BEEF'S NEW DIRECTION

STRATEGIC PLAN

2010

<u>A unified approach to rural and regional development</u>

A strategy for

Higher Prices

Lower Costs

Leaner and meaner organisational structures

and

The resurrection of rural and regional Australia

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Preface

This Strategic Plan provides concrete solutions to the challenges facing the Australian beef industry and the rural and regional communities that support it.

It is the result of extensive consultation with beef producers and processors and implements the resolutions of the 1,000 participants at the Beef's New Direction Forum held in Armidale this year (see Appendix A).

Since the first Meat Industry Strategic Plan produced by the Meat Industry Council (MIC) in 1996, and the subsequent creation of RMAC, MLA and AMPC, the long-term decline in real cattle prices has continued (see Strategy 1), burdensome industry costs have risen (see Strategy 2) and the industry has continued to suffer from ineffective organisational structures (see Strategy 3). The rural communities which both rely on and support the profitability of the beef industry have continued to decline (see Strategy 4).*

The Impact of the Resources Boom

Australia is enjoying an unprecedented Resources Boom which has put upward pressure on interest rates and the value of the Australian dollar.

Consequently Australia currently has some of the highest interest rates in the world and the value of the Australian dollar has risen by 37 cents (or by 73%) from 50.5 cents USD in July 2001 to 87.7 cents USD in July 2010.

High interest rates and the high value of the Australian dollar reduce returns received for rural exports and decreased farmer profitability threatening the viability of many rural industries including the beef industry.

Based upon current exchange rates, producers receive about $1,000 for the 320 kg carcass weight 0-2 tooth steer. If the dollar fell to its 2001 level of 50.5 cents USD (ie. fell by 57.5%) producers would receive about $1,575 for the same steer.

Real cattle prices declined by about 2% per year during the 1980s and early 1990s and, in real terms, cattle prices are

* Many of the documents referred to in this Strategic Plan can be viewed online at: www.huntblog.com.au.

still more than 20% below prices being paid twenty (20) years ago. During the same period the costs of production and government influenced costs and charges on the livestock industry have increased several fold.

International Competitiveness

Australia's government agricultural policies over the last 30 years have generally (but not always) been based upon economic rationalism but the same economic rationalist policies have not been applied by the governments of Australia's overseas competitors.

Consequently Australian livestock producers are burdened with higher government influenced costs and charges, higher interest rates and enjoy less subsidies than their overseas competitors.

SG Heilbron's 2001 *Study on the Impact of Government on Industry Competitiveness* ("the Heilbron Report"), which was commissioned by the MLA, found that Australian livestock and meat producers have higher government influenced costs and charges overall than their key international competitors and receive less assistance from government.

The Heilbron Report found that Australian mixed sheep/beef producers paid about 1/3 of their livestock revenue (excluding wool) in government influenced costs and charges whilst the average New Zealand mixed sheep/beef farm paid around 1/6 and US farmers paid around 1/8.

The differentials between government influenced costs and charges in Australia and Australia's overseas competitors have worsened, as a consequence of continuing government policies since the Heilbron Report was published.

Government Influenced Costs and Charges

In addition to the government influenced costs paid by beef producers at the time of the Heilbron Report, cattle producers now have to pay over $5.52 a head for NLIS,[1] and an additional marketing MLA sale transaction levy of $1.50 per head which actually amounts to $2.46 for each beast slaughtered ($1.50 x the 1.64 times that each beast is sold prior to slaughter). AMPC levies have also increased by almost 40 cents a head since the introduction of statutory AMPC levies in 2007. These additional costs add up to $6.86 a head.

[1] See Alliance Consulting and Management Cost Analysis of NLIS Compliance for Beef Producers, 4 May 2004.

Australian producers pay approximately $9.80 in MLA and AMPC levies for every beast slaughtered each year whilst our USA competitors pay $1.00 per head.

The total beef industry organisation expenditure in the US is $80 million whilst in Australia the MLA spends about $130 million. Another $30 million is spent on NLIS in Australia. Australia's overseas competitors do not have any NLIS programs.

Australia slaughters 8 million head of cattle each year whilst the US kills approximately 33 million per year.

In the result, the total industry organisation cost to Australian beef producers *and* Australian tax payers for each beast slaughtered is about $20 per head whilst American beef producers and tax payers pay approximately $2.50 per head.

US farmers also receive generous government subsidies. This makes it extraordinarily difficult for Australian producers to compete with their American counterparts.

The Australian cattle industry currently makes direct payments for statutory levies, NLIS and abattoir AQIS inspection fees for each beast slaughtered each year of $17.80 (statutory levies - $9.80, NLIS - $5.52 and $2.50 a head for AQIS inspection charges).

Additional abattoir AQIS inspection costs of about $1.50 a head imposed from 1 July 2011 will bring the total fixed Government charge figure to $19.30 a head without taking into account payroll tax, workers' compensation, or EPA charges.

Government Subsidies

The European, North American and South American farmers are all heavily subsidised by their governments. The Australian car industry received a $6.2 billion dollar government bail out during the GFC but Australian farmers are not subsidised.

