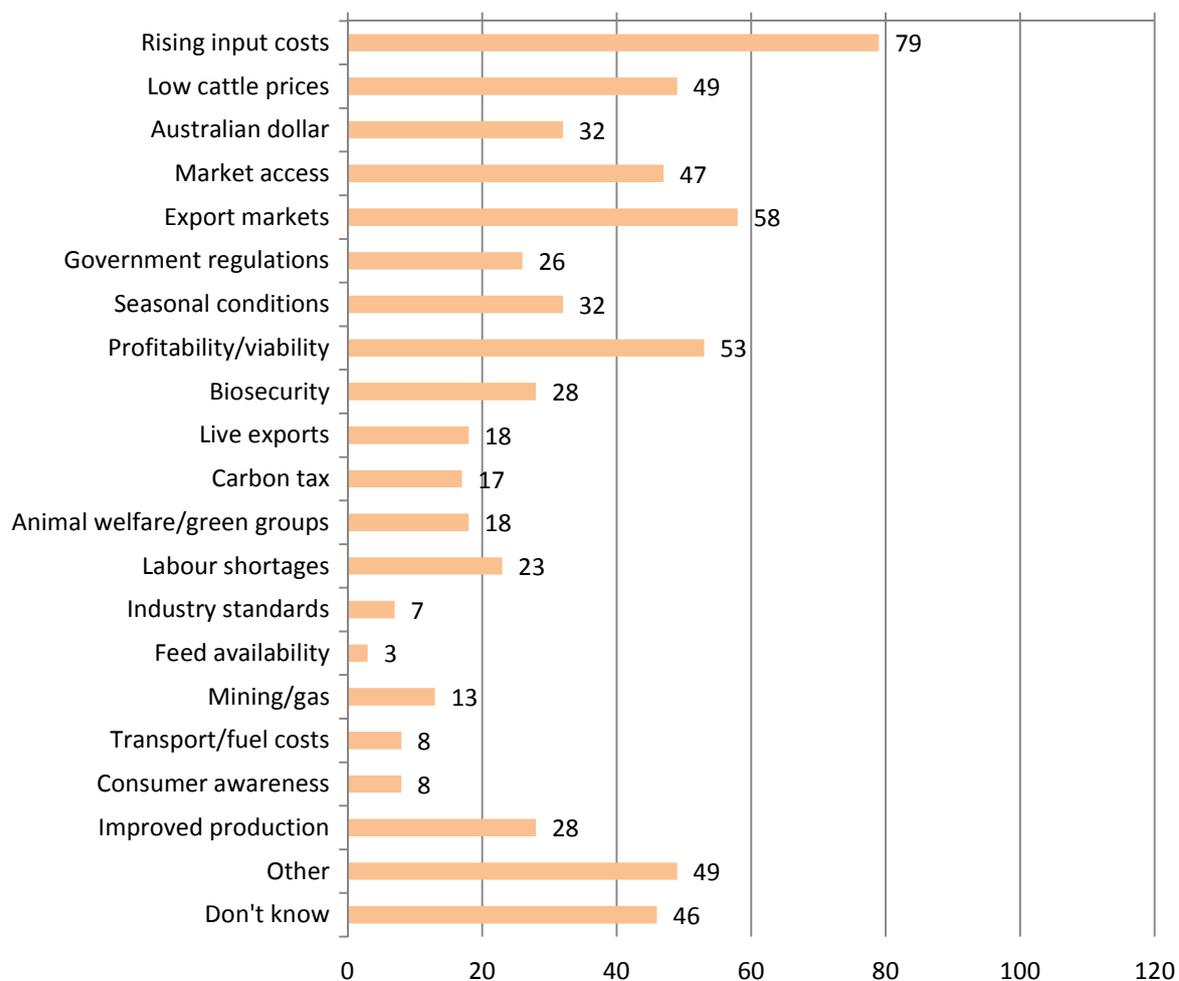
The significant differences were for: exports, overseas markets and economies for those in South Australia (22%, versus 7% overall); viability and profitability of production in Tasmania (22%, versus 6% overall); Government intervention for those in northern Australia (10%, versus 6% overall); and live exports for those in Western Australia (9% versus 2% overall).

Overall, producers felt that responsibility for resolving the current issues was the responsibility of the Government or related agencies (44%); Meat & Livestock Australia (28%); themselves (19%); the Cattle Council of Australia (7%); and the National Farmers Federation (6%).

In addressing the current issues facing the industry, producers were generally: unsatisfied with the Government (50% very unsatisfied, 31% unsatisfied, 5% slightly unsatisfied); satisfied with Meat & Livestock Australia (4% very satisfied, 27% satisfied, 26% slightly satisfied); satisfied with Cattle Council of Australia (3% very satisfied, 29% satisfied, 27% slightly satisfied); and satisfied with themselves (5% very satisfied, 45% satisfied, 21% slightly satisfied)

FUTURE ISSUES FACING INDUSTRY

The future issues that the beef industry will face varied across States and between the northern and southern production systems in Australia, with the main ones being: rising input costs (12%); exports related to overseas markets and economies (9%) and the viability and profitability of production (8%).



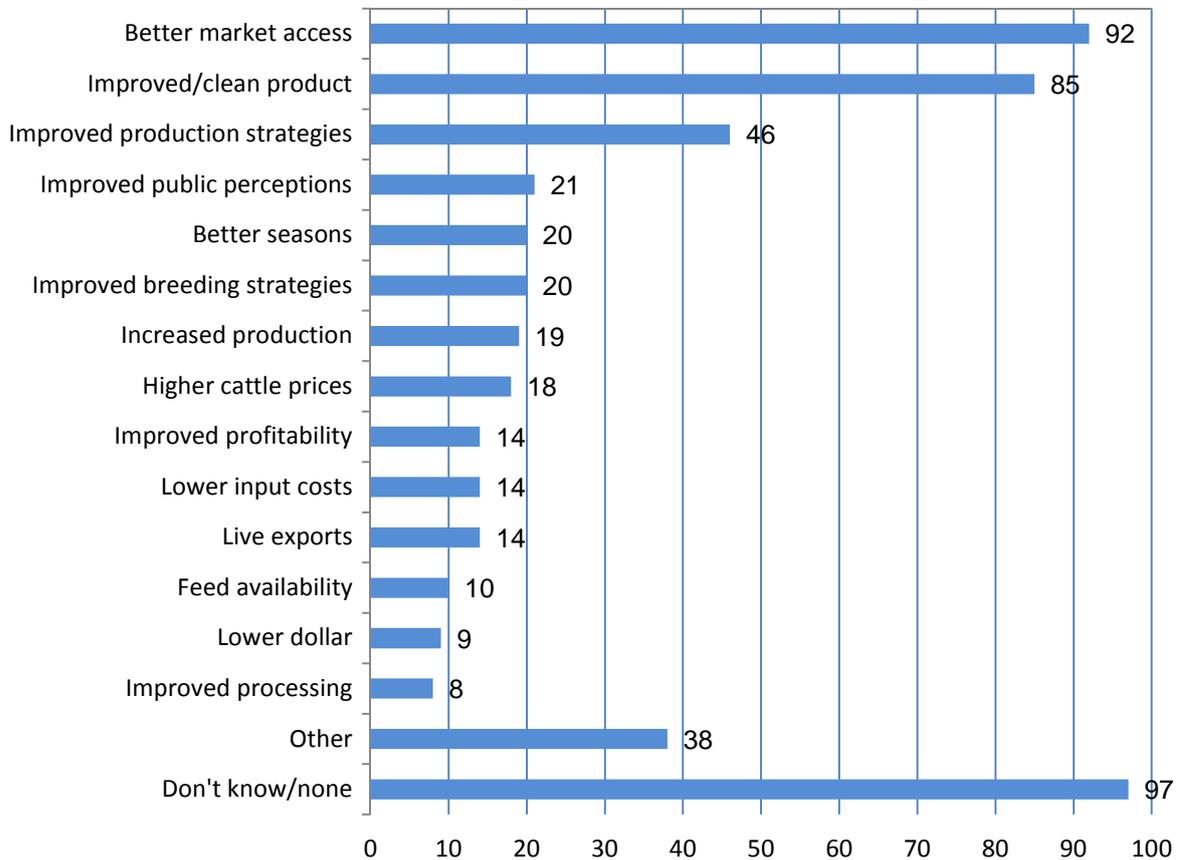
Again, producers felt that the responsibility of resolving these future issues fell to: the Government or related agencies (44%); Meat & Livestock Australia (28%); themselves (23%); the Cattle Council of Australia (10%); and the National Farmers Federation (7%).

As a whole just over half of producers felt that the industry would take effective action in facing these future issues (12% very likely, 28% likely and 18% slightly likely). The main consequences of not tackling future issues would lead to a decrease in viability and production (29%); an exit of producers from the industry (19%); reduced market access (15%); and low commodity prices leading to a reduced income (15%).

The second main issue facing the industry in the future were: seasonal and climatic conditions including drought (8%) and rising input costs (8%).

CURRENT OPPORTUNITIES FACING INDUSTRY

The most important opportunities for the beef industry were improved and new export markets (26%); improved and clean quality organic products and genetics (14%) and better market access (13%).



These varied across States and between the northern and southern production systems in Australia. The significant differences was for improved and new export markets for those in South Australia (41%, versus 26% overall).

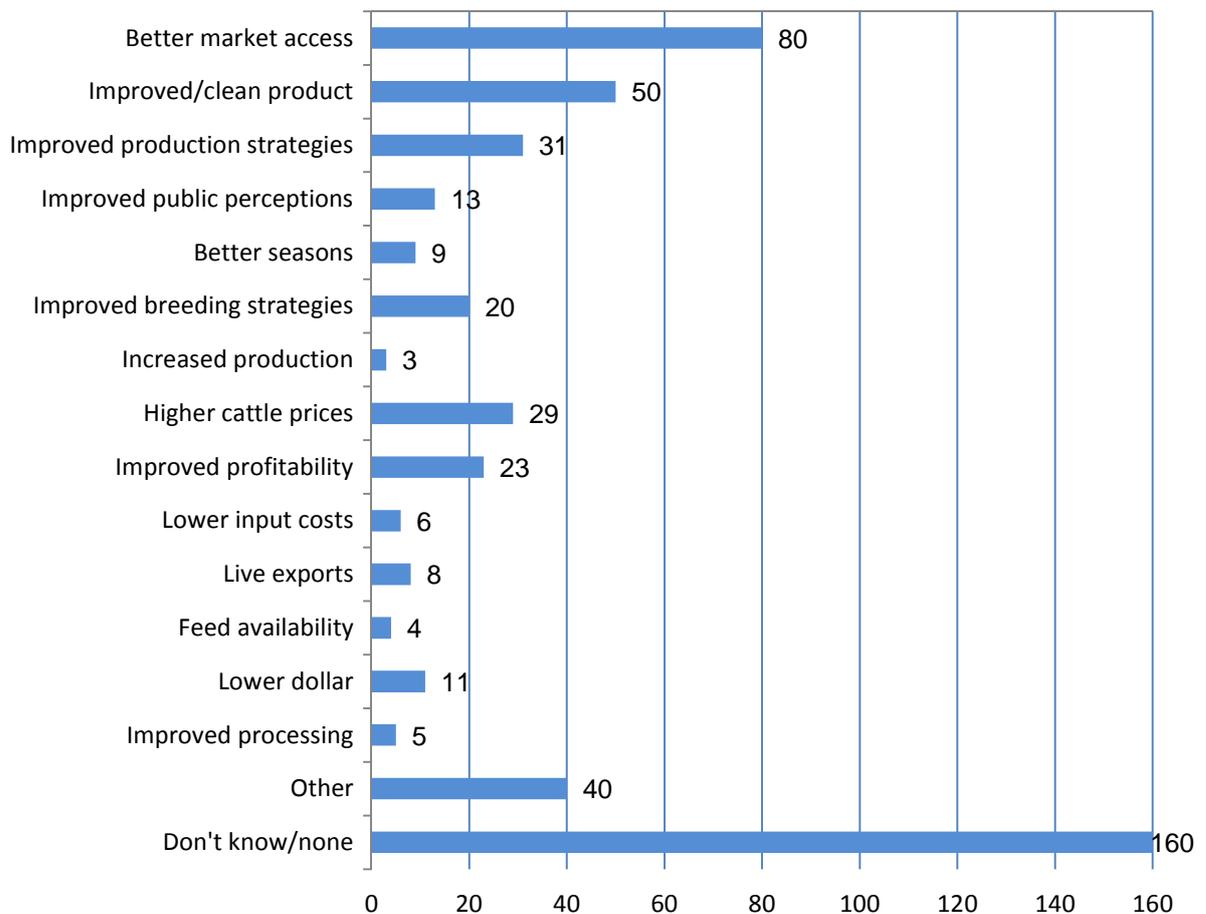
Overall, producers felt that responsibility for addressing the current opportunities for the beef industry were: themselves (34%); Meat & Livestock Australia (32%); the Government or related agencies (19%); the Cattle Council of Australia (8%); and the National Farmers Federation (5%).

