

Submission by Australian Beef Association to the Annual Review of Regulatory Burdens on Business. 2007.

Summary.

NLIS-the National Livestock Identification Scheme is a Government Imposition that is costing Australian producers dearly in money and time .We have estimated that a fully implemented system will cost over \$37 per beast sold. This renders beef producers less competitive on the domestic market against chicken and pork as well as their competitors on the international beef market.

We note the \$69 per head sold that the UK Government Accounts Committee arrived at in 2003 for their flawed scheme.

This is all to no purpose as (like the UK system) Australia's NLIS is hopelessly flawed--

- 1. as a tool to prevent the spread of an exotic disease (see Price Waterhouse Cooper Report),**
- 2. the system is not carried past the abattoir so doesn't fulfill its intended purpose,**
- 3. the system is not required by any of our Export markets.**

The scheme was introduced against almost unanimous producer opposition without any research into its practicality. The instigators were Victorians with financial involvement in NLIS equipment and/or a zeal for regulation. They are the same people who launched the disastrous OJD elimination program which destroyed the lives of many farmers –all to no purpose- whilst the scientific world watched in disbelief.

These people were able to convince Meat and Livestock Australia (MLA) who , with specious arguments from processors, convinced State governments to regulate.

Now as--

1. The USA (with no trace-back system at all) regains market access to Japan and Korea,
 2. South American countries, with no NLIS, swamp the EU market,
- Their arguments are in tatters.

Background.

ABA has fought the introduction of NLIS since 2003. Over 5000 producers attended meetings or voted in a poll in the Land newspaper. Only 22 were in favour of NLIS yet Cattle Council and Meat and Livestock Australia (MLA) ignored the producers who were to pay for the scheme. ABA had done extensive homework in EU, Canada and South America on RFID experiments and concluded that Australia's tail tag/NVD system was the best mandatory trace-back system in the world. Unfortunately, MLA officers did not do this research and blindly went into the mess that we now have.

For the reader of this submission who is not familiar with the cattle industry I give the following scenario to which they can relate.

In drought times livestock transports are everywhere, doing Dunkirk type evacuations . I marvel at their flexibility handling the ceaseless movement of stock across Australia's fickle environment. People who think of cows living a lifetime on

*one property are not in the mainstream cattle business. Add this to tens of thousands of cattle on stock routes.
Try to relate it to humans--*

Mr. Abbott decides that the risk from Asian Flu is too great. He convinces Cabinet to ask the States to implement controls over the movement of people so that immediate trace back can be achieved following an outbreak.

Each State/Territory Government is told to ensure that everyone has a RFID band around their wrist. Every time that person moves outside their shire they must notify the central database in Canberra by e-mail, fax or telephone within 1 day of travel.

Each State/Territory must devise and man a system of checkpoints/ scanners in each street, railway station and airport to ensure that people don't make unreported movements between shires. They must set up database notification facilities in morgues, hospitals etc.

How many people will each State/Territory need to enforce the decree and how much it will cost ? Frightened administrators suggest that hospitals only accept patients with RFID wristbands. Hospitals are too late in the chain –Asian Flu has already bolted. They ask how much the database will cost. Canberra decrees that people will be taxed for moving. The people cry “A Communist State is worse than Flu”. The scheme is dropped.

There are 20 million people in Australia and 26 million cattle (we think!). There are over 200,000 producers, feedlotters , abattoirs, knackereries, truck drivers and drovers who are moving hundreds of thousands of cattle all day and all night across Australia. This includes areas with no access to communications, temporary yards used for agistment and stock routes.

Governments must devise controls to ensure that producers (many of whom will try to avoid costly compliance) comply with the regulation decreeing that all movements be transmitted to the MLA database from 1/1/2006.The NSW draft regulation costing gave a ludicrous \$268,000 per year to enforce it!

I estimate that (Australia wide) there will be 8 million new calves born and over 20 million cattle moved each year. This gives 107,000 entries per day for a five day week of database staffing. A large percentage will be on paper. A larger percentage just won't be recorded . In UK they have over 700 officers paid by Government to police and record fewer transactions in a subsidised, non nomadic environment that is used to regulation.. Mr. John Wyld (the prime instigator of the system and whose family sell equipment for the system) said that Australia will only need 3!!

In 2005 the 3 had grown to 32. Producers are paying for it. NSW is trying to use Rural Lands Protection Boards to enforce NLIS—this means producers pay through their RLPB rates.