There are far more people employed in Australian rural industries than in the Australian car industry.

Rural Lending

Chinese farmers have access to low interest development bank finance.

This year the Brazilian government through its Development Bank will provide US$54 billion to its farmers in low interest rate loans.

Australian banking competition has effectively contracted to four big banks as a consequence of the GFC and whilst bank profitability and home lending is returning to normal levels, bank finance for business, development and rural industries remains restricted.

Major bank lending for rural industries in particular has dried up and currently only 3.15% of major bank lending is agricultural (see McNamee paper: *Proposal to Establish an Australian Development Bank*).

Consequently, the Australian rural industries cannot access funding for expansion and innovation whilst foreign State owned and foreign companies are able to utilise government subsidised low interest loans to buy up depressed rural assets.

The Decline in Rural Australia

Since 1969, the number of farms in Australia has dropped by almost 25%. The rural workforce has dropped from 430,000 in 1967 to 360,000 in 2008 and abattoirs have lost 40,000 jobs in the last thirty (30) years.

Cattle prices have continued dropping in real terms with domestic beef consumption on a long-term decline rate of 1.7% per year, down from 42.3 kg in 1997 to 33.7 kg last year. Some cattle properties are currently unsaleable and have dropped as much as 40% in value, whilst beef industry costs continue to escalate and the competition in the beef industry continues to shrink.

National valuers Herron Todd White's agri-business newsletter of June 2010 talks of increasing incidences of properties reselling at 20% to 50% below the 2007-08 sale price.

Managing the Resources Boom

Australia currently has a three speed economy:

- the resources and mining economy;
- the urban financial and legal services, technology, manufacturing and tourist service economy; and
- the rural and regional economy west of the Great Dividing Range.

Australian governments need to develop a long-term policy strategy to protect its productive assets and rural export industries during this unprecedented economic period to protect Australia's food security and national interest for the coming generations, post the resources boom.

This policy seeks to ameliorate the uncompetitive situation that Australian rural industries find themselves in as a consequence of the current resources boom with higher interest rates and a higher Australian dollar value, compared to the subsidies and financial support given to our foreign competitors by their governments.

These issues need to be addressed on:

- an FIRB national interest basis; and
- an ACCC competition policy (antitrust) basis.

Together with:

- the reduction of the uncompetitive burden of government influenced costs and charges; and
- a sound decentralisation policy to provide the necessary infrastructure and workforce to enable Australia to feed its projected increased population and meet the food requirements for an exploding world population.

Population Growth

Current forecasts indicate the world's population will exceed 9.2 billion by 2050.[1] Due to this population growth and improving diets in industrialised and third world countries, global demand for food is predicted to double over the coming half-century.[2]

At the same time the world food production system will be increasingly constrained by the demand for land, water and resources generated by the growing urbanised population.[3]

The productivity of Australian agriculture must therefore be viewed not only as an economic imperative, but as a matter of national food security.

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[1] US Census Bureau, International Data Base, August 2006 version.

[2] Julian Cribb, *The Coming Famine: risks and solutions for global food security*, 2010 (discussion paper).

[3] Julian Cribb, *The Coming Famine*, 2010 (discussion paper).

The Emerging Domestic Market

Australian consumers spend far more on beef each year than the value of the beef that Australia exports (Australian consumer expenditure on beef in 07-08: $6.7Bn, beef exports 07-08: $4.4 billion[1]).

The Intergenerational Report produced by the Federal Treasury in 2010 forecasts that at current rates of growth, Australia's population will increase from 22 million to 36 million people by 2050. In this case the domestic market will play a central role in the long-term prosperity of the industry.

According to MLA projections, it is unlikely that the Australian cattle herd will grow significantly in coming years.[2] Over 60% of Australia's land mass is currently used for livestock production,[3] and that percentage is likely to decline in the long-term given encroachment on pastoral land from urban expansion and grain production.

But even if consumption and production rates remain stable, the forecasted population increase will drive domestic consumption to 1.213 million tonnes p.a., accounting for 57.7% of total production.

The marketing initiatives outlined in this Strategic Plan are expected to increase domestic consumption by 2.5kg per person to 36.2kg. In this case total domestic disappearance consumption will rise to 1.303 million tonnes per annum or 62% of the current total beef production.

Yet the long-term trend decline in domestic consumption (-1.7% pa) has continued in recent years and both per capita consumption and market share of beef are at all-time lows.[7] Real expenditure has risen only slightly since 2005 (around 1%).

The beef industry can no longer afford to neglect the ailing domestic market, which has often been regarded as the 'poor cousin' in an export oriented industry.

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[1] MISP 2010.
[2] MLA 2008.

[3] MISP 2010.

Executive Summary

This Plan identifies four key problem areas concerning the Australian beef industry: cattle prices; industry costs; industry organisational structures; and decentralisation.

It sets out clearly defined objectives and proposes practical measures which can ensure they are achieved.

Higher Prices, Lower Costs

The Plan identifies:

- a potential whole of domestic beef industry payout of over **$1 billion** a year through the introduction of a national beef grading system;
- improved marketing programs;
- improved accountability and efficiency of industry bodies.