In addressing the current opportunities for the industry, producers were generally unsatisfied with the Government (29% very unsatisfied, 46% unsatisfied, 5% slightly unsatisfied); satisfied with Meat & Livestock Australia (8% very satisfied, 39% satisfied, 25% slightly satisfied); satisfied with Cattle Council of Australia (3% very satisfied, 36% satisfied, 19% slightly satisfied); satisfied with the National Farmers Federation (39% very satisfied, 30% satisfied, 4% slightly satisfied); and satisfied with themselves (15% very satisfied, 51% satisfied, 18% slightly satisfied)

Just under half of respondents would not name a second main opportunities for the industry (45%), with the other main ones being: improved market access (13%) and improved production techniques (8%).

FUTURE OPPORTUNITIES FACING INDUSTRY

Again the future opportunities for the beef industry varied across States and between the northern and southern production systems in Australia, with the main ones being: improved and new export market access (22%) and better market access (11%). A quarter of respondents could not name a future opportunity for the industry (24%).



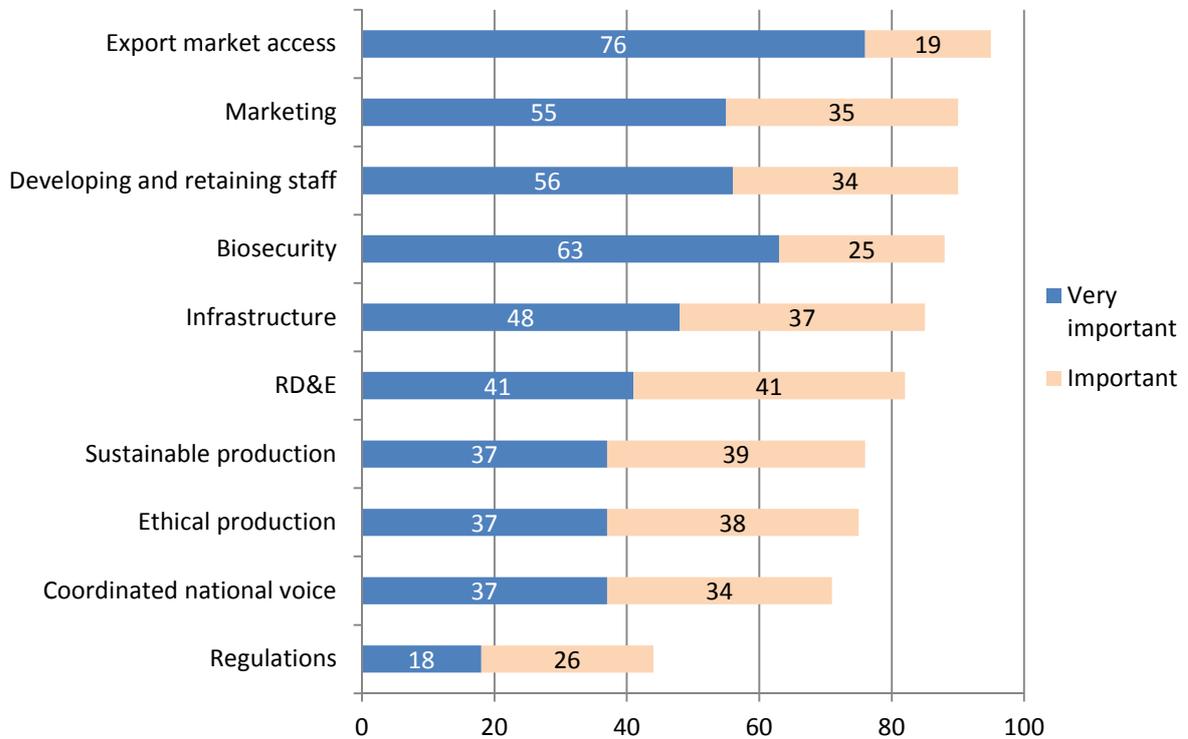
Again, producers felt that the responsibility of resolving these future opportunities fell to: Meat & Livestock Australia (34%); themselves (28%); the Government or related agencies (25%); the Cattle Council of Australia (9%); and the National Farmers Federation (6%).

As a whole over two thirds of producers felt that the industry would take effective action in facing these future opportunities (16% very likely, 34% likely and 22% slightly likely). The main consequences of not tackling future opportunities would lead to a decrease in viability and production (26%); reduced market access (17%); low commodity prices leading to a reduced income (13%); and an exit of producers from the industry (12%).

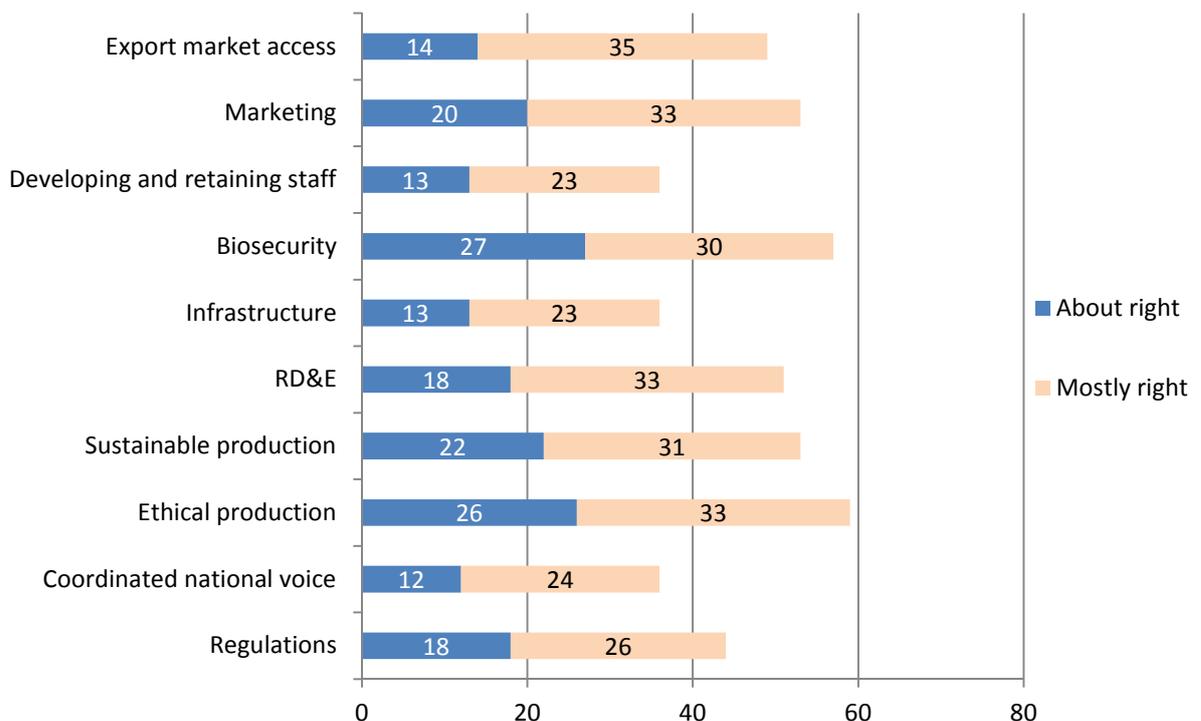
The second main opportunity for the industry in the future was improved and new export market access (10%).

INDUSTRY STRATEGIC PRIORITIES

- Producers were asked to rate the importance of strategic areas and priorities facing the industry as a whole, with the majority feeling that they were important:



- Overall, respondents felt the industry representation and services arrangement effectively deliver for these strategic areas and priorities with only the majority feeling that they didn't require a major overhaul in all areas.



INDUSTRY RELATIONSHIPS

Overall, producers felt that they had a:

- A poor relationship with the Government (very poor 17% and poor 31%), which was mainly driven by the perception that the Government is unsympathetic and out of touch with agriculture (48%), the banning of live exports (37%) and poor or bad government policies (26%).
- An average relationship with the community (48%), with the poor relationship (16% - 3% very poor and 13% poor) being driven by a lack of understanding of the difficulties and obstacles that producers face (35%), being city centric and out of touch with agriculture (31%), media coverage and representation (26%) and the community not having an understanding of where their food comes from (25%).
- A good relationship with other agricultural industries (5% excellent and 51% good), with the poor relationship (4% - 1% very poor and 3% poor) being driven by a lack of communication (29%).
- An average relationship with the other non agricultural industries (59%), with the poor relationship (20% - 4% very poor and 16% poor) being driven by a lack of communication (27%), mining interests (26%), no concern for agriculture (22%) and a lack of understanding about agriculture (21%).

INDUSTRY REPRESENTATION

- Producers felt that the Meat & Livestock Australia (53%) or the Cattle Council of Australia (18%) were best placed to act as the single coordinated voice of the beef industry.
- Producers in South Australia and the Northern Territory were more inclined to prefer the Cattle Council of Australia (36% and 61% respectively).

Attachment C – External Committees on which Cattle Council represents Australian grassfed producers

1. BJD Map Reference Group
2. BJD Technical Advisory Group
3. National Animal Health Consultative Committee
4. Northern Australia Quarantine Stakeholder Consultative Committee
5. TSE Freedom Assurance Program National Advisory Committee
6. TSE Freedom Assurance Program National Technical Committee
7. Animal Welfare Standards Reference Group – Transport/ Cattle (AAWS)
8. Cattle Disease Contingency Fund Board (CDCF)
9. FMD National Government and Livestock Industry Policy Forum
10. National Arbovirus Monitoring Program Co-ordination Group
11. National Animal Health Information System (NAHIS)
12. AUSVETPLAN Technical Reference Group
13. Biosecurity Planning Reference Group, Extensive Industries
14. EAD Reference Group
15. WSPA Long Distance Transport Taskforce
16. Livestock Export Animal Welfare Group, Operations Group
17. AAWS Livestock and Production Animals Working Group
18. National Wild Dog Advisory Group
19. AHA Industry & Members Forum
20. MLA Beef Marketing Taskforce
21. Livestock Export Standards Advisory Committee (LESAC)
22. Livestock Export Industry Consultative Committee (LEICC)
23. MLA Live Export R&D Advisory Committee (LERDAC)
24. MLA R&D Taskforce
25. MLA Marketing Taskforce
26. Australian Meat Industry Language & Standards Committee
27. CCA/NRS/ALFA Beef Industry Advisory Committee (BIAC)
28. Livestock Production Assurance Advisory Committee (LPAAC)
29. SAFEMEAT Partners
30. SAFEMEAT Executive
31. SAFEMEAT Initiatives Working Group
32. SAFEMEAT Targeted Testing Working Group
33. SAFEMEAT CVD/BVD Working Group
34. SAFEMEAT NVD Management Committee
35. Global Roundtable for Sustainable Beef
36. Global Roundtable for Sustainable Beef
37. Global Roundtable for Sustainable Beef Efficiency and Innovation Committee
38. Five Nations Beef Alliance Trade Committee
39. Five Nations Beef Alliance Sustainability Committee
40. Five Nations Beef Alliance Animal Welfare Committee
41. Five Nations Beef Alliance Communications Committee
42. Five Nations Beef Alliance Young Leaders Committee
43. Korean Free Trade Beef Taskforce
44. Japan Free Trade Agreement Taskforce
45. SAFEMEAT NLIS Cattle Advisory Committee
46. Red Meat Advisory Council
47. NLIS Industry Reference Group

48. LPI Review Implementation Committee
49. SAFEMEAT Bobby Calf Residue Solutions Working Group
50. Red Meat Co-Investment Committee
51. Live Exports Industry-Government Implementation Group (IGIG)
52. National Farmers Federation (NFF) Agriculture and Community Subcommittee
53. NFF Members Council
54. NFF Animal Welfare Taskforce
55. NFF Competitiveness Committee
56. NFF Biosecurity Taskforce
57. NFF Innovation Committee
58. NFF Natural Resources Committee
59. NFF Trade Committee
60. NFF Drought Taskforce
61. NFF Water Taskforce
62. NFF People and the Workforce Committee
63. NFF Agvet Chemicals Taskforce
64. Communications Network Group
65. Exercise Odysseus Communication Working Group
66. FMD Risk Management Oversight Committee
67. ACVO EAD Advisory Group
68. BJD Steering Committee
69. BJD Financial Non-Financial Assistance Program Management Committee
70. BJD Ministerial Advisory Committee, Qld
71. National JD Control Program Steering Committee
72. JD Research Advisory Committee
73. Cattle Health Statement Working Group
74. E-Surveillance Co-ordinating Group
75. National General Surveillance Steering Committee
76. Exercise Odysseus Steering Committee
77. Screw World Fly National Advisory Group
78. National Wild Dog Action Plan Steering Committee
79. Exercise Odysseus Writing Group
80. Exercise Odysseus CCEAD/NMG Working Group
81. SAFEMEAT Administration Working Group
82. SAFEMEAT Cotton Trash Working Group (temporary)
83. SAFEMEAT Device Based Status Working Group
84. MLA Market Access Committee for Japan Free Trade Agreement
85. MLA Market Access Committee for the Korean Free Trade Agreement
86. Indonesian Meat and Live Cattle Market Access Committee
87. MLA Market Access Committee for multilateral and Bilateral Trade
88. EU2 Pathway Industry Committee
89. Northern Beef Industry Roundtable
90. Livestock Biosecurity Network Board
91. Meat Standards Australia Beef Taskforce

Attachment D – Policy subcommittee members

The Cattle Council of Australia currently has four subcommittees that are responsible for providing policy advice to the Council on:

- Animal Health, Welfare and Biosecurity
- Marketing, Market Access and Trade
- Industry Systems and Food Safety
- Research, Development, Extension and Sustainability

Members are sourced from across Australia with a broad range of backgrounds.