XXXXXXXXXXXXXXXXXXXXXXXXXXXX

ABA paid for the following full page advertisement in major rural newspapers in 2004—

NLIS IS THE BIGGEST CON ACT SINCE THE Y2K FIASCO BUT THIS TIME ONLY PRODUCERS WILL PAY THE \$ BILLIONS TO THE TECHNOLOGY COMPANIES .

- **Producers have been conned** on the ‘Market Access’ argument. USA is moving to reopen its trade with Japan despite having no mandatory trace back system and a BSE case.
- **Producers have been conned** on “Customers are demanding it”. There is no trace-forward from abattoir to consumer –not even a grading system. The information finishes at the abattoir. –NLIS advocate, NSW Minister Macdonald is even opposing moves to increase consumer food content awareness on the grounds of cost to retailers!!! Apparently cost to producers doesn’t matter.
- **Producers have been conned** on “Abattoir feedback”. The only feedback they will get is a big DISCOUNT ON CATTLE WITH ORANGE OR NO TAG. Processors can mix the discounted beef with the rest and profit accordingly. They are under no NLIS regulation on trace- forward.
- **Producers have been conned** on ‘Controlling disease outbreaks’. The current tail-tag system is the best mandatory one in the world, and Australia has the lowest exotic disease risk status of any major trading country.
- **Producers have been conned** on “Other exporting countries are doing it”. No other major exporting country is implementing mandatory RFID tag tracking. Australia’s Government has ignored Brazil’s move to fire branding, tattoos and normal tags for their ID system, and Australia even allowed the importation of Brazilian beef despite its FMD status.
- **Producers have been conned** on ‘Reducing Stock theft’. Tags are removable and replaceable. The abandonment of tattoos and firebrands, will increase- not decrease stock theft.
- **Producers have been conned** on “Improved management”. Genetic improvement requires mothering of all calves etc. The average pedigree herd lasts less than 7 years as costs far outweigh the returns. Do the perpetrators of NLIS want to close down the cattle industry?
- **Producers have been conned** on cost. “Only costs \$5.90 to \$7.50 per head sold “ .MLA refused ABA’s request for a cost benefit analysis. MLA and Government have ignored the UK Parliamentary costing of their scheme at \$69 per head sold (with 700 bureaucrats chasing 10 million cattle with 20% missing from their database!).They have ignored the US processor opposition to Country of Origin (COOL) legislation on the grounds of \$50 US per head cost –If multinational processors don’t want to know what COUNTRY beef comes from, but here they want information on Australian individual beasts how can they demand individual ID from Australia !) They have ignored Canada’s refusal to go to tracking of cattle to a database on the grounds of impracticality, and a cost of over \$40 per beast sold YET-- MLA is already talking about a levy increase and “ user pays” as it’s “LPA budget” blows out by \$775,000.

NLIS IS THE BIGGEST CON ACT SINCE THE Y2K FIASCO BUT THIS TIME ONLY PRODUCERS WILL PAY THE \$ BILLIONS TO THE TECHNOLOGY COMPANIES.

XXXXXXXXXXXX

NLIS was sold as simple RFID tag being placed in the ear of a beast and every time the beast moved from a property it would be tracked on the data-base. The instigators ignored basic system flaws that saw the RFID trials in EU fail and rendered the chance of it working in Australia negligible. To introduce such a scheme as mandatory over all Australia defies all logic.

- Australia has over 200,000 producers .Less than 15% are computer literate. Many cattle movements are made to and from areas with very basic facilities, no access to computers.
- Northern Australia has many properties that have inaccessible areas which see stock move between property boundaries on the map.
- Many cattle move on stock routes, particularly during drought. NSW Rural Protection Boards have already discovered that the recording of such movements, individually is quite impractical.

For the impracticality for a law abiding system see the following letter written in 2007 by a Southern Queensland producer.

*Managing Director
Meat and Livestock Australia
Locked Bag 991
NORTH SYDNEY NSW 2059*

Dear Sir,

Just a short note to let you know, how well your ear tag NLIS and NVD systems are not going.

I have my cattle on agistment and do not own the property they are kept on. As a third party, I am told that I am not allowed to have a NVD book of forms. As a consequence, I have no records of cattle sent direct to works or saleyards.

On Monday 12/02/07 I rang the MLA for an emergency NVD to shift drought affected cows and calves to sale. The usual happened. The owner of the property lives at Pomona but has no NVD book. MLA advised me that as they have not applied for Q A Status, I could not get an emergency NVD.