Subject to the independent cost/benefit review of all major current industry organisation initiatives referred to elsewhere, this Plan also identifies possible savings to beef producers through:

- reduced MLA functions of approximately $45 million a year;
- centralising government and private enterprise into a single Research Development Corporation (RDC) saving approximately $18 million a year;
- administrative and R&D savings of approximately $5 million from the abolition of the AMPC and RMAC;
- administrative and Peak Council funding savings of approximately $3 million a year;
- AQIS inspection charges of about $30 million per year from the abolition of RMAC; and
- possible reductions in NLIS charges of say $20 million a year.

Under this Plan these savings would be offset to some extent by increased expenditure on world market access and domestic beef promotion of approximately $10 million a year.

If the possible net savings of approximately $100 million a year in levies, charges and AQIS fees identified above were achieved it would result in a total saving for every beast slaughtered per year of approximately $12.50 a head.

The Plan further identifies long-term strategies to take advantage of forecasted changes in global and domestic markets and demographics, including:

- the growing importance of the domestic market;
- increased global demand for food due to increasing world population;
- associated pressures on land and water resources from crop production and urbanisation;
- the emergence of a viable agricultural sector as a matter of national food security.

Decentralisation

Finally, the Plan recognises that the industry does not exist in a vacuum, and the challenges it faces lie on top of deeper challenges faced by rural communities. It proposes measures to address the declining and aging rural population, and improve services and infrastructure in rural and regional areas. This in turn will attract people to live in regional centres and promote labour supply and increased competition within rural industries.

The NSW National Party Leader Andrew Stoner has announced a plan to boost regional NSW population by 500,000 people in the next 25 years.

The NSW State Government forecast anticipates regional NSW to account for about 15% of the State's population increase which would represent an increase of around 270,000 people, bringing NSW regional population to 2.69 million.

The NSW National Party plan contemplates almost doubling of the regional NSW projected population intake.

This increase is to be achieved by establishing more public sector jobs in regional areas and ensuring services and infrastructure of high quality to make regional living attractive and viable, with greater involvement of the community in decision making. There is also a plan to provide $7,000 grants to households prepared to move from Sydney to the regional areas.

The Federal National Party Policy Platform 2010 also sets out a plan to revitalise regional Australia by:

- ensuring a fair share of services spending for the region;
- a review of zonal taxation allowances;
- promotion of regional investment;
- growing the population of the regions by creating new employment opportunities;
- ensuring that taxes and charges imposed by the Australian government do not disadvantage regional businesses against international competition; and
- ensuring that real benefits from national competition policy are delivered.

Key points of the Federal National's plan for primary production include:

- increased support for quarantine and border security; and
- more support for R&D.

The National Party policy is a step in the right direction, but needs to be extended and implemented urgently if it is to achieve real results.

Strategy Outline

Strategy 1 – Increase Real Cattle Prices

- By increasing domestic and export demand for better quality beef.
- By increasing competition.

Strategy 2 – Reduce Beef Industry Costs

- By improving transport infrastructure and competition.
- By removing AQIS abattoir inspection charges.
- By reducing payroll tax and other government influenced industry costs and charges.
- By restricting levy expenditure to activities that produce direct measurable outcomes to the beef industry.

Strategy 3 – Industry Organisational Restructure

- By streamlining and improving the efficiency of the Industry Organisational Structures, reducing unnecessary duplication of services to improve beneficial outcomes and reduce unnecessary costs.

Strategy 4 - Decentralisation

- By providing zonal taxation, stamp duty and payroll reduction incentives for businesses to relocate into rural and regional Australia.
- By the provision of water, power and communication infrastructure necessary to attract business and people to the regions.
- By encouraging the relocation of rural departmental and statutory body offices and personnel to the regions.
- By establishing a development bank along the lines of the previous Commonwealth Development Bank to provide long-term development finance for rural and regional Australian industry.

Strategy 1 – Increase Real Cattle Prices

Proposal 1—Strengthening the Domestic Beef Market

Last year Australia exported 67% of its beef and consumed only 33% of total production. Australian consumers however spent an estimated $6.7 billion on beef whilst the value of our beef exports was only $4.4 billion, which suggests that more focus should be given to the domestic market.

A cost/benefit analysis conducted by GHD Hassall & Associates on a proposed National Beef Grading System in 2010 found that if every Australian eats one additional 250g meal of beef every six weeks, there will be:

- an increase in Australian per capita beef consumption of 2.15 kg per person from 33.7 kg to 35.85 kg;
- a payout of over $511 million per annum to the beef industry; and
- total domestic consumption of approximately 800,000 tonnes or 38.2% of total current production.

The 1996 Meat Industry Strategic Plan and the 1998 MLA business plan concluded that a national beef grading system could in fact deliver twice as large an increase in consumption. That is, an additional 250 g meal of beef every three weeks.

This would provide a payout to the beef industry of over $1 billion per annum and increase Australian domestic disappearance consumption to approximately 850,000 tonnes or 40% of current total beef production.