Animal Health, Welfare & Biosecurity Committee

- Paul Saward- Chair, Northern Tasmanian Producer, Cattle Council Treasurer (Tasmanian Farmers' & Graziers' Association)
- Melinee Leather, Southern Queensland Producer, (Agforce Queensland)
- Chris Laurie- Northern NSW Producer (New South Wales Farmers Association)
- Andy Withers- South Australian Producer (Livestock South Australia)
- Kathy Lovelock – Western Australian Producer(Pastoralists' & Graziers' Association of Western Australia)
- Ben Hooper- Tasmanian Producer (TFGA)
- Tom Stockwell- Northern Territory Producer (Northern Territory Cattlemen's Association)
- Geoff Pearson – Western Australian Producer, Feedlotter, Live Exporter (Western Australian Farmers' Federation)
- Chris Wallace-Smith – Victorian Producer (Victorian Farmers' Federation)
- Bob Barwell- NSW Producer, Board Appointed
- Nick Keatinge- NSW Producer, Board Appointed
- Angus Atkinson - NSW, Board Appointed
- Peter Hall- North Queensland Producer, Cattle Council Vice President (Agforce)
- Cam Daley – Agforce Corporate Representative (Board Appointed)
- Alastair Henderson- Australian Cattle Vets Association
- Alex McDonald - Australian Registered Cattle Breeders' Association

Research, Development, Extension & Sustainability Committee

- Tony Hegarty – Chair, NSW Producer (NSWFA)
- Grant Maudsley – Queensland Producer (Agforce)
- Angus Atkinson – NSW Producer (NSWFA)
- Jo Keynes - SA Producer (Livestock SA)
- David Stoate - WA Producer (PGA)
- Brett Hall – Tasmanian Producer (TFGA)
- Tom Stockwell- NT Producer (NTCA)
- Ralph Shannon- Northern Australia Beef Research Council
- Kevin Smith- Southern Australia Meat Research Council
- John Atkinson – Qld Producer, Rising Champion Finalist
- Clinton Gartrell – WA Producer and Live Export Stockman (WAFF)

Industry Systems & Food Safety

- Peter Hall- Chair, Qld Producer, Cattle Council Vice President (Agforce)
- Bill Stacey – NSW Producer (NSWFA)
- Peter Grey- WA Producer (PGA)
- Leon Guillian – Tas Producer, TFGA
- Tom Seilor- Qld Producer (Board Appointed)
- Steve Taylor- Qld Producer (Board Appointed)
- Bob Barwell - NSW Producer (Board Appointed)
- Terry Toohey - Committee member (Board Appointed)
- Alison Hamilton – NSW Producer, Rising Champion (NSWFA)

- Sasha Lanyon- SA Producer and Academic, Rising Champion Finalist
- Richard Sutton- Rising Champion Finalist, TFGA

Marketing, Market Access & Trade Subcommittee

- Bim Struss- Chair, Qld Producer (Agforce)
- Howard Smith - Qld Producer (Agforce)
- Dereck Schoen – NSW Producer (NSWFA)
- Andy Withers- South Australian Producer (Livestock SA)
- James Morris- WA Producer (PGA)
- Greg Bradfield- Tasmanian Producer (TFGA)
- Rohan Chalmer- WA Producer (WAFF)
- Michael McCormack- Victorian Producer (VFF)
- Ian McCamley- Qld Producer (Board Appointed)
- David Foote- Qld Producer and Processor (Board Appointed)
- Blair Angus- Qld Producer and Processor (Board Appointed)
- Geordie Elliot- Vic Producer, Rising Champion (VFF)
- Marc Greening- NSW Producer, Rising Champion finalist (NSWFA)
- Lauchie Cole- Tas Producer, Rising Champion Finalist (TFGA)
- David Hill – Qld Producer (Board appointed)
- Richard Rains – Beef Exporter (Board appointed)



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services in the grass-fed
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Report for the Cattle Council of Australia Inc.

8 October 2012

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It follows on from an earlier project where Inovact Consulting was commissioned by the Cattle Council to provide independent advisory support for their work to develop a new national strategy for the grass fed cattle industry: Beef 2015 and Beyond. In that role, I had the opportunity to attend a number of industry workshops and to interview a variety of industry leaders which has provided valuable context in preparing this report.

Disclaimer

The information contained in this report has been compiled from data and other materials supplied by the Cattle Council of Australia Inc. and publicly available information.

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The report provides a policy perspective and does not in any way purport to provide legal advice. The Cattle Council of Australia and other parties need to take their own independent legal advice.

This report has been prepared for the Cattle Council of Australia for a defined purpose and the contents should only be viewed in that context.

About Inovact Consulting

Inovact Consulting is a specialist advisor to government, industry and commerce on organisational effectiveness. Our particular focus is on rural and regional Australia, where we help clients design, adapt and implement workable plans, programs and structures that deliver dramatically improved results on the ground.

We believe that adapting to change is the single most important thing every rural industry and associated organisation must excel at. Inovact Consulting exists to help rural industries evolve by:

- Helping leaders and organisations to make better resource allocation decisions,
- Challenging the status quo, and
- Engaging people in a strategic way to create momentum for change.

The way that we help organisations adapt is by applying systems thinking and engaging strategically with influential external and internal players to understand the drivers of change and design workable plans for reform.

Our experience in helping rural industries achieve major reform outcomes has included: as an executive in the formation of Australian Pork Limited in 2001 and as its inaugural Chief Executive; as an advisor to the National Farmers' Federation in its restructure in 2009; and consulting to the citrus industry to establish Citrus Australia Limited in 2008.

During 2012, Inovact Consulting worked as an independent advisor to the Cattle Council of Australia in the development of the new national strategy for the grass fed cattle industry, 'Beef 2015 and Beyond'. The document is now in draft form after a comprehensive consultative process led by the Cattle Council.

This report has been prepared for the Cattle Council and other industry stakeholders as an input to the next phase of the Council's work, which is to engage industry and the government in developing workable options for future industry policy, representation and resourcing arrangements.

Brian Ramsay
Managing Director

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Summary

The grass fed cattle industry is one of Australia's largest and most valuable agricultural industries. However, the operating environment has changed for the industry since the current structural and funding arrangements for the red meat industry were established in 1998. Economic uncertainty associated with the Global Financial Crisis, rising competition from other protein sources and from overseas beef exporters along with environmental and animal welfare challenges have collectively placed intense pressure on industry organisations, levy payers and value chain firms to adapt.

The closure of the live cattle export trade to Indonesia in 2011 highlighted the volatility of the trading environment. It also highlighted shortcomings with the industry preparedness and capacity to defend and promote the industry's interests in an effective and coordinated way. It provided momentum for levy payers to question the need for changes to current strategies, structures, roles and responsibilities, and the allocations and return on investment from levy funds.

In response and to meet its obligations under the red meat industry Memorandum of Understanding, the Cattle Council of Australia led a comprehensive process to develop a new strategy for the grass fed cattle industry during 2012. It included an independent survey of 675 cattle producers, state workshops and a national workshop, feedback on issue papers via an interactive web site and individual interviews with key industry leaders.

A central outcome of the strategy formulation process is that strengthening of the strategic policy development and advocacy function of the industry is recognised by all parties as being essential and requiring urgent action. The national industry strategy workshop conducted in Canberra in July 2012 agreed that the industry investigate alternative structures for national representation of grass fed cattle producers.

A common theme is that the industry representation, policy development and advocacy functions lack unity of purpose, effectiveness and capacity to deliver on their roles and responsibilities. There is evidence of market failure. The situation is set to escalate with Meat and Livestock Australia's intention to ensure its focus and scope remains on its core role and responsibilities. This places responsibility squarely on the Peak Industry Councils, including the Cattle Council of Australia, to transform their capacity to operate as effective policy and advocacy bodies that produce valued outcomes for levy payers.

It is the levy payers and the Australian Government that provide the drive, direction and accountability for governance and performance from beef industry levy investments. Thus, the onus on all other parties associated with the cattle transaction levy system is to add value for these investors.

Examining the scope and implications for changes relating to the grass fed cattle industry policy functions and funding cannot be done in isolation. Decisions about levy arrangements go well beyond building technical arguments as they involve core questions of strategy, governance and accountability.

It is well established that rural industries can receive statutory levies for strategic policy development activities. Such arrangements are predominately implemented through a contractual agreement between the declared industry services body that receives levy funds from the government and the Peak Industry Council that represents levy payers.

It is also possible for the services body and the representative body to be one integrated body, as is the case in the pork industry. Here, Australian Pork Limited delivers research and development, marketing and strategic policy development services. It cannot be involved in agri-political activities.

The decision for some of the cattle transaction levy to be directed towards strategic policy development is fundamentally a question of strategy. The challenge is testing whether conceptual agreement can be reached with the grass-fed cattle industry for such an approach to be applied and this in turn will depend on the potential benefits and costs.

If in-principle support can be reached, then how the arrangement is established for levies to be used for strategic policy development will involve significant strategic decisions. It will require weighing up the benefits and costs of alternatives and testing options with levy payers and the government. Either way, the representative structure valued by the industry would have characteristics such as:

- **Is unified and responsive.** There is much compartmentalisation of the various groups in the beef industry, particularly the Peak Industry Councils.
- Provides a **seamless relationship between policy, research and development and marketing functions.** How the parties involved in each function work together is critical.
- Provides levy payers with **greater influence and increased accountability** for the use of levy funds - they demand **value for money.**
- Provides government with high levels of assurance on **governance, accountability and performance.**
- Has the **resources and skills** needed to deliver the outcomes sought by industry and government.

The options and recommended approach that suits the characteristics and needs of the Australian cattle industry must be explored and resolved through a consultative review process that engages levy payers and the government. The context and issues identified in this paper provide a starting point for informed dialogue.

Introduction

The Australian government plays a significant role in creating the policy environment for the growth of productive and sustainable agriculture, fisheries and forestry industries (rural industries). While the rural sector contributes around three per cent to the Australian economy, it is one of Australia's major exporters, bringing in over \$30b each year for the past decade¹.

After grains, the beef industry is Australia's largest agricultural export industry. It operates in highly competitive markets and constantly strives to be a world leader in terms of production efficiency, sustainability, product quality, innovation and customer orientation. The past success of the industry has involved a joint effort with the Australian government and the industry's future success will continue to rely on a collaborative approach.

Levy funds

A major part of the foundation of the joint industry/government effort is the legislated system that enables industry members to pay levies to fund research and development (R&D), marketing and promotion, animal health programs and residue testing activities that benefit industry. Eligible R&D expenditure is also matched by the government up to 0.5% of the industry Gross Value of Production.

Both the government and the industry insist on strong governance arrangements to ensure accountability for the appropriate use of levy funds. Further, the government and industry have a shared interest in ensuring that levy investments are resulting in optimal outcomes and providing a strong return on investment. Thus, the levy payers and the Australian Government are the parties that provide the drive, direction and accountability for governance and performance from beef industry levy investments. The onus is on all other parties involved to demonstrate that they add value for the investors.

Shifting industry needs

The operating environment has changed for the cattle industry since the current structural and funding arrangements for the red meat industry were established in 1998. Economic uncertainty associated with the Global Financial Crisis, rising competition from other protein sources and from overseas beef exporters along with environmental and animal welfare challenges have collectively placed intense pressure on industry organisations, levy payers and value chain firms to adapt.

The temporary closure of the live cattle export trade to Indonesia in 2011 highlighted the volatility of the trading environment. It also highlighted shortcomings with the industry preparedness and capacity to defend and promote the industry's interests in an effective and coordinated way. It provided momentum for levy payers to question the need for changes to current strategies, structures, roles and responsibilities, and the allocations and return on investment from levy funds.

In response and to meet its obligations under the red meat industry Memorandum of Understanding, the Cattle Council of Australia led a comprehensive process to develop a new strategy for the grass fed cattle industry during 2012. It included an independent survey of 675 cattle producers, state workshops and a national workshop, feedback on issue papers via an interactive web site and individual interviews with key industry leaders.

A central outcome of the strategy formulation process is that strengthening of the strategic policy development and advocacy function of the industry is recognised by all parties as being essential and

¹ ABARES 2011. Agricultural Commodity Statistics 2011, Australian Bureau of Agricultural and Resource Economics and Sciences.

requiring urgent action. The national industry strategy workshop conducted in Canberra in July 2012 agreed that the industry investigate alternative structures for national representation of grass fed cattle producers. Some key questions that emerged from this process were:

1. what policy activities could and should be funded by the cattle transaction levy?
2. how should the prescribed Peak Industry Council (the Cattle Council of Australia) be restructured to be more inclusive, representative and effective in industry policy development and advocacy?
3. what are the implications, if any, for other red meat industry organisations?