I talked to about three different MLA staff members, stating to them it was an emergency and the cattle needed to be shifted fast. Not one of them gave a stuff about the welfare of the cattle. I should have rung the RSPCA and put it in their hands. While all this was going on I was on the road with the cattle. I decided to ring the DPI in Toowoomba, as I only had 3 days feed left on the road.

I was told that I might be able to get a generic NVD and it was up to me to see if I could get some stock agent to accept it. To obtain the form, I had to leave the cows and calves on the road unattended, while I drove to Toowoomba to a get a generic NVD and return to the cattle and then back home. This is a 245 km journey and it took me 4 1/2 hours to complete.

On the 13/02/007 I was on the computer from 5am to 8am to try and find out where my stock are.

I rang the MLA and spent from at 8am to 10.30 am on the phone. None of my cattle were where they were supposed to be, - there has been no stock taken off the system, as I have sold them. By this time with all this crap my health was starting to cause me some problems so I finished on the phone at 10.30am.

I found an agent who accepted the generic NVD. When I finished with the rest of my stock there I won't be buying any more, there will be no more, and my health will not allow me to be put through this scenario, every time I want to shift cattle. Your intent is to get rid of the small operator. Well you succeeded with me.

I have enclosed an Invoice for my time and costs.

*Yours faithfully
Southern Queensland Producer*

Meanwhile , in NSW, the Minister has granted exemptions to his own law for his Travelling Stock Reserves as his officers have realised the impracticality of his law. One rule for Government, one for individuals.

Definitions:-

"property" means an area of land (including an area comprising one or more parcels of land that are proximate) that is worked as a single property, and includes any of the following:

(a) a saleyard or abattoir,

(b) a travelling stock reserve, or public land, within the meaning of the Rural Lands Protection Act 1998,

(c) a public road to which a stock permit under the Rural Lands Protection Act 1998

22 Requirement to identify stock

(3) The owner of any cattle (regardless of the date on which the cattle were born) must

ensure that the cattle are identified in accordance with clause 21:

*(a) before the cattle leaves any **property** in New South Wales on which the cattle are kept (whether or not that property is the one on which the cattle were born), or*

(b) on arrival of the cattle in New South Wales, or

(c) if directed to do so by an inspector, in such circumstances as the Director-General may specify by order published in the Gazette.

25B Information in relation to cattle arriving at property

*(2) If any cattle arrives at a **property**, the owner or person in charge of the cattle at the **property** must, within 7 days of the arrival of the cattle, provide the authorized administrator with the following information unless the cattle have arrived directly from a saleyard or stock and station agent:*

Preface-(Disclaimer)

- The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed by us was that of DAFF and the procedures performed were solely to assist DAFF's assessment of the functioning of the NLIS system.
- This report was prepared solely for the use of DAFF. PwC does not accept any responsibility to any other party to whom this report may be shown or into whose hands it may come.
- The procedures that we performed do not constitute an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Accounting Standards applicable to review engagements and, consequently, no assurance is expressed.
- **However, a number of issues were evident such that the NLIS system cannot be considered to be fully compliant with the NLIS business rules.**
- The majority of stakeholders also consider the NLIS system more efficient than the previous approach. –*Unnamed –anonymous opinions.*
- In addition, most stakeholders believe that Australia would have been excluded from a number of major international markets had it not adopted a more effective animal tracing system. *Unnamed –anonymous opinions. PwC did not investigate these matters as it was not in their brief.*

There are a range of issues that DAFF and operators of the NLIS system may wish to consider addressing.

1. . The fact that notification of animal movements was not mandatory for a period is a large part of the cause of this. However, since notification became mandatory, there remains a significant rate (we were advised this represents approximately 6.4% of tags issued since the introduction of mandatory notification) of failure to notify the database of animal movements.
animals that have been slaughtered not being recorded as such
 - . As a user-entry system (i.e. data is entered by an individual or their agent taking part in the transaction), there is the potential for erroneous data to be entered into the system through inadvertent or deliberate error. Such errors could be lessened, or more readily corrected, if there were regular user review of data entry. An enhanced mechanism, though at greater cost, would be to employ external scrutiny or review.
 - Perhaps the most important of these are the accounts of producers.-- Only around one in ten producers has opened an account and it is quite likely that a significantly smaller proportion regularly review their account. This lack of user or third party scrutiny means that many data errors are not discovered and are consequently never corrected.
- . A range of data transcription errors were evident during the review. These generally led to animals being listed on the wrong PIC, or having an incorrect deceased status. In some respects it may therefore be more appropriate to call the NLIS system a State based system on a national pattern rather than a single, national system. Differences in implementation in the various jurisdictions have created issues. These are particularly evident where animals that are subject to an exemption in one jurisdiction are moved to another.

trace a transaction through the end-to-end process to validate that the processes and controls documented are in place.