In the absence of a uniform grading system, the long-term trend decline of 1.76% per year has continued uninterrupted over the past decade.

Objective

- To increase domestic beef consumption from 33% of current total beef production to 40% of current beef production within 6 years and to 50% within 30 years.

- To increase domestic per capita beef consumption by 2.5kg per person per annum.

Method

1. Establish an all of beef product eating quality guide for Australian consumers, based on a simple star system, to increase domestic beef consumption.

2. Ensure that the retail descriptors in the Aus-Meat Domestic Retail Beef Register are not misleading or confusing to consumers.

    - MLA research has found that a grading hierarchy based on age alone may be confusing and less effective than a hierarchy based strictly on quality.[1]

    - MLA research has also found that consumers considered beef labelled 'Economy' would represent value and would eat better than beef labelled 'Budget' and that the beef labelled 'Mature' would be chewy and a nice way of saying that the beef came from an old cow.

    - The proposed Domestic Retail Beef Register descriptors "Mature" and "Economy" should be reversed so that beef from six tooth animals is labelled "Economy" and the better (as opposed to manufacturing) beef from old cows is labelled "Mature".

3. Call on PIMC to adopt the *Food Amendment (Beef Labelling) Act 2009* ("the Torbay Act") nationwide to ensure that our national retailers do not misdescribe the beef they are selling.

4. Increase expenditure on domestic beef promotion.

Proposal 2 – Increase Beef Export Sales

Australia has a 20,000 tonne EU grain fed beef quota but finds it difficult to meet that quota because of the restrictive EU cattle accreditation requirements (offered by Australia but not required by the EU) which were introduced prior to the introduction of NLIS.

[1] DeltaMV Knowledge Solutions, *Beef Retail Classification Research*, prepared for MLA 12 May 2010; Milwood and Brown 2001 Study.

Our overseas competitors have been more proactive and successful in pursuing the important Russian beef market.

There are also significant export opportunities in China.

Objective

- To increase market access into overseas markets, especially overseas markets for quality product such as the European Union (EU) Market.

Method

1. Change the whole of property isolation requirement for EU accreditation to allow EU accredited cattle to be run on the same property with non-EU accredited cattle, provided that the EU accredited cattle are pastured separately from non-EU accredited cattle.

2. Encourage an increase in the number of EU accredited cattle available for the EU grain fed market by allowing properties to take advantage of short-term grass surpluses, background non-EU accredited cattle for feed lots and take on agistment etc.

3. Aggressively pursue market access opportunities in Russia, China and Asia generally.

Proposal 3 – Increased Competition

At the retail level, Woolworths and Coles sell over half the beef consumed in Australia. Although the value of Australian consumer expenditure on beef is greater than the combined value of all Australian red meat exports,[1] market control by the big retailers prevents a fair return being passed on to producers.

The ACCC is currently conducting an inquiry into Swift's proposed takeover of Rockdale and has raised concerns about the increased concentration in the market for feeder cattle within Central NSW and Victoria. Swift would become the single largest buyer in the market with the major abattoirs owning over 50% of the meat processing in Australia. Brazilian interests will also have two director representatives on the MLA Board.

[1] MISP 2010.

The ACCC suggests the proposed acquisition could have the effect of forcing down or otherwise distorting prices for both feeder cattle and fat cattle.[1]

A recent opinion piece in the Land newspaper stated that:

> *"Last month, the Brazilian Government announced that, through its Development Bank, it will provide $US54 billion to its farmers in low interest rate loans this year…Brazil's Government Bank is also funding the JBS Swift and the Marfrig expansion in the US and Australia to the tune of more than $3 billion."*

Objective

- To encourage increased competition for beef throughout the supply chain from the abattoir to retail store.

Method

1. Strengthen the power of FIRB to protect foreign acquisition of key Australian productive assets by enabling FIRB to take into account the financial assistance and government subsidised finance received by foreign acquirers.

2. Strengthen the power of the ACCC "antitrust" provisions, including powers to prevent oligopoly control of the meat processing and meat supply chain sector.

3. Strengthen State Government legislation to ensure that local government planning laws cannot be used to restrict competition by precluding new supermarkets from opening in the vicinity of existing major supermarket outlets.

4. Allow a reasonable amount of cut-throat competition for the transport and railway industries.

5. Encourage competition in the banking sector including the introduction of a rural and regional development bank in accordance with Strategy 4.

6. Decrease Government influenced costs and charges to the transport and meat processing industries to ensure the viability of existing businesses.

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[1] ACCC, Statement of Issues - Swift Australia Pty Ltd - proposed acquisition of Rockdale Beef Pty Ltd (24 June 2010).

Strategy 2 – Reduce Beef Industry Costs

The 2001 SG Heilbron report into the impact of Government on the Red Meat Industry's Competitiveness found that Australian Governments collectively (Commonwealth, State and Local) are unwittingly working against rather than for the beef and sheep meat industries.[1]

The Report concluded that the failure to halt, and reverse, the increase in government influenced costs and charges must inevitably contribute to the long-term decline of Australia's livestock industries.