Purpose

The purposes of this report are to:

1. Inform the Cattle Council of Australia of the broad parameters, options and scope for use of levy funds for policy and related activities;
2. Identify the policy issues to address and the main operational implications (such as governance and accountability obligations) for an organisation that receives levy funds for strategic policy development activities; and
3. Provide an informed basis for engaging with the cattle industry and the government in developing workable options for future industry policy, representation and resourcing arrangements.

Approach adopted

The question of how levy funds can be used is shaped by a combination of legislative and policy considerations. Thus, what is considered as appropriate is highly dependent on the particular industry and government policy context, the desired outcomes and a shared view of the action required.

More specifically, the need for change is shaped by evidence of market failure and the choice of action taken is informed through identifying and assessing options and establishing support for change that will enhance the appropriateness, effectiveness and efficiency of existing arrangements.

Examining the scope and implications for changes relating to the grass fed cattle industry policy functions and funding cannot be done in isolation. Decisions about levy arrangements go well beyond building technical arguments as they involve core questions of strategy and accountability. Thus, it requires engagement with levy payers and with the Australian government.

Accountability to the Australian parliament and to levy payers is fundamental to all decisions about the use of levy funds. As such, the structural and governance arrangements within which levies are managed cannot be separated from the technical case for how levies may or may not be used.

The approach taken in this paper is to apply a four stage process:

1. Document the government and industry policy context
2. Identify the key imperatives for change and the associated evidence
3. Outline options for using levy funds for strategic policy development
4. Identify the implications for the grass fed beef industry

By taking this approach, the report will provide a basis for informed and strategic consideration of the appropriate actions to maximise outcomes for cattle industry levy payers while ensuring accountability obligations are fully satisfied. Preparation of this report was a desktop process and is an overview rather than an exhaustive review. It drew on existing information along with insights gathered through the consultations conducted by the Cattle Council to develop the new industry strategy.

Policy context

The National Food Plan Green Paper released in 2012 recognised that successive Australian governments have approached food policy as part of a broader set of policies designed to produce economic, environmental and social benefits for all Australians. They have been guided by the principle that government should minimise interventions in the economy, environment and society except where a strong rationale exists to do otherwise.

Current policies programs and regulations affecting the food system broadly deliver a good mix of economic, environmental and social benefits for the Australian community. However, the Australian government recognises there is room for improvement and is now developing the National Food Plan. It seeks to ensure its policies continue to be effective and appropriate and that institutional arrangements are sufficiently flexible to adapt to changing circumstances. The proposed outcome sought by the government via the National Food Plan is: *A sustainable, globally competitive, resilient food supply, supporting access to nutritious and affordable food.*

The Government is also progressing major reforms directly related to food in the areas of nutrition, biosecurity, water, drought preparedness and agricultural chemical use. An Intergovernmental Agreement on Biosecurity was agreed by the Council of Australian Governments (COAG) in January 2012 and the *Quarantine Act 1908* will be replaced by new biosecurity legislation. Further, the Government has made substantial investments in the environment through a land sector package under the Clean Energy Futures package. The Australian government's *Environmental Protection and Biosecurity Conservation Act 1999* is being used to intervene on high profile environmental issues.

Across government, there are related policy processes under way including the White Paper on Australia in the Asian Century, the Prime Minister's Taskforce on Manufacturing, the Food Processing Industry Strategy Group and the Parliamentary Working Group on Water, Soil and Food.

In summary, the government is engaging industries to pursue collaborative approaches that enable businesses involved in food and agriculture to innovate and capture the opportunities from wider economic reforms and public investments in infrastructure.

The national policy environment is a rapidly changing area and requires the grass fed cattle industry to have sophisticated, responsive and influential engagement with government on major policies issues and reforms as they are developed and implemented.

Rural R&D Policy Statement

The government recognises the role of agricultural industries and innovation in building sustainable, resilient and globally competitive industries. In July 2012, the Minister for Agriculture, Fisheries and Forestry, Senator the Hon Joe Ludwig, released the Rural Research and Development Policy Statement. The statement identifies a number of actions intended to ensure the effectiveness of the rural R&D model and provide clarity to system participants on government priorities and expectations. It outlines the government's role in system oversight to ensure rural R&D results in optimal outcomes and provides a strong return on investment. In particular, it confirmed that the government is seeking:

- Increased transparency and accountability
- Improved coordination and priority setting
- Increased productivity growth
- Increased operational efficiencies and
- Increased value for money from investments.

While these priorities are specifically addressing the government's expectations for R&D levies and matching contributions, they may also be indicative of the government's policy stance towards levies that are collected for marketing and other purposes.

It is significant that the government's priorities align with the priorities and expectations of levy payers in the grass fed cattle industry, as evidenced through the process to develop the new national industry strategy.

Levies and the grass fed cattle industry

Australia's national cattle herd is around 27 million head residing on over 59,000 properties. The industry employs approximately 173,500 workers across farm, processing and retail². In 2010/11, Australia produced around 2.1 million tonnes of beef and veal, with the off-farm meat value being \$11.9 billion³.

Grass-fed cattle production represents the largest component of all cattle production and is the single largest component of all red meat production in Australia. Thus, it contributes the majority of levy funds via the cattle transaction levy (\$56.2m in 2010/11) for red meat industry marketing and R&D services, with the next largest contributor (\$40.3m in 2010/11) being the Australian government's matching R&D contributions (recognising that all levy collections are made by the government).

The \$56m annual grass fed cattle industry levy contributions and the associated government matching contributions for eligible R&D are administered and invested in programs to benefit the beef industry. The key organisations that deliver these programs are Meat and Livestock Australia (MLA), Animal Health Australia and the National Residue Survey.

The significance of the grass-fed cattle industry is reflected in MLA's membership composition. They represented 40,450 or 85% of the 47,556 MLA members in June 2011⁴.

The red meat industry structures established in 1998 are quite complex and are summarised in the Appendix. The roles, responsibilities and obligations of the various parties involved are documented in the red meat Memorandum of Understanding (MoU).

The national representative body for the grass fed cattle industry is the Cattle Council of Australia (CCA). The Cattle Council is the Peak Industry Council responsible for strategic policy development and advocacy and has an advisory and oversight role on the levy funded programs.

Industry policy development and advocacy context

The beef industry characteristics and the modern economy present a series of ongoing and new challenges for grass fed cattle industry policy development and advocacy. For example:

- The long term trend for consolidation of production with fewer larger farms producing a greater proportion of cattle and contributing a greater portion of the levies collected
- Increased specialisation for beef production to achieve productivity gains
- Increased consolidation of cattle processing businesses with an increasing proportion of the national kill going through specialist plants, and a declining proportion going through multi-species plants
- Consolidation of the dominance of two major retailers in the domestic market
- Continued foreign investment in all stages of beef production

² Cattle Council of Australia. Draft Beef 2015 and Beyond strategy

³ ABARES 2011. Agricultural Commodity Statistics 2011, Australian Bureau of Agricultural and Resource Economics and Sciences.

⁴ MLA 2010-2011 Annual Report

- Increasingly sophisticated competition in international markets from developing countries such as Brazil
- A shift in the significance of overseas markets from traditional (US, Europe and Japan) to new growth markets such as South East Asia and the Middle East.
- Increasingly sophisticated, well-resourced interest groups (environmental and animal welfare) that are influencing community perceptions and government decisions relating to the cattle industry
- Influential corporate businesses involved in retailing and food service are responding to consumers by adopting Corporate Social Responsibility charters that directly influence production practices across global value chains.
- The expanding mining industry is impacting on infrastructure for regional Australia and the availability of staff for agricultural businesses.
- The internet and the roll out of high speed broadband across regional Australia is revolutionising the way in which the cattle business is conducted, how consumers and policy makers get information and how governments make decisions.

The implication of these and other trends for cattle industry policy development, advocacy and service delivery are profound. It means that the cattle industry organisations need to be structured and resourced in a way that enables direct relationships with investors (government and levy payers) and with value chain firms. They must have the capacity to operate at both the strategic level and also adapt and respond rapidly and decisively in an uncertain and volatile operating environment.

Interest groups outside of the beef industry have already responded to the characteristics of the modern and more complex government policy environment as it relates to industry. They are developing and implementing very sophisticated responses that engage government, powerful value chain firms and the community directly in campaigns that leverage online media to influence policy decisions.

In summary, as applies to modern cattle industry businesses, there is a relentless pressure for the industry organisations to be structured and operate as professional, world class entities that deliver tangible return on investment. Roles and responsibilities need to be clear and practiced, highly skilled people need to be engaged in delivering industry services, goals and metrics need to be clear, appropriate resources need to be allocated to enable industry services to achieve key outcomes, and accountability for performance is paramount. There is room for improvement in the beef industry.

Imperatives for change

The previous section outlined the wider policy context of both government and the industry. It confirmed that the Australian government and levy payers are seeking very similar outcomes from the investment of levy funds. In particular, it emphasised that the process of policy development, policy reform and policy implementation are fundamental to achieving the sustainability and development outcomes sought by the beef industry, government and the community. It also highlighted that the industry operating environment has changed in a variety of significant ways since the current industry structures and funding arrangements were established.

The implications of the new policy context and trading environment and the shortcomings of current arrangements have been recognised by industry participants through four major factors:

1. Performance. The experience of the industry in managing the temporary ban of live cattle exports to Indonesia in 2011
2. Industry strategy. The comprehensive industry engagement process conducted to prepare the new strategy 'Beef 2015 and Beyond' for the grass fed cattle industry,
3. Representation. The traditional State Farmer Organisation (SFO) model that provides the membership of the Cattle Council of Australia has become disconnected from the majority of levy payers. Low and declining membership of SFO's is now undermining the representativeness of the national body.
4. Funding. The Cattle Council of Australia as the Peak Industry Council requires funding that is adequate to deliver on its obligations under the Red Meat Industry MoU.

Collectively, these factors provide compelling evidence that the current system has serious shortcomings. There is a sense across the industry of a need for change and improvement to deliver better outcomes.

Temporary ban of live cattle exports to Indonesia

The events that led to the temporary ban on live cattle exports to Indonesia and the outcome have been well reported. The ban resulted in major financial losses for cattle producers and their families, damaging impacts on related businesses involved in the export trade, and potential damage (perceived and actual) to the industry image.

A key outcome of the incident has been recognition by levy payers and industry organisations alike that the current organisational arrangements are not operating and performing as intended:

- There is confusion and misunderstanding amongst levy payers and other stakeholders as to the roles and responsibilities of the various industry bodies
- Roles and responsibilities are not always practiced. For example, the services body (MLA) may have over-reached its role in an effort to address industry needs. It subsequently led to a decision by MLA to go 'back to basics' (see Box) and focus on its core mandate.
- Peak Industry Councils lacked unity, coordination and effectiveness. They did not have a shared public message and this was not resolved through the Red Meat Advisory Council (RMAC).

A common theme across these observations is that the industry representation, policy development and advocacy functions lacked unity of purpose, effectiveness and capacity to deliver on their roles and responsibilities. There was a market failure. The situation is set to escalate with MLA's intention to ensure its focus and scope remains on its core role and responsibilities. This places responsibility squarely on the Peak Industry Councils, including the Cattle Council of Australia, to transform their capacity to operate as effective policy and advocacy bodies that produce valued outcomes for levy payers.

MLA goes 'back to basics'

Meat & Livestock Australia will bring the scope of its work “back to basics” following **widespread misunderstanding of its role** in the wake of this year’s temporary ban of live cattle exports to Indonesia.

At the MLA AGM in Longreach on Thursday, both retiring MLA chairman Don Heatley and new MLA managing director Scott Hansen addressed the issue.

Mr Heatley said **the live-ex crisis clearly showed there was confusion not only in the Australian public and media about what MLA does, but also within the industry.**

“MLA is not an animal welfare agency, we do not have any legislative authority in export markets, we are not commercial operatives, we do not buy or sell a single head of livestock, we are not the industry’s representative or policy body,” Mr Heatley said.

“What we are is a marketing and research and development service provider to industry and *what we do is at the direction of industry.*”

“Among other things, **this issue has caused MLA to reflect on the source of confusion about its role - whether it has over-reached on its services to industry above and beyond those it was established to deliver.**”

“Since starting in the role of managing director in July, Scott Hansen and the MLA board are already working to *bring the scope of MLA’s activities back to basics.*”

In delivering his inaugural address as MLA managing director, Scott Hansen said it was clear **the various roles and responsibilities of organisations within the industry had blurred over time.**

“We are not the elected representatives of the Australian cattle, sheep and goat industries, rather, MLA creates opportunities to support supply chains in these industries,” Mr Hansen said.

“We are not lobbyists, nor spokespeople for the Australian cattle, sheep and goat industries.

“I arrived back in Australia from the United States in June to have a various array of media, politicians and stakeholders tell me that we were an independent Indonesian abattoir accreditation agency, that we were an animal welfare agency, that we were a government department, none of which is correct.