- This discussion of the importance of livestock trace-ability does not presuppose that NLIS system is the most appropriate means of achieving that trace-ability.
- Stakeholders involved in the implementation of the NLIS system and in the disease and contamination issues of the 1990s and our review of the documentation associated with those incidents, indicated that Australia would have lost access to a number of significant international markets (principally the EU and Japan) had it not implemented a more effective livestock tracing system. *Anonymous pushers of the NLIS.*
- In addition to the significant impact a disease outbreak would have on export markets, the number of cattle destroyed due to a major disease outbreak would affect the domestic market and industry participants including producers, stock agents, saleyards and abattoirs. Farmers would be forced to slaughter entire herds, costing the local industry many millions of dollars. -- *Anonymous supporters of the NLIS.*
- **RULES AT Abattoirs**

2.1 Within 48 hours of the relevant CVO₂ being notified³, it must be possible to establish the location(s)⁴ where a specified animal has been resident during its life.

2.2 Within 48 hours of the relevant CVO₂ being notified³, it must be possible to establish a listing of all cattle that have lived on the same property as the specified animal at any stage during those animals' lives.

Throughout 2005/06 over 10 million cattle movements were recorded, including over 4.4 million individual cattle movements from property of origin and almost 6 million cattle movements via sales through saleyards.

only one jurisdiction met the section 2.1 criteria for all animals

the NLIS system reports could be more user-friendly for jurisdictions

State access to the database would speed tracing rather than going through the database administrator .

AQIS AUDIT

- Ten of the 40 animals, all without electronic ear tags, were never located. It must be noted that of these 10, 5 were moved interstate. However, it should be noted that the sample size of the audit was quite small. It should therefore be treated with some caution.
- **The NVD captures information about the property in which the cattle have been including the PIC number and any treatment given to the animal. The NVD must be completed correctly in order to capture all the required information on cattle. If an NVD is not completed correctly, information required for trace-ability may be lost. However this issue does not specifically affect the operation of the NLIS database.**
The contention has been put to us that the failure to electronically register animal movements in these cases is not a problem because it simply means that authorities will need to fall back on the paper tracing system at some point. We do not agree with this view.
If the aim of the NLIS is to have an electronic, whole of life tracking system, then these failures to register transfers represent failures in the system.
- **Many animal transfers have not been registered, even after it became compulsory to do so.**

The reasons given for this have been varied. Most commonly it was believed that:

property to property transfers were a major source of such problems because producers were unwilling to pay to have animals scanned, or were unaware of their responsibilities

transfers between PICs owned by the same person were also seen as a common source of such problems

technology failures at saleyards were often given as another cause.

- It was stated a number of times that vendors generally had no responsibility or incentive to ensure that transfers were correctly registered and that purchasers, unless they were receiving some financial benefit from maintaining whole of life trace-ability, had little incentive to do so either.
- **However, this fall is not as large as we would expect. It tends to indicate that there are still a significant number of stakeholders who are not registering animal transfers.**
- These outcomes are obfuscated to some extent by the various exemptions that still exist in most states. For example, although the Queensland figure looks quite low, there has been an exemption in that jurisdiction for animals that proceed directly to slaughter - the majority of animals in that State.

In addition to this issue we have also seen at least some evidence of a few related issues including:

producers clearing out their accounts by marking animals as deceased without verifying that they weren't sold.

animals being processed at abattoirs without being reported as deceased

Message to the Regulators—The States

With respect to the compliance of stakeholders with the State based legislative requirements of the NLIS system, we believe there are a number of issues which the Government and stakeholders may wish to address.

However, we had expected that the introduction of the mandatory requirement to inform the database of movements of animals from one PIC to another would have led to this problem being almost completely removed by this time. While mandating the requirement has reduced the incidence of the problem it has not removed it. At approximately 6.4% of animals sold (in October 2006) it is still an issue that needs addressing.