Objective

- To reduce the uncompetitive burden of Government influenced costs and charges from the Australian beef industry.
- To improve rail and road transport competition.

Method

1. Obtain the Federal Government's commitment to and pay AQIS Abattoir inspection charges on a public interest (Government Community Service Obligation) and national competition basis and could save beef producers $30 million a year.
2. Abolition (or effective reduction) in AMPC levies as a consequence of abolition of the AMPC (see Strategy 3) which would save $5 million a year.
3. Reduce MLA levies by:
   - shifting research and development into a specialised agricultural RDC funded by Government and dollar for dollar private corporation

1. SG Heilbron Economic and Policy Consulting, *Study on the Impact of Government on Industry Competitiveness*, prepared for MLA February 2001.

contributions on an individual project basis, which could bring about savings on levies of over $20 million;

- limiting MLA functions to core functions based upon cost benefit analysis;
- dispensing with non essential and non-direct outcome projects including those aimed at:
  - enhancing and promoting industry and product integrity;
  - increasing cost efficiency and productivity on and off farm; and
  - building world class skills and innovation capability and sustainability programs.

  This could save up to $30 million a year.

Many exporters also do not believe that they receive cost benefit for the money spent on promotion and export markets (as opposed to the money spent on market access). If the industry dispensed with this promotion it could save between $15 million and $20 million per year.

4. Obtain reductions in payroll tax and other Government influenced industry costs and charges.

5. Consideration could also be given to the Government contribution to NLIS charges on a public interest (Government Community Service Obligation) and national competition basis which currently costs the beef industry about $40 million a year.

Strategy 3 – Industry Organisational Re-Structures

Separate Beef Corporation and Sheep Corporation

Nearly 70% of the national beef cattle herd of 24.8 million head is located in regional areas of Queensland and New South Wales and the majority of Australia's 76.9 million sheep are located in regional areas of New South Wales, Western Australia and Victoria.

The 1996 Australian Meat and Livestock Reform Task Force Report[1] recommended the establishment of two separate non-statutory, non-profit corporations to be established to undertake market services, quality system service and research and development with one of those corporations to represent beef producers and the other to represent sheep producers.

The Australian Meat and Livestock Task Force found that there were substantial differences in stakeholder interests between the beef and sheepmeat sectors, which compete to a significant extent on the domestic meat market.

The 'split-species' option was preferred by the Task Force because it would:

- avoid cross-subsidisation of beef and sheepmeat functions;
- ensure stronger customer and consumer product orientation;
- provide efficiency gains from specialisation and improved accountability and industry ownership;
- provide clearer lines of communication and accountability from market to producer through preventing loss of food type emphasis;
- recognise the reality that sheepmeat and beef compete for market share; and
- allow Australian beef to compete in beef-specific market battles and against competitor industry bodies that are beef industry only focused.

The Report concluded the disadvantages of separate species bodies, including the loss of effectiveness by splitting generic projects and some duplication of marketing representation services, were outweighed by the benefits resulting from greater

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[1] *Australian Meat and Livestock Reform for the Future: Steering Committee and Task Force Report, October 1996.*

organisational focus. This would be particularly true if avenues for functional collaboration between the two bodies were to be encouraged.

Since the MLA was founded in 1998 Australia's sheep population has declined from approximately 170 million to 76 million, whilst our cattle population remains static at 28 million.

The Performance of Our Industry Organisations

The current industry organisational structure (MLA, RMAC, AMPC, ALFA, Livecorp) was set up in the mid 1990s as a consequence of the Australian Meat and Livestock Reform Report (1996) to replace the non-performing predecessors, the AMLC and MRC.

The AMLC and MRC were established in the early 1980s on an initial budget of $14 million per year, which by the mid 1990s had blown out to $138 million. Meanwhile real cattle prices had declined by 20% and domestic beef consumption was declining on a long-term decline rate of 1.7% per year.

The MLA budget was initially $96 million per year but has now blown out to $160 million per year, whilst real cattle prices and domestic beef consumption continue to decline.

The industry organisational structures have not achieved the objectives that they set out to achieve. It is time for a new direction.

MLA Board Structure

In 2002, the Senate Rural and Regional Affairs and Transport Legislation Committee Report on the Australian red meat industry consultative structure and quota allocation was critical of the undemocratic structure of the MLA board and criticised the lack of accountability in respect of payments by RMAC from the Red Meat Industry Reserve Funds to the Peak Councils.

Since that time only piecemeal reforms have been effected.