“**Our roles and responsibilities are clearly misunderstood by many of the stakeholders we deal with on behalf of our shareholders** and I must say this has been reinforced in your candid feedback to me over the last couple of months, feedback which I have welcomed and appreciate.”

Mr Hansen said **MLA has now revised its mission statement, which is to “create opportunities across the cattle, sheep and goat supply chains by optimising the return on collective investment in marketing and research and development”.**

Mr Hansen said working to clarify MLA’s roles and responsibilities in industry structures was one of three key actions it was undertaking.

In addressing how MLA spends producer levies, Mr Hansen said MLA seeks to drive producer levies further by pooling them with contributions from the Australian government, processors, wholesalers, food service operators, retailers and industry bodies.

“This funding model enabled us to raise \$167.4 million in total revenue from a base of producer levies worth \$96.1 million in 2010/11,” he said.

“In other words, we had 74 percent more funding available to invest in marketing and R&D than what we would have otherwise had in levies alone.

“Our total expenditure for the year totals slightly less than this amount at \$166.5 million with \$90.4 million in marketing activities and \$76.1 million in R&D.

“We need to invest in the right programs and ensure they deliver results to the industry.

“MLA commissions independent analysis of the return on investment for our programs to ensure we understand the value they create.”

Source: Farmweekly, 18th Nov 2011, MLA goes ‘back to basics’,

<http://fw.farmonline.com.au/news/nationalrural/livestock/cattle/mla-goes-back-to-basics/2362477.aspx?storypage=0>

Beef 2015 and Beyond consultation

The findings of the independent survey of 675 cattle producers in July 2012⁵ provided objective evidence of system shortcomings. It identified levy payer priorities regarding the issues facing the industry today and into the future and the most important opportunities for the industry into the future. For example, major issues for levy payers include rising input costs, market access, exports and climatic variability, while key opportunities included improved/new export markets; improved and clean quality products and genetics, better market access; and improved production strategies.

These strategic issues and opportunities are complex matters that require a seamless approach across all functional areas of the industry (R&D, marketing and strategic policy development) to create value for levy payers. They also have significant implications for levy payer businesses. However, there was uncertainty amongst respondents about the likelihood of effective industry action to address major issues and to capture the most important opportunities.

Just over half of the survey respondents (53 per cent) believed that the industry would take effective action in addressing the most important future issues, while 43 per cent believed it was unlikely. Respondents believed that the consequences of not taking effective action as an industry would lead to: a decrease in viability and production (29 per cent); an exit of producers from the industry (19 per cent); reduced market access (15 per cent) and low commodity prices leading to reduced income (15 per cent).

When respondents were asked to rate how effective they believed the industry was in delivering on these strategic areas there was a mostly positive response, at least in regard to MLA. Some areas, such as biosecurity and ethical production, were reported to be about right. However, in other areas respondents saw scope for a major overhaul, including the need for a coordinated national voice, infrastructure and developing and retaining staff.

Overall, respondents considered that the beef industry had an average relationship with the government, other non-agricultural industries and the community, and a good relationship with other agricultural industries.

When asked who would be best placed to act as the single coordinated voice of the beef industry, the majority of respondents (53%) reported that it should primarily be Meat and Livestock Australia or the Cattle Council of Australia (18%).

The need for change to the national representative arrangements for the grass fed cattle industry was confirmed at the state and national planning workshops convened by the Cattle Council of Australia. As a consequence, a group was appointed at the national workshop in July 2012 to develop structural options for the industry to consider. These options were to include those that involved the use of marketing levy funds in strategic policy development by the national representative body.

In summary, the industry consultations indicated that national industry representation, policy and advocacy functions need to be strengthened. Further, many levy payers have reservations about the likelihood of effective industry action in response to the major issues and opportunities. They are concerned about the consequences for their business if the most important current and future issues and opportunities are not addressed.

Representation of grass fed cattle producers

The traditional model of farmers having national representation via their membership of a multi-commodity State Farming Organisation (SFO) has been in decline across most states. In the grass fed

⁵ Computer Assisted Telephone Interviews – Final Report, Cattle Council of Australia, July 2012

cattle industry, the long term decline in cattle producer membership of SFO's has placed financial stress on both the SFO's and the Cattle Council of Australia. The trend is undermining the capacity of the Cattle Council to demonstrate that it represents a substantial coverage of the industry, which is critical to maintaining its role as a Peak Industry Council under the Red Meat MoU.

There are fundamental flaws in the existing system that disconnects cattle producers from their national representative body. For example, while CCA receives RMAC funding and as such has to represent the interests of all grass fed cattle producers, its ability to engage directly with all producers is constrained by its SFO membership. Cattle producers cannot join CCA directly and the Council's communications with producers are channelled via their SFO membership. That is, direct communications with producers is primarily via SFOs (with their limited membership) and not by the Cattle Council (with all levy payers).

The risk is that indirect communication with producers undermines the capacity of the Cattle Council to be responsive to cattle producers and to engage them effectively in policy development.

In recognition of the significance of the representation issues, the Cattle Council of Australia released a consultation paper in January 2012 for structural reform of national representation of the grass fed beef industry. It canvassed structural options that moved beyond the traditional SFO model, including direct membership and proposing that funding of industry policy be sourced from a percentage of the marketing portion of the cattle transaction levy.

Adequacy of resourcing for CCA

Under the red meat industry MoU, the role and responsibilities of each Peak Industry Council, including the Cattle Council of Australia, are to:

- provide leadership, set strategic direction and formulate policies
- respond and provide policy advice to the Minister on whole of industry issues and on the sector it represents
- cooperate through the Red Meat Advisory Council with other Peak Industry Councils in developing the Meat Industry Strategic Plan (MISP) vision and imperatives
- develop jointly with the industry service companies goals for achieving MISP strategic imperatives
- consult with other Peak Industry Councils to ensure consistent MISP approaches
- assess the performance of industry service companies in service delivery and goal achievement
- consult widely and propose levy motions for member consideration at service company meetings and advise the Minister.

These are significant obligations that demand high performance by Peak Industry Councils to ensure strong outcomes and return on investment for levy payers and for the government. Given the scale and diversity of the industry and the complexity of the issues to be resolved, it translates to a considerable workload on the Cattle Council of Australia board and management. Revenue for CCA to conduct its business is quite modest and presently comes from two main sources: the Red Meat Advisory Council (RMAC) and CCA's SFO members. Funding via RMAC is shown in the table below.

Notably, there is a large difference in the scale of revenue for CCA (around \$1m annually) and MLA's annual revenue of over \$160m. The disparity in resourcing levels brings into question the ability of CCA to deliver its functions under the MoU in a meaningful and influential way.

Distribution to Beneficiaries	Amount	Percentage
Red Meat Advisory Council – Operating	\$188,531	8%
Cattle Council of Australia Inc.	\$548,166	24%
Sheepmeat Council of Australia Inc.	\$289,598	12%
Australian Meat Industry Council Limited	\$804,584	35%
Australian Lot Feeders' Association Limited	\$309,323	13%
Australian Livestock Exporters Council Limited	\$164,157	7%
Goat Industry Council of Australia	\$26,110	1%
Total:	\$2,330,469	100%

Source: RMAC Annual Report 2009-2010

Summary

Over the past 18 months it has become clear to levy payers, the Cattle Council of Australia and other key industry stakeholders that national producer representation requires significant reform. The pathway adopted by CCA was to engage the industry in formulating a new industry strategy, and then aligning new structures and allocating resources to deliver on that strategy.

Evidence gathered from the strategy process alongside the experiences from the Indonesia live export ban incident, the loss of representation from the failing SFO model and the adequacy of resources for CCA to deliver on its obligations under the red meat industry MoU collectively set the scene for reform of structures and allocation of funding.

Use of levy funds for strategic policy development

The Levies Revenue Service publication 'Levy Principles and Guidelines' provides the defining reference source on the government's policy for the management of new and amended levies within Australia. At the same time, existing arrangements in the various rural industry corporations and companies provide useful insights on how these principles and guidelines have been applied and the associated precedents that may have application for the grass fed cattle industry.

Industry and government consideration and decisions on the use of the cattle transaction levy for strategic policy development will be framed by a shared understanding of:

- what strategic policy development involves;
- how it differs from agri-political activity;
- how the governance arrangements are established to provide assurance of integrity to government and levy payers and
- the extent to which the return on investment of levy funds would be improved.

Strategic policy development

Policy development and implementation is central to setting industry strategic direction, addressing existing and emerging issues and ensuring accountability. It is about making sure the industry is focused on, committed and effective in addressing the issues and opportunities that matter the most to improve industry prosperity.

Strategic policy development is sometimes confused with agri-political activity (see the following section). This is because policy issues can be ambiguous and contentious within and outside an industry and not everyone is willing to agree or ready for change. Also, it is because industry policy implementation depends on support and collaboration from people and organisations within and outside an industry.

Fundamentally, strategic policy development is about leadership and helping businesses within an industry to adapt to change in a strategic and timely way. Without innovation and leadership, businesses and whole industries are more exposed to risk and competitors.

The ability of industry leaders to work with industry participants and stakeholders to develop and enlist support for implementing policy is fundamental to an industry's success. In a globalised and connected economy, the imperative to be highly effective in setting and implementing policy is more important than ever. The modern information economy and the internet also provide new and powerful tools for policy makers to engage people to gather information, analyse issues, test options and enlist support for change.

Government and industry leaders face similar challenges in developing and implementing policy reforms. The policy process is well-described and there are established models of best practice for policy development and implementation. A good example is in the Australian Governments Strategic Policy Toolkit, which includes the strategic policy cycle shown in the figure below.

Strategic policy involves skills and activities such as: strategy and systems thinking, information gathering and analysis to define underlying problems, development of innovative solutions, rigorous analysis to develop informed policy, influencing the debate, inclusively engaging stakeholders, developing

workable options for implementation, communicating with influence to enlist support. It also includes adaptive management through learning and insights from evaluations of the appropriateness, effectiveness and efficiency of policy and program implementation.



Source: <http://strategicpolicy.govspace.gov.au/what-is-strategic-policy/>

The process of strategic policy development and implementation are common to both public and industry policy makers. Industries can and have made a case for statutory levy funds to be used for strategic policy development. This was the case for Australian Pork Ltd (APL), where strategic policy development was defined in its statutory funding agreement and its constitution as:

Strategic policy development means in relation to any matter which affects or may affect the Australian Pig Industry:

- a) *the collection of information from a range of sources (including consultation within the Australian Pig Industry, and with other industries, government, other stakeholders or the public);*
- b) *the balanced analysis of that information in the context of the Australian Pig Industry environment;*

- c) *the development of a strategic policy position within the Australian Pig Industry and*
- d) *the advocacy of that position (including within the Australian Pig Industry, and with other industries, government, other stakeholders or the public.*

There is a significant alignment between the above description of strategic policy development and the role of the red meat industry Peak Industry Councils, including the Cattle Council of Australia (see Appendix).

The above explanation of strategic policy development and the role of the Cattle Council under the red meat MoU suggest that a technical case could be developed for using the cattle transaction levy to address market failure in strategic policy development for the grass fed cattle industry. However, the support for and the appropriateness of such action is yet to be established with both levy payers and the government.

Agri-political activity

Governments are sensitive to the governance risk that public funds (i.e. including statutory levies) could be used for political activities. Similarly, farmers who pay statutory levies hold a diversity of political views and are also sensitive about the use of their levies for political activities. Statutory levy funds can't be used for political activities.

It is important to note that this principle often holds true of Peak Industry Councils that receive voluntary funding from members. For example, the Cattle Council of Australia's constitution includes a clause requiring political neutrality:

"The CCA shall be non-party political and shall not make donations to party funds."

The term 'political' or 'agri-political activity' can mean different things to different people. Addressing the governance risks for both the government and for levy payers requires clarity on what is meant by the term.

The negotiations associated with formation of Australian Pork Limited (APL) explored this matter in depth, with the intent of reducing confusion and providing a definition that is both workable and enforceable. The approach agreed 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 includes 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, or funding advertising, that supports or opposes a political party, member of parliament or candidate for 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 persons should vote at a parliamentary election.*

Under this definition, agri-political activities were interpreted in terms of party political actions. In this way, it provided a point of difference with how strategic policy development activities were defined.

How representative bodies access levy funds

Peak Industry Councils receive levy funds for approved activities under two basic models:

1. As a separate policy service provider or

2. As part of an integrated industry services body

The fundamental difference comes from how an industry chooses to structure itself to be most effective and accountable in representing and servicing levy payers while maximising return on investment. It also reflects what is agreed by government as being appropriate. Both models are valid and can deliver positive outcomes.

Under the policy service provider model, the industry places value on having a separate policy and representative function that sets strategic direction and then oversees performance of the service body that receives and invests levy funding (for the purpose of R&D or marketing). It is the most common model in agriculture at present.

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

The choice of model is shaped by factors such as the industry scale, structure, level of exposure to markets and culture. A key driver is the extent to which the industry perceives whether it is government or commercial markets that are the most important influencers of the industry's future success.