- **In addition we have seen at least some evidence that animals sent to slaughter have not always been notified as deceased. It is impossible to determine the extent of this issue but it is worth noting that it has occurred.**
 - Apart from a few areas (particularly the system transfers effected) the database when an animal comes from an incorrect PIC) there is little third party or independent verification of the data entering the database.
- The system largely relies on individuals - producers, saleyard and processor staff - entering the correct information. There is auditing of saleyards and abattoirs in most jurisdictions, however, the system largely relies on individuals doing the right thing and not making errors.
- The incentives for many individuals to do the right thing are high where maintenance of whole of life trace-ability bestows a commercial benefit. However, where such a benefit is not immediately or personally evident, the incentive to fulfil all obligations and ensure the data is correct lessens.
 - Although not a requirement under regulations, some stakeholders have set up accounts within the database and use them to monitor their herd transfers and ensure that the correct cattle have been taken off their account and moved onto the purchaser's. Checking accounts is an easy way to ensure that the system is being operated correctly and that the cattle remain traceable after leaving the property of birth.

However, most producers did not have accounts (less than ten percent have started an account) and most that did were not using it regularly. We found only one business (a major processor) that conducted regular audits of their account. As a result errors have crept into accounts and, where they are not

addressed, can repeat, and therefore snowball, over time.

While this is not a failure in the internal system logic, it does mean that a potential method for finding and rectifying any errors that creep in is not being utilised. It also has the potential to undermine confidence in the system.

The extent that an education program would be able to address this issue is limited by the proportion of people with PICs who have access to the internet and the technical ability to use such access to manage their accounts. A paper based account system (e.g. sending all PIC holders a quarterly or yearly statement of their account) would reduce this problem but would also come with attendant costs.

Most jurisdictions have undertaken only a handful of enforcement activities to date.

Enforcement is particularly important where there is little or insignificant commercial incentive to maintain lifetime trace-ability.

The NLIS system is not truly a national system in so far as it is not precisely the same in each jurisdiction. Rather it is a State level system on a national pattern

In addition to the cost of ear tags, some producers believe they are spending significantly more time inserting the NLIS tags than they did when using tail tags.

- Although the majority of producers do not have active an account with the Database and do not transfer information regularly, producers in the past have not found the system user friendly, which has caused issues when transferring information.
- The major issue associated with this is the additional cost incurred by the agent. Time associated with the scanning and recording of cattle information and administration time taken to send the information to the database costs agents. Some agents do not recover or under recover this cost as it is difficult to accurately calculate the cost of the service. Other agents fully recover the costs of this service by charging the producers for all of the services they perform.
- Several saleyards that purchased equipment that they later had to write-off when it did not work to a sufficient reliability or quality level stated their belief that the State Governments should bear some responsibility for such equipment.
- **Some abattoirs believed that identifying cattle in an abattoir is more difficult with ear tags than the old tail tag systems.** The tail tag system allowed people to identify which region the cattle were from, which farm and whose cattle it was. possible, abattoir workers could visually identify each beast and know where it had come from.
- Some producers believe that the Occupational Health and Safety risk has increased since the introduction of ear tags. These issues are mainly concerned with tagging full grown cattle without appropriate equipment such as a press. Many producers are now tagging livestock as calves to avoid the health and safety risk.
- **Our scope did not extend to undertaking any review of the general controls environment within which the database operates.**
- Prior to legislation introduced in January 2006, there was no mandated requirement for abattoirs to record animals as “deceased” into the database. This has resulted in legacy issue whereby a large number of tag devices recorded as active on the database for which no movements have been recorded or likely to be recorded.
- We note that the ownership of the data lies with the various stakeholders, who are responsible for

ensuring that the data they upload into the database accurately reflects the physical movements of cattle and other events. They are also responsible for ensuring that the data is free from error, including potential human error.

- There is currently no disaster recovery plan (DRP) in place to recover the NLIS database and critical processes in the event of a serious incident or disruption such as one affecting the Telstra data centre, which hosts the MLA infrastructure.
- We recommend that the steering committee formally assess the risks associated with a major disruption to the NLIS system, along with the cost or impact on operations. This in turn should guide the development of a suitable technological backup/infrastructure solution (if required) to deal with business requirements through the outsourced provider (Telstra).

XXXXXXXXXXXXXXXXXXXXXXXXXXXX

Conclusions.

- **RFID NLIS to a database has not been made to work in any beef producing country.**
- **Australia is currently pretending to operate a hopelessly flawed system with “wink wink, don’t worry” as the password. Like the failed OJD elimination program, it has Governments trying to avoid the huge expense of regulating to make it work.**
- **In the event of an exotic disease outbreak the system will not provide trace-back as the database has little relationship to the location of the cattle. The original draft legislation required all tags from dead animals to be accounted for, this was dropped from the actual Legislation as it was clearly impractical and the scheme immediately became flawed.**
- **The cost to producers will continue to escalate –all for no additional return.**
- **We recommend a return to the previous, world leading, tail tag system.**