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

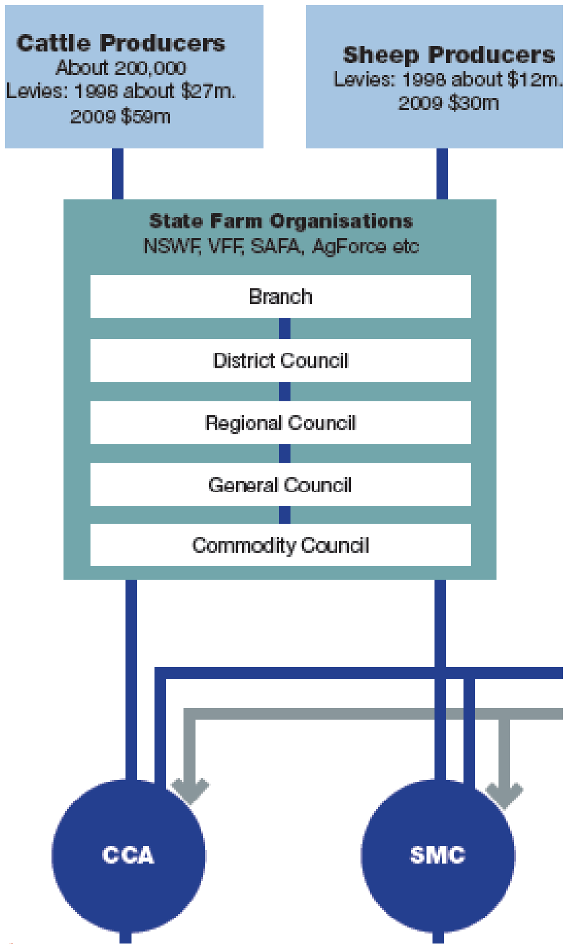
Effective accountability and levy payer ownership structures are particularly important for corporations such as MLA whose levies are exacted compulsorily, and which do not have:

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

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

The report recommended:

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



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

Sufficient alternative accountability and ownership structures should be put in place to ensure that value is provided to, and perceived to be provided to, levy-payers. These structures need to be balanced with the need to preclude disfunctive agri-political activity within the service corporation board structure.

The MLA voting system and board structure should take into account the interests of both the large and small producers and the public interest in the expenditure of statutory monies.

Currently a small number of producers and processors can outvote a huge majority of levy paying MLA members.

Objective

- To establish more efficient research and development, focused on whole of industry benefits.
- To promote accountability in industry organisations.
- To establish a more embracing market information dissemination system.

Method: A Restructured MLA

1. MLA to be split into Sheep Corporation and Beef Corporation with the revamped Beef Corporation only carrying out those collective functions that the free market cannot supply such as:
    - gathering market information;
    - domestic beef promotion; and
    - market access.
2. Voting and board functions to be restructured to ensure effective whole of industry representation with effective avenues for review and change of board. The voting system and board structure must take into account the interests of both the large and the small producers and the public interest in statutory monies.

This can be achieved by establishing a nine member board with:

- three being elected by the PIC "one member - one vote'" register;
- three being elected by the PIC weighted vote register (weighted relative to levy contributions);
- the other three members being special qualified directors,[1] at least initially, appointed by the government with expertise and experience not related to the beef industry in areas such as marketing, governance, market access etc; [2]
- the special qualification directors thereafter appointed by the Board on the basis of experience needed, subject always to the approval of the Government; and/or
- a requirement that at least one director elected from each of the two Registers also be a special qualification director.

4. Ensure every PIC holder is entitled to vote without any requirement or further voting registration.

5. Require a majority vote from both PIC registers in order to establish or change to the levy rate.

6. Establish a meaningful nomination and election process for directors through:

    a) a facility to bypass the requirement for endorsement by the Selection Committee[3] where a nominee has the primary support of:

        i) at least 5% of the votes that may be cast at a general meeting; or
        ii) at least 400 members who are entitled to vote at a general meeting;

    and/or

[1] As recommended in the 1996 Task Force Report. See eg p125.
[2] Government involvement was also recommended in the above report. See eg p113.
[3] See MLA Articles of Association Art 4.1(o)(2), 5.

b) a requirement that at least two nominees be proposed by the selection committee for any vacant position.[1]

7. Conduct independent cost/benefit reviews of all major current initiatives. Any initiative which provides no significant benefit to the industry to be abandoned.

Method: Market Access

1. Market Access and trade facilitation on a needs/opportunity basis only.

2. No product marketing or expenditure on sale facilitation for the export market.

Method: Disband RMAC

The 2002 Senate Rural and Regional Affairs and Transport Legislation Committee Report on the meat industry consultative structure, found that the existing RMAC structure inhibits its capacity to effectively represent the whole of industry. It recommended RMAC's reform or the establishment of an alternative industry advisory structure.

RMAC was established under the *Australian Meat and Live-Stock Industry Act 1997* and pursuant to a memorandum of understanding (MOU) signed in 1998 between certain "Peak Industry Councils".

Divergent Interests Among the Peak Councils

Under the MOU, RMAC and its members have a broad responsibility to represent the interests of the entire industry. Peak Councils represented on RMAC are required to consult with, and represent, the views of organisations, companies and individuals outside their own membership.

[1] See eg., Rural and Regional Affairs and Transport Legislation Committee, *The Australian red meat industry consultative structure and quota allocation*, Second Report, December 2002 2.38-2.42.

In other words, the Peak Councils' role on RMAC requires they represent the interests of the industry generally, whereas in their ordinary capacity as Peak Councils they represent the views of their members only.