Where an industry opts to separate the strategic policy development function, the intent is for each organisation in the system to focus on their own responsibilities, but work together as an alliance to create value for levy payers. It is a more 'political' model because it gives the policy arm the most flexibility to use non-levy funds and conduct agri-political activities to influence government. It visibly separates policy and politics from the levy funded marketing and R&D services.

The separated services model is still market-oriented. Its success depends on a genuine alliance between all parties to achieve market outcomes for levy payers, and the capacity, skills and expertise of the executive and management of each organisation.

In contrast, industries that opt to merge all functions into one integrated entity see value from improved scale, responsiveness and flexibility. The only example is Australian Pork Ltd. In this case, the declared industry body is also the producer representative body. It is directly accountable to levy payers rather than to a Peak Industry Council that represents levy payers.

The integrated model is fundamentally a 'market' oriented model that reflects commercial structures (strategy, marketing and R&D internalised), with the main trade-off being exclusion from involvement in agri-political activity.

Separate service provider model

The service provider model typically involves the industry levy funded corporation or company having a service agreement with the peak industry council. The service agreement is a contractual arrangement that provides levy funds to the Peak Industry Council to conduct certain non-political activities that create value for levy payers.

The nature of these service agreements can vary considerably, depending on the industry context and priorities. In some cases, the relationship goes far beyond a service agreement. For example, in the horticulture industry the Peak Industry Bodies representing levy payers are the members of Horticulture Australia Limited (the body which receives grower levy funds from government). They are also service providers under an individual 'partnership agreement' with Horticulture Australia Ltd.

The service agreement with a peak industry council typically defines the desired outcomes and activities and the reporting and accountability obligations. These agreements provide funding for activities such

as producer communications and consultations to support planning and policy development and/or implementation. The contract often links funds to achievement of agreed outcomes in the industry plans.

Under this model, the Peak Industry Council is accountable for performance to the declared industry services body (i.e. a corporation or company as identified in the relevant legislation to receive the industry levy funds). In turn, the declared services body is accountable to the government for demonstrating that levies were appropriately and effectively invested and that a return on investment was achieved.

The key point is that the nature, scope and content of such agreements are ultimately a decision of the board of the declared industry service body. The types of issues they may take into account are:

- The extent to which the Peak Industry Council is nationally representative
 - Are a high proportion of levy payers and industry production actively participating in the peak industry body?
- The quality of the relationship with the service funding body
 - Is there a productive working relationship with a shared focus on outcomes for levy payers?
- The capacity of the Peak Industry Council to perform the services
 - Do the board and management have the skills and expertise required to deliver the services?
- Value for money.
 - Are there other service providers that would be more efficient and effective than the peak industry council in delivering these services?

The current beef industry arrangements are a variation of the separate service provider model. Here, the Peak Industry Councils come together under the umbrella of RMAC and each receives a share of the annual interest earned from the \$40m fund managed by RMAC.

Meat and Livestock Australia provides R&D and marketing services, but is not the policy and representative body for the beef industry. It is worth noting, however, that MLA is very influential with a budget of over \$160m and over 40,000 grass fed cattle producers in membership. In addition, some 53% of producers identified MLA as being best placed to act as the single coordinated voice of the beef industry, when interviewed in the telephone survey conducted in 2012 to inform development of the new grass fed cattle industry strategy Beef 2015 and Beyond.

Declared industry services model

The second model involves the declared industry body also being a Peak Industry Council or representative body. This is the model adopted in the pork industry (see case study at Appendix), where the industry owned company that receives the levies is also the representative body.

Under the declared industry services model, the levy funds are distributed by the government to an industry owned company. There is a statutory funding agreement in place between the government and the declared body that defines the purpose and terms under which levy funds are provided. The nature of these agreements is that they are detailed and prescriptive and include rules that must be built into the company constitution. This is necessary because the company constitution forms part of the accountability and governance for levy funds. The type of issues covered can include:

- Who is entitled to be a member of the company
- Voting by members
- Exclusion of agri-political activity

- Process for selection of directors and the skills that should be included on the board
- If and how many independent directors must be appointed to the board
- Exclusion of payments to industry representative bodies except where:
 - It is by way of membership where it contributes to company objects (for example, APL recently joined the National Farmers Federation as a member)
 - Payments on an arm's length value for money basis to acquire services to fund R&D or marketing projects.

These types of rules would likely be explored in the event that the beef industry and government were to consider allowing a Peak Industry Council to directly receive a portion of the cattle transaction levy for strategic policy development. Besides representing a major policy shift for government, other considerations would also come into play for the Peak Industry Council. For example:

- potential conflicts between receiving a portion of the levy and also advising on levy rates; and
- the flow-on implications and interrelationships between all the red meat industry Peak Industry Councils.

The question of whether industry representation should be a generally allowable function for any R&D corporation (statutory or industry owned) was posed by the Productivity Commission⁶ in 2011. The government response in its Rural Research and Development Policy Statement in July 2012, was to 'agree in principle'. In elaborating, the policy statement said that 'the government recognises that it would be desirable to conduct periodic reviews of the RDC model, including appropriate roles for industry owned RDCs'.

Summary

It is well established that rural industries can receive statutory levies for strategic policy development activities. The arrangement is predominately implemented through a services agreement between the declared industry services body and the peak industry body. However, it is possible for the services body and the representative body to be one integrated body, with Australian Pork Limited being the only example at present.

It is also possible for the services body and the representative body to be one integrated body, as is the case in the pork industry. Here, Australian Pork Limited delivers research and development, marketing and strategic policy development services. It cannot be involved in agri-political activities.

The decision for some of the cattle transaction levy to be directed towards strategic policy development is fundamentally a question of strategy. The challenge is testing whether conceptual agreement can be reached with the grass-fed cattle industry for such an approach to be applied and this in turn will depend on the potential benefits and costs.

If in-principle support can be reached, then how the arrangement is established for levies to be used for strategic policy development will involve significant strategic decisions. It will require developing the alternatives and testing with levy payers and the government.

Either way, the representative structure valued by the industry would have characteristics such as:

- **Is unified and responsive.** There is much compartmentalisation of the various groups in the beef industry, particularly the Peak Industry Councils.

⁶ Rural Research and Development Corporations. Productivity Commission Inquiry Report. No. 52, 10 February 2011. Recommendation 9.4

- Provides a **seamless relationship between policy, research and development and marketing functions**. How the parties involved in each function work together is critical.
- Provides levy payers with **greater influence and increased accountability** for the use of levy funds - they demand **value for money**.
- Provides government with high levels of assurance on **governance, accountability and performance**.
- Has the **resources and skills** needed to deliver the outcomes sought by industry and government.

The options and recommended approach that suits the characteristics and needs of the Australian cattle industry must be explored and resolved through a consultative review process that engages levy payers and the government. The context and issues identified in this paper provide a starting point for informed dialogue.

Appendix

Red Meat Industry Structures⁷

The Australian red-meat and livestock industry comprises producers, lot feeders, processors, retailers and exporters who together are responsible for guaranteeing the supply of red meat and livestock to domestic and international markets. The total value of Australia's off-farm beef and sheepmeat industry is AU \$16 billion (source: 2011 MLA estimate).

The Red Meat industry is made up of six sectors: grass-fed cattle producers, grain-fed cattle producers, sheep producers, goat producers, livestock exporters and processors (comprising retailers, smallgoods manufacturers and packers). Each of these individual sectors has an elected body for policy formulation; these are known as Peak Industry Councils, which represent the Policy Arm of the industry. The six PICs are:

- Australian Livestock Exporters Council;
- Australian Lot Feeders Association;
- Australian Meat Industry Council;
- Cattle Council of Australia;
- Goat Industry Council of Australia; and
- Sheepmeat Council of Australia.

The service arm comprises the levy-funded bodies set up to provide research and marketing services to the industry. There are three service companies:

- Australian Livestock Export Corporation, or 'LiveCorp' (funded through statutory levies from livestock exporters);
- Australian Meat Processor Corporation (funded through statutory levies from processors); and
- Meat & Livestock Australia (funded through statutory levies from producers).

The Red Meat industry's structural arrangements are set out under the *Australian Meat and Live-stock Industry Act 1997* (the AMLI Act). The AMLI Act provides the legislative framework for the structural and funding arrangements of the red meat industry and its marketing and research and development activities. A Memorandum of Understanding (MOU) underpins these arrangements. Signatories to the MOU are:

- the Australian Government
- The five of the six PIC's
- Meat & Livestock Australia Ltd (MLA)
- Australian Meat Processor Corporation (AMPC)
- Australian Livestock Export Corporation Ltd (LiveCorp).

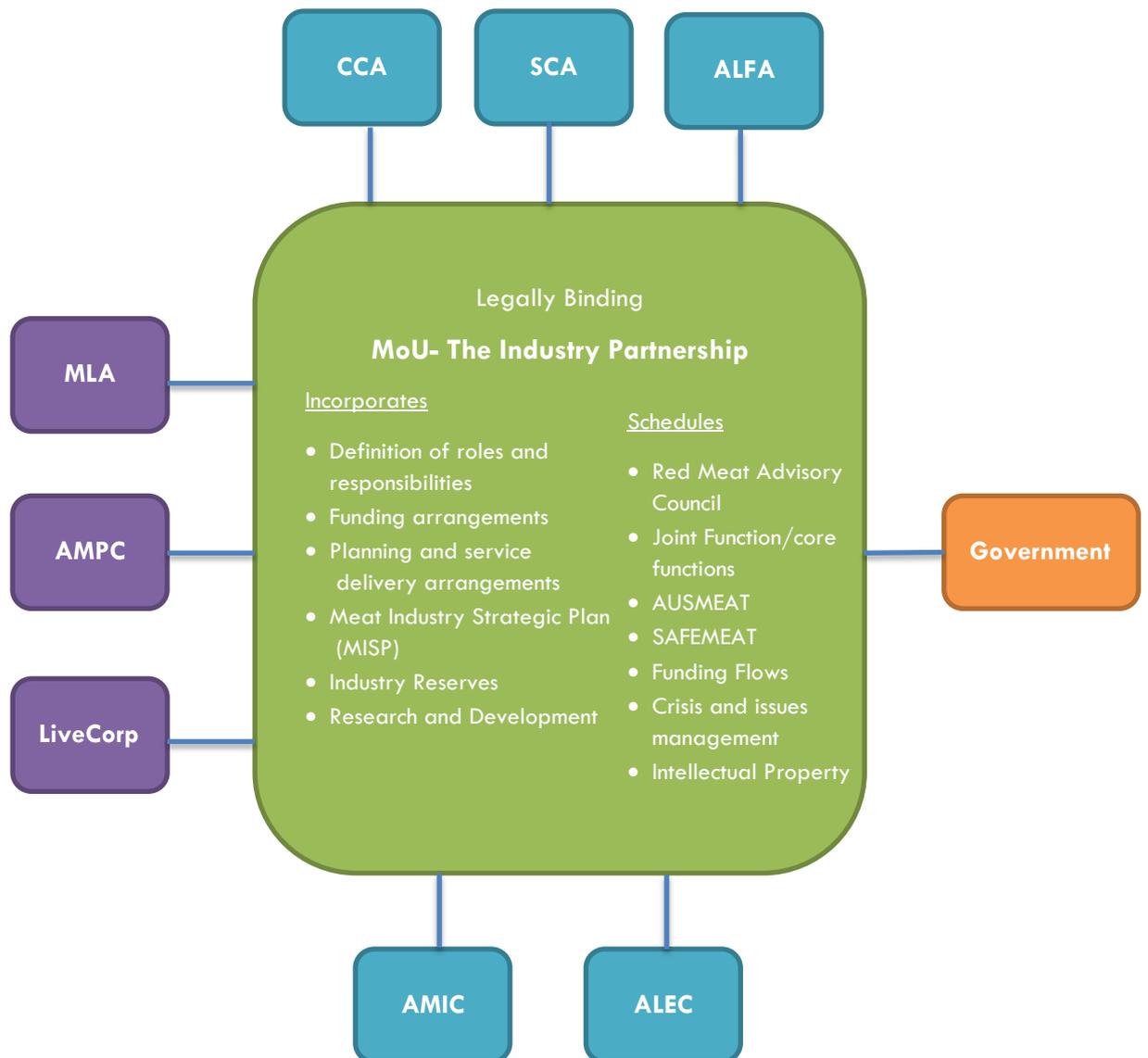
The MOU sets out the Industry Partnership between the signatories. The MOU incorporates the definition of agreed roles and responsibilities; funding, planning and service delivery arrangements; the Meat

⁷ This section draws extensively on information presented on the Red Meat Advisory Council website <http://www.rmacc.com.au/> and the Meat and Livestock Australia website <http://www.mla.com.au>

Industry Strategic Plan (MISP); industry reserves; research and development; and the schedules, which cover:

- Red Meat Advisory Council
- Joint and core functions
- AUS-MEAT Ltd
- SAFEMEAT
- Funding flows
- Crisis and issues management
- Intellectual property

Figure 1: MoU governing industry structure (Source RMAC Website, www.rmac.com.au)



Peak Industry Councils

The role and responsibilities of each of CCA, SCA, ALFA and GICA under the MoU are:

- provide leadership, set strategic direction and formulate policies
- respond and provide policy advice to the Minister on whole of industry issues and on the sector it represents
- cooperate through RMAC with other Peak Industry Councils in developing MISP vision and imperatives
- develop jointly with the industry service companies goals for achieving MISP strategic imperatives
- consult with other Peak Industry Councils to ensure consistent MISP approaches
- assess the performance of industry service companies in service delivery and goal achievement
- consult widely and propose levy motions for member consideration at service company meetings and advise the Minister.

Red Meat Advisory Council

The Red Meat Advisory Council (RMAC) provides leadership on cross-sectoral issues and consults with the Minister for Agriculture, Fisheries and Forestry (the Minister) on agreed whole of industry matters. RMAC is the custodian of the MOU, MISP and industry reserves. It administers and uses income from the reserves to: cover peak council participation costs; coordinate maintenance of the MISP; review and provide support to industry relationships.

RMAC membership is limited to the presidents/chairmen of the peak bodies representing levy payers of the red-meat and livestock industry: Cattle Council of Australia, Sheepmeat Council of Australia, Australian Lot Feeders' Association, Australian Livestock Exporters' Council and Australian Meat Industry Council. The Goat Industry Council of Australia while involved in the red-meat industry is not a member of RMAC.

Figure 2: RMAC and PIC's (Source RMAC Website, www.rmac.com.au)

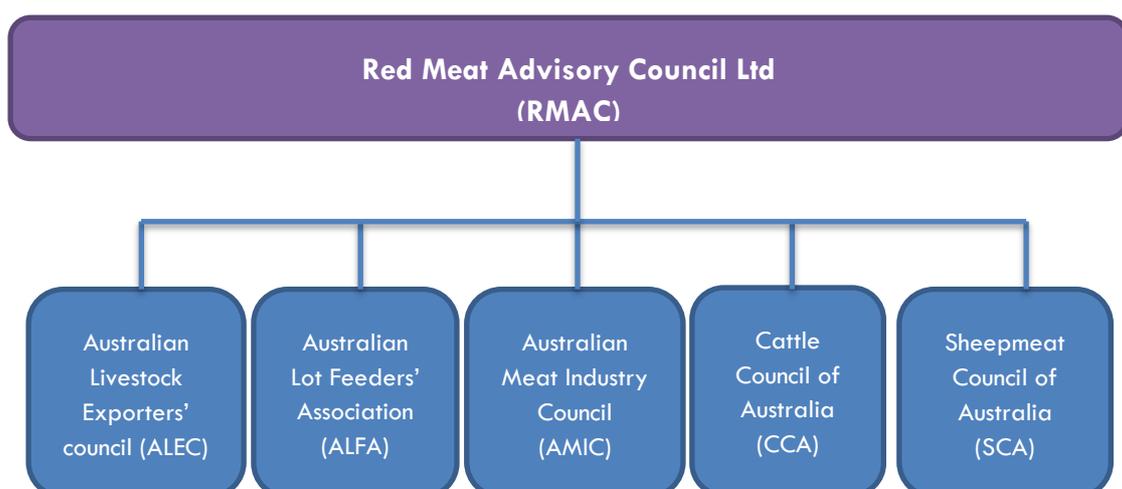
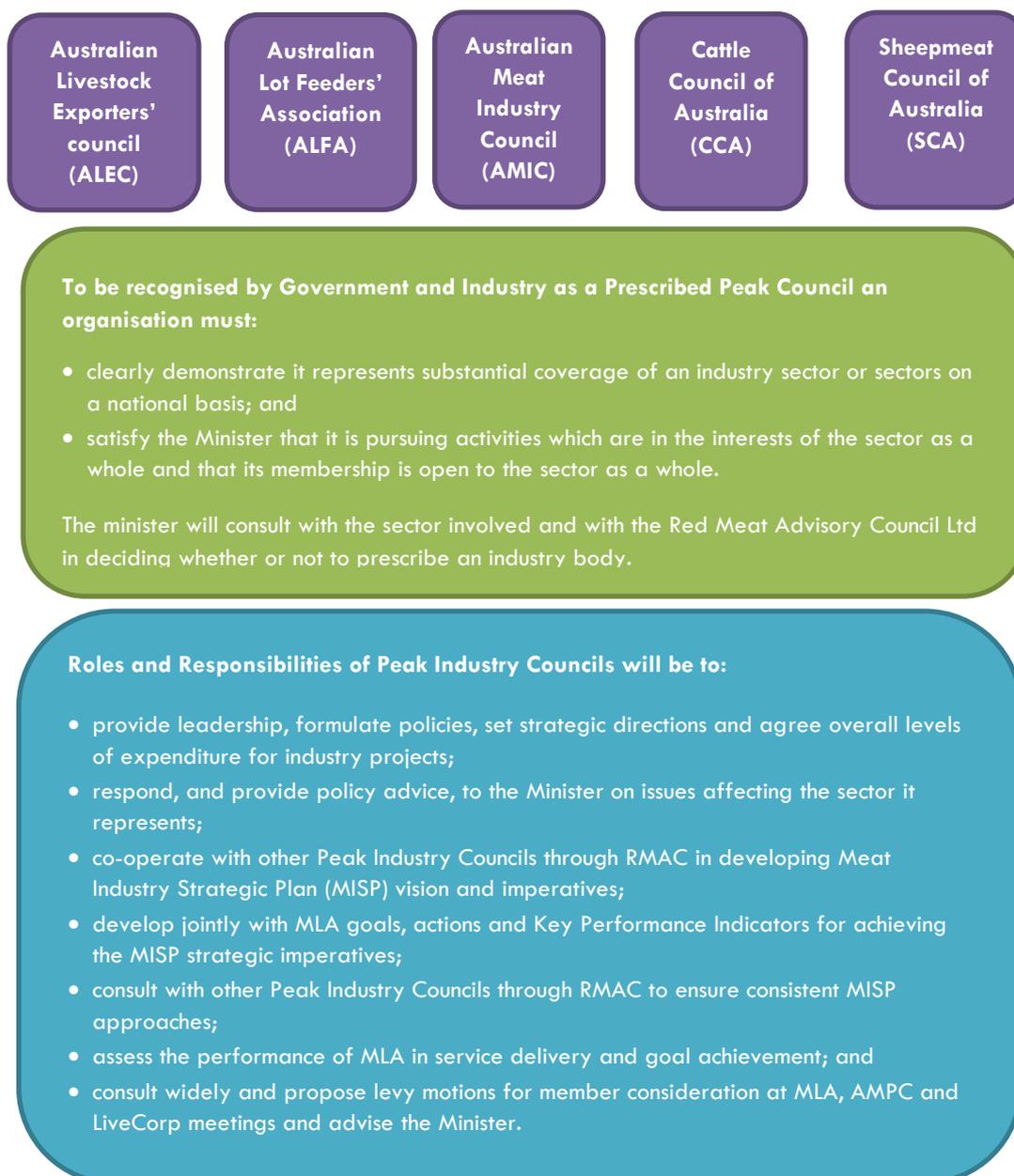


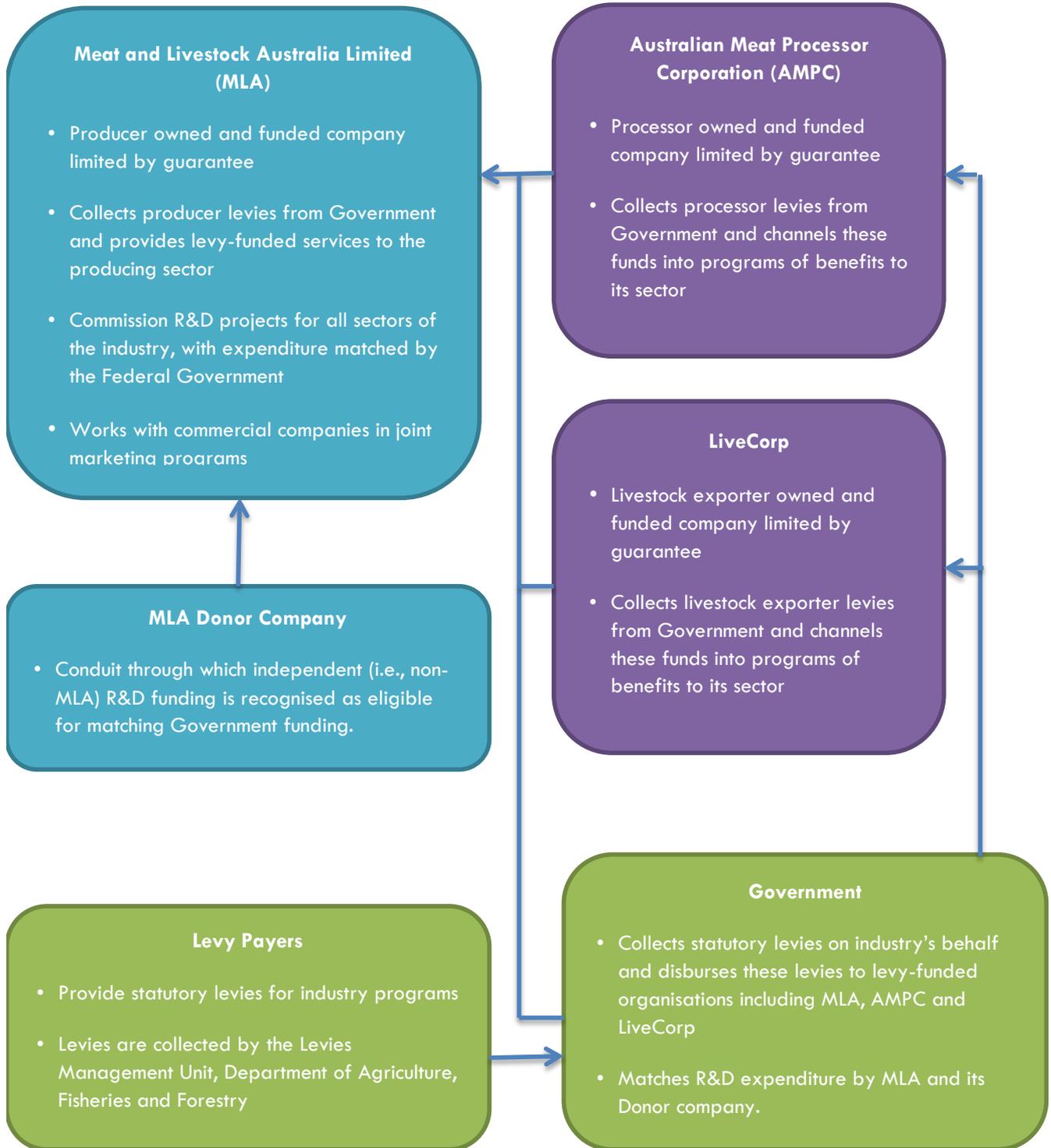
Figure 3: Roles and Responsibilities (Source RMAC Website, www.rmac.com.au)



Funding

The funding flows between the Red Meat Advisory Council and industry groups are illustrated as below.

Figure 4: Funding flows between industry groups (Source RMAC Website, www.rmac.com.au)



Meat and Livestock Australia

Meat and Livestock Australia Limited (MLA) delivers marketing and research and development services for Australia's cattle, sheep and goat producers. MLA has over 47,500 livestock producer members who have stakeholder entitlements in the company.⁸

CCA, SCA, ALFA and the Goat Industry Council of Australia (GICA) established Meat & Livestock Australia Ltd (MLA) as a producer-owned service company to deliver marketing, promotion, R&D and other agreed joint functions for the whole of industry.

MLA is a company, limited by guarantee under the Corporations Act 2001. The Australian Government is not a shareholder and does not have any members on MLA's board of directors.

MLA membership is open to anyone who raises (producer), finishes (lot feeder) or trades (trader) in livestock (cattle, sheep, goats). MLA is funded by:

- statutory levies from producers
- statutory charges from livestock exporters and statutory levies from processors for joint activities
- independent participants.

A Statutory Funding Agreement between MLA and the Australian Government facilitates research and development, matching funding and the management of levy monies.

Funding

MLA is primarily funded by transaction levies paid on livestock sales by producers. The Australian Government also contributes a dollar for each dollar MLA spends in R&D. This is supplemented by cooperative contributions from individual processors, wholesalers, foodservice operators and retailers. Processors and live animal exporters also pay levies under contract to MLA.

MLA is not the only beneficiary of transaction levies - it is one of three organisations, including Animal Health Australia and the National Residue Survey, that receive a proportion of the funds.

Livestock transaction levies

Transaction levies are charged on the sale of livestock (cattle, sheep and goats). The money raised is invested back into the industry to assist in research and development, marketing and market access activities.

Transaction levy collection and distribution

Changes to levies are generally initiated by the industry peak bodies, following consultation with industry, and implemented and collected by the Australian Government. Income from the levies is distributed amongst Animal Health Australia, Australian National Residue Survey and MLA.