It is unrealistic to assume these organisations will set aside the interests of their particular members when voting on RMAC resolutions.

It is further unadvisable that representatives from diverse agricultural and political organisations, representing a multitude of interest groups (including butchers, retailers, brokers, livestock exporters, feedlotters, and sheep and cattle farmers), should each deliberate on issues concerning the others.

RMAC is often required to resolve contentious issues involving the legitimate and competing vested interests of producers of beef and sheep meat, such as the allocation of quota.

An advisory structure such as RMAC is at best able to arrive at a consensus compromise position for the whole livestock/red meat industry rather than a best outcome for the beef industry. But where an industry-wide compromise is not possible RMAC is fundamentally incapable of representing the interests of its diverse members.[1]

Divergent Interests Within the Peak Councils

The current make-up of the RMAC board does not easily accommodate cross-sectoral interests within the Peak Councils invited to participate in the MOU.

For example, the Senate inquiry report[2] made reference to the divergent interests of the Cattle Council of Australia (CCA), a producer association and a member of RMAC, and the Australian Branded Beef Association, which is engaged in the production and processing of branded beef but must rely on the CCA in order to gain representation in RMAC.

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[1] Hunt Partners Submission to the Rural and Regional Affairs and Legislation and Transport Senate Committee's Report 2004.

[2] Rural and Regional Affairs and Legislation and Transport Senate Committee Report 03-04.

“Nothing in the [MOU] could or should preclude the Minister from considering the legitimate interests of all members of the industry, and taking into account the advice of his Department and the interests of the nation as a whole. However RMAC endeavors to assume the position of principal adviser to the Minister on these issues. The approach taken by the RMAC attempts to effectively impose a compulsory unionism requirement on members of the industry to become members of the existing peak councils if they wish to have their voices heard by government.”[1]

This monopoly perception is enhanced by the restrictions on membership of RMAC. An organisation may gain membership to RMAC only by invitation of the recognised Peak Councils. It is telling of the exclusive character of RMAC that no industry organisation has been permitted to become a signatory to the MOU in this manner.

Static Structure

The red meat industry, like any other industry, is dynamic and factors such as consumer attitudes, international trade arrangements, and technological development will continue to have an impact on the industry’s performance.

In the Senate Committee’s view, it was inevitable that this constant process of change would place pressure on the industry’s institutional arrangements. Current peak bodies may decline, and new bodies emerge to represent new market interests, or new perceptions of existing market interests.

The orgnisational structure of RMAC imposes a static consultative structure which leads to consensus compromise decisions that rarely represent the best outcome for the industry.

Result

RMAC is structurally ill-equipped and lacking in the necessary resources and technical skills to operate effectively as an advisory body to the Minister.

Therefore, the following steps should be taken:

[1] Submission 29 to the Senate Inquiry, letter of Wednesday 19 June 2002, p 2.

1. RMAC to be disbanded with agri-political activity to be conducted by self funded peak councils or “for the purpose groups” from each sector pursuing their own sectorial commercial interests.

2. The Reserve Fund to be transferred to a reconstituted Beef Corporation and Sheep Corporation apportioned on the basis of the last five (5) years levy contributions.

The RMAC board is now advertising for an independent chair because of difficulties that RMAC has in reaching consensus position because of the commercial conflict of interest with the various Peak Councils that constitute the RMAC board.

Method: Establish a Beef Industry Analysis and Information Panel

1. KPI benchmarking should be carried out by an independent body rather than allowing the Service Corporations to mark their own scorecard.

2. Market research and information analysis and dissemination should be carried out by a Beef Industry Analysis and Information Panel made up of representatives from ABARE, ABS, DAFF and appointees from industry to:

   - assess and report on Beef Corporation’s and R&D Corporation’s KPIs;
   - analyse and disseminate market information to industry and government on a needs basis; and
   - furnish half-yearly and yearly reports to industry on KPI performance and industry issues including reports on minority and dissenting views.

3. The Beef Industry Analysis and Information Panel to be the disseminator of information, marketing and R&D Corporation performance to the industry rather than the marketing and research corporation.

4. The Beef Industry Analysis and Information Panel are to be funded by levies. Based on current MLA expenditure, the budget for the Beef Industry Analysis and Information Panel should be little more than $3 million per annum.

Examples of the present market failure of information provision to stakeholders are:

- flaws in the EYCI analysis arising from saleyard self promotion of high prices, and the decline in percentage of good trade cattle being sold through saleyards including MSA quality cattle;
- retrospective alteration by MLA of per capita beef consumption figures to justify MLA expenditure on MSA and domestic marketing;
- failure to provide information on the percentage and kilo fall in per capita beef consumption (which has been replaced lately by dissemination of figures on the increase in beef retail prices); and
- failure to disseminate relevant information such as the levy cost per beef slaughtered (approximately $9.80 a head per year) and the overall decline in real cattle prices.

Method: Wind up the AMPC

Currently the AMPC acts as little more than a conduit for levies paid by processors and deducted from the price paid to producers for their cattle and then passed on in a round robin to the MLA less administrative costs and plant initiated project R&D funds which are transferred to some abattoirs but not others.