Transaction levy scale (Source MLA Website, 'How MLA is funded')

- Levies paid = \$0 - \$29,088 (One vote for each \$1.00 received by MLA)
- Levies paid = \$29,089 - \$87,263 (29,088 votes + 0.75 votes for each \$1.00 received in excess of \$29,088)

⁸ Source MLA Website, <http://www.mla.com.au/About-the-red-meat-industry/About-MLA/Company-overview>

- Levies paid = \$87,264 or more (72,719 votes + 0.5 votes for each \$1.00 received in excess of \$87,263)

Levies paid to LiveCorp and Australian Meat Processor Corporation are not included for the purpose of calculating voting entitlements.

Transaction levy amounts (Source MLA Website, 'How MLA is funded')

Transaction levies are different for cattle, sheep and goats. The levies charged on livestock sales are shown on the agent's or processor's sale receipts.

Cattle and calves	Sheep and lambs	Goats
Cattle \$5.00 per head	Charges occur when the sale price is greater than	37.7c per head
Grain-fed cattle \$5.00 per head	\$5.00	
Bobby calves 90c per head	Sheep 2% of sale price (maximum 20c)	
	Lambs 2% of sale price (maximum \$1.50)	
	Where there is no defined sale price	
	Sheep 20c per head	
	Lambs 80c per head	

Source: MLA Website

Case Study: Pork Industry Restructure

In 1999, The Pork Industry initiated a process to consolidate policy, research and development (R&D) and marketing services and delivery into a dynamic new structure. The move was driven by industry's awareness of changing operational environments and the need for a more efficient and effective structure for service delivery.

A joint industry-government working party with specialist expertise was formed in response to a unanimous directive from the delegates of the Pork Council of Australia. It set out to design a modern structure that would better meet the industry's needs and enable it to evolve in response to a changing and uncertain operating environment and the priorities of levy payer members.

The working party defined options for the industry to develop a single industry body including R&D and marketing functions. The new organisation - Australian Pork Limited (APL) – was established to perform the functions previously performed by the Australian Pork Corporation, the Pig Research and Development Corporation, and the Pork Council of Australia.

Drivers of Change

The key drivers for the change process were:

- The industry was being served by three industry bodies, created at different times with different functions. While these bodies had met industry needs in the past, those needs had changed, and the prevalent need was for a new, streamlined, cost- effective national body to meet the challenges of the future.
- The industry considered that it was essential to have a seamless relationship between policy, marketing and research and development; to provide levy payers with a responsive and flexible structure that was also efficient, effective and accountable.

Outcomes

The new industry structure was designed to give levy payers more ownership and more influence over the use of their levy funds, while ensuring accountability requirements were met. The end result was the establishment of Australian Pork Limited, which was subsequently declared as the national industry service provider for the Australian pig industry under the Pig Industry Act 2001.

A distinctive feature of APL is its ability to use marketing levy funds for delivery of strategic policy development services and advocacy on behalf of pork producers. There is no separate representative body.

APL is a producer-owned, not-for-profit company and achieves its aims through marketing, export development, research, innovation and strategic policy development. It has:

- A nine member board including four specialist directors and five elected directors
- Pig producers are direct members with voting rights proportional to scale of production
- Annual Revenues of \$15.8m in 2011, with \$6.2m contributed by marketing levies. \$1.2m from this marketing levy amount was used to fund Strategic Policy Development.
- 342 producers representing 92 per cent of production in membership in 2011.

Case Study: Horticulture Industry

Australia's horticulture industry comprises fruit, vegetables, nuts, flowers, turf and nursery products. The industry is labour intensive and mostly seasonal. In 2009-10 Australian horticulture had a gross value of production of \$8.407 billion, ranking third behind the meat and grain industries.¹⁰

With 40 industry members, representing over 80 commodity groups, it is a diverse sector with a broad range of R&D and marketing needs.

Horticulture Australia Limited (HAL) is the company established to deliver marketing, and research and development services for the benefit of horticulture producers and the Australian horticulture industry.

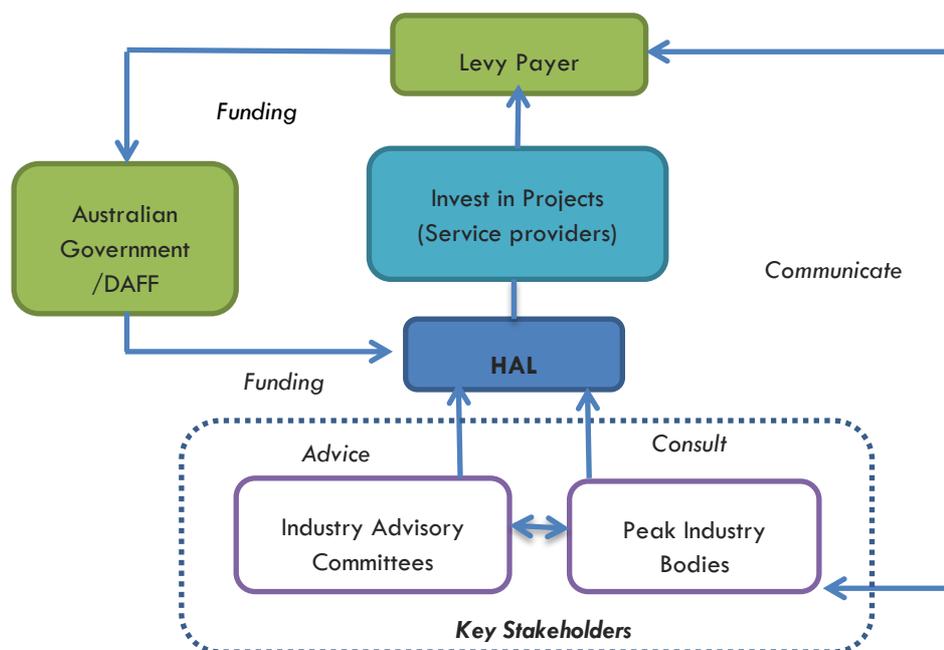
HAL's shareholders, who are the Peak Industry Bodies (PIBs) representing growers, have responsibility for the company's strategic direction and activities. HAL's role in investing industry and public funds in R&D and industry funds in marketing, incorporates extensive consultation and collaboration with horticulture industries, through Industry Advisory Committees (IACs) and Members.

IACs, along with PIBs, are HALs primary conduit for consulting levy payers and growers on R&D and marketing issues. HAL does not work directly with levy payers or growers, outside of those who are represented on IACs or that work within Member organisations.

HAL differs from other rural research and development companies in three primary ways:

- members are Peak Industry Bodies, not producer levy payers;
- levy funding is tagged for investment in individual industries; and
- services are delivered in close partnership with its PIB members.

HAL has a board has eight directors and its total budget in 2010-2011 was \$102m¹¹, including expenditure on R&D programs of \$72.3m (including Australian Government matching funds) and expenditure on marketing programs of \$12.5m.



¹⁰ source: DAFF Australian Food Statistics 2009-10

¹¹ HAL Annual Report 2010-2011

Signatories to the MOU are:

- The Australian Government
- Cattle Council of Australia (CCA)
- Sheepmeat Council of Australia (SCA)
- Australian Lot Feeders' Association (ALFA)
- Australian Meat Industry Council (AMIC)
- Australian Livestock Exporters Council (ALEC)
- Meat & Livestock Australia Ltd (MLA)
- Australian Meat Processor Corporation (AMPC)
- Australian Livestock Export Corporation Ltd (LiveCorp).

The MOU incorporates the definition of agreed roles and responsibilities. Cattle Council's roles under the MOU are to:

- Assess the performance of levy-funded industry service companies in service delivery and goal achievement;
- Consult widely and propose levy motions for member consideration at service company meetings and advise the Minister;
- Provide leadership, set strategic direction and formulate policies;
- Respond and provide policy advice to the Minister on whole of industry issues and on the sector it represents;
- Cooperate through RMAC with other Peak Industry Councils in developing Meat Industry Strategic Plan (MISP) vision and imperatives;
- Develop jointly with the industry service companies goals for achieving MISP strategic imperatives; and
- Consult with other Peak Industry Councils to ensure consistent MISP approaches.

Attachment G - Cattle Council's New Constitution

For the first time Australia beef producers will have the opportunity to become a direct member of Cattle Council. Membership rights will allow producers to:

- Stand for the Cattle Council Board;
- Vote on Board elections;
- Communicate directly to Cattle Council on national policy issues;
- Receive regular updates from Cattle Council;
- Nominate to participate on Cattle Council policy sub-committees; and
- Receive members-only access to the soon-to-be launched Cattle Council interactive website.

Cattle Council has committed to review the success of the structure after two years.

Cattle Council's new structure still has provision for the important role played by state farming organisations. Cattle Council is proud that it has all 8 State Farming Member Organisations in its membership ranks. These organisations are:

- NSW Farmers' Association;
- AgForce Queensland;
- Victorian Farmers' Federation;
- Western Australian Farmer's Federation;
- Pastoralists' & Graziers' Association of WA;
- Tasmanian Farmers' & Graziers' Association;
- Northern Territory Cattlemen's Association; and
- Livestock SA.

Cattle Council also has the Australian Registered Cattle Breeders' Association and the Australian Cattle Veterinarians as associate members.

Cattle Council maintains four specialist sub-committees to provide recommendations and detailed advice to the Board on the key affairs affecting industry. These sub-committees are open to all beef producers and cover:

1. Marketing, Market Access & Trade;
2. Research, Development, Extension & Sustainability;
3. Industry Systems & Food Safety; and
4. Animal Health, Welfare & Biosecurity

Cattle Council also maintains a sub-committee for the Cattle Council Beef Industry Rising Champions alumni. All other policy issues are managed directly by the Cattle Council Board.

Benefits for Producers & Direct Members Under the new Cattle Council Constitution

By joining Cattle Council as a Direct Member producers can access all the following initiatives:

- Receive regular updates from Cattle Council;

As a direct member Australian beef producers can now receive regular updates on the work Cattle Council is undertaking. As Cattle Council previously did not have access to a member database we could not easily advise producers what is being done. This improved communication mechanism should assist producers feel more in touch in what is being done by industry on their behalf.

- Forums

Cattle Council will hold producer forums around Australia, as was undertaken in 2013 for the first time. Members and non-members will be welcome to come and discuss industry issues. MLA representatives will discuss their programs and information received at these forums will be fed back into the Cattle Council subcommittees for policy discussions and into the MLA planning process.

- National Conference

In 2014 Cattle Council plans to initiate an annual national beef grass-fed policy forum. This initiative will provide further opportunity for beef producers to discuss beef policy issues and learn more about Cattle Council, MLA and the investment of the levy. Discussions from this forum will also be fed back into the Cattle Council subcommittees for policy discussions and into the MLA planning process.

- Cattle Council interactive policy website;

Cattle Council has developed tools into our new website which will enable producers to learn more about Cattle Council but also contribute to Cattle Council policy. It will enable varying levels of access depending on if you are a non-member, member, subcommittee member or Board member.

Generally, members will have access to the following:

- Producer polls run on industry issues to gauge importance;
- Online voting on policy and to increase the number of producers voting at AGM who can't travel;
- Online policy forums;
- Collaborative documents;
- Webinars; and
- Dedicated areas to submit questions and policy ideas;

- Vote on Board elections;

As a direct member, all Australian beef producers can now vote on the appointment of all of the Board members of Cattle Council. Producers may feel that this is as much involvement as they wish to have, and entrust their Cattle Council elected officials to represent them.

- Nominate to participate on Cattle Council policy sub-committees

As a direct member, all Australian beef producers can now nominate to be appointed to the Cattle Council subcommittees that make all policy recommendations to Cattle Council Board.

The Cattle Council of Australia currently has four subcommittees that are responsible for providing policy advice to the Council on:

- Animal Health, Welfare and Biosecurity
- Marketing, Market Access and Trade
- Industry Systems and Food Safety
- Research, Development, Extension and Sustainability

The subcommittees were formally implemented in 2013 with great success, playing an important role in the policy decisions the Council has made, which has in turn informed the broader industry.

The committees meet regularly via teleconference and also in-person three times per year. The meetings are convened under an agreement with Meat and Livestock Australia (MLA) as they also assist in informing MLA's strategic planning.

The subcommittee process, which involves the subcommittees considering major policy issues before the council, also ensures that the Council has the ability to focus on making higher level strategic decisions behalf of the industry.

One of the great advantages of the subcommittee process is that membership is not restricted to the producer base, allowing for a broad range of expertise to be cultivated and ensuring that decisions are made on an informed basis.

- Stand for the Cattle Council Board;

If a producer wishes to have greater level of influence and responsibility a direct member may now stand for the Cattle Council Board. Previously SFOs nominated all Board members.

- Rising Champions

Now in its fourth year, Cattle Council also runs a youth development program called the NAB Agribusiness Rising Champions Initiative. The Rising Champions Initiative is targeted at young beef cattle producers that can demonstrate commitment to the Australian beef industry, willingness to contribute to solutions on the 'big' beef issues, goal-focused with a personal vision for the future and an ability to communicate effectively and act as a role model to others.

Through this program, Cattle Council identifies future leaders of the beef industry and gives them the opportunity to contribute to the policy development processes within Cattle Council.