Serious governance issues arise as a consequence of the practice of applying part of the AMPC's statutory levies for plant initiated R&D projects.

Method: Transfer Ownership of AUS-MEAT

1. The ownership of AUS-MEAT to be transferred to the new Beef Corporation and Sheep Corporation.
2. The change of ownership of the AUS-MEAT follows naturally as a consequence of the proposed winding up of the AMPC and the splitting of MLA into separate Beef Corporations and Sheep Corporations.

Method: Centralisation of Research and Development

The Productivity Commission is currently undertaking an inquiry into rural R&D including the justification of public investment in rural R&D.

This Plan supports the Cattle Council's submission to that inquiry that Australia's beef cattle producers provide important returns to the government investment in R&D through the provision of low-cost, nutritious and safe food in a sustainable way, providing employment in regional communities and contributing substantially to Australia's exports.

This Plan also supports the Cattle Council's submission that the Government should increase its investment in agricultural R&D because:

- agricultural R&D benefits the economy, environment and society;
- productivity, growth in agriculture has slowed as public investment in R&D has stagnated;
- greater R&D intensity is needed for Australia's agricultural industries to remain internationally competitive; and
- Government investment is required to deliver sufficient levels of R&D.

This Plan does not, however, support Cattle Council's submission that Red Meat Industry rural research and development be carried out through the MLA.

This Strategy proposes:

1. All agricultural research and development to be conducted by an independent rural industry statutory corporation ("RDC") divided into sectorial divisions.

2. Research and development being limited to projects whole of industry benefit funded by Government and private enterprise.

3. No private company or business research and development levy funding to be made available.

4. Increased R&D taxation deductions to be provided to encourage private sector R&D.

5. Levy payers should not be asked to cross-subsidise their competitors research and development projects. Government contributions to private sector research should be limited to private sector/RDC joint venture R&D jointly funded by the government and the individual enterprise.

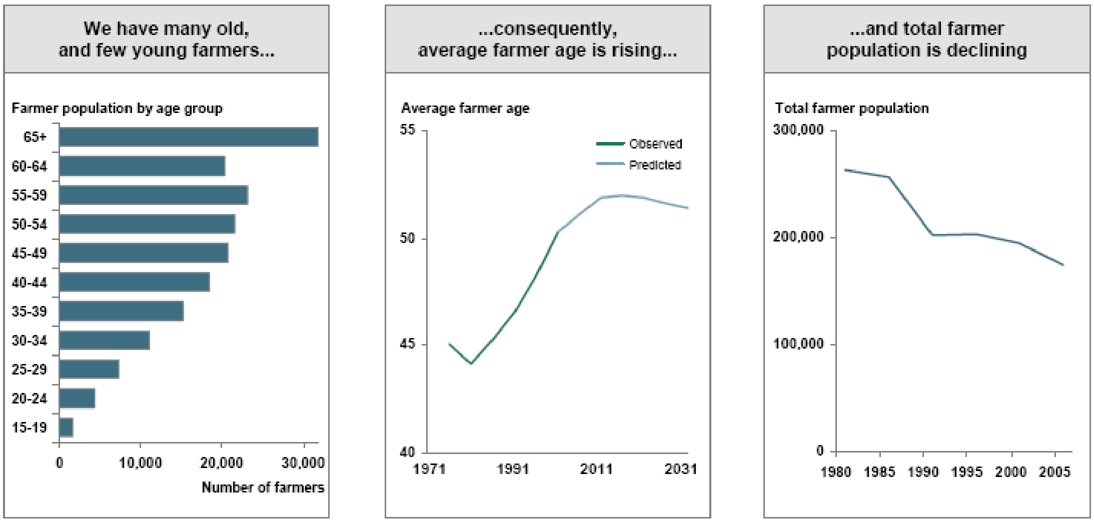
6. The current combining of research and development and marketing in one industry statutory body raises significant governance issues regarding the application of the research and development funding with consequent detrimental outcomes from an industry perspective.

Strategy 4 - Decentralisation

Proposal 1 - Economic and Population Decline of Rural and Regional Australia.

Since 1969, the number of farms in Australia has dropped by almost 25%. The rural workforce has dropped from 430,000 in 1967 to 360,000 in 2008 and abattoirs have lost 40,000 jobs in the last thirty (30) years.

"How (and whether) the next generation takes over farm businesses will shape the future of land ownership and management."



Source: National Land and Water Resources Audit, *Australians and National resource management* (2002); ABS, Census 1981-2006; Department of Primary Industries, Victoria, *The Micro-Dynamics of Change in Australian Agriculture (2004)*. In *Australia 2020 Summit: The Future Of Rural And Regional Australia* (April 2008).

Population Explosion

On current projections there will be 9.2 billion people in the world by 2050 and 11.4 billion by 2065.

Former CSIRO media advisor Julian Cribb concludes in his book *The Coming Famine*, that global demand for food will more than double over the coming half century as we add another 4.7 billion people. Due to this population growth and improving diets in industrialised and third world countries, global demand for food is predicted to double over the coming half-century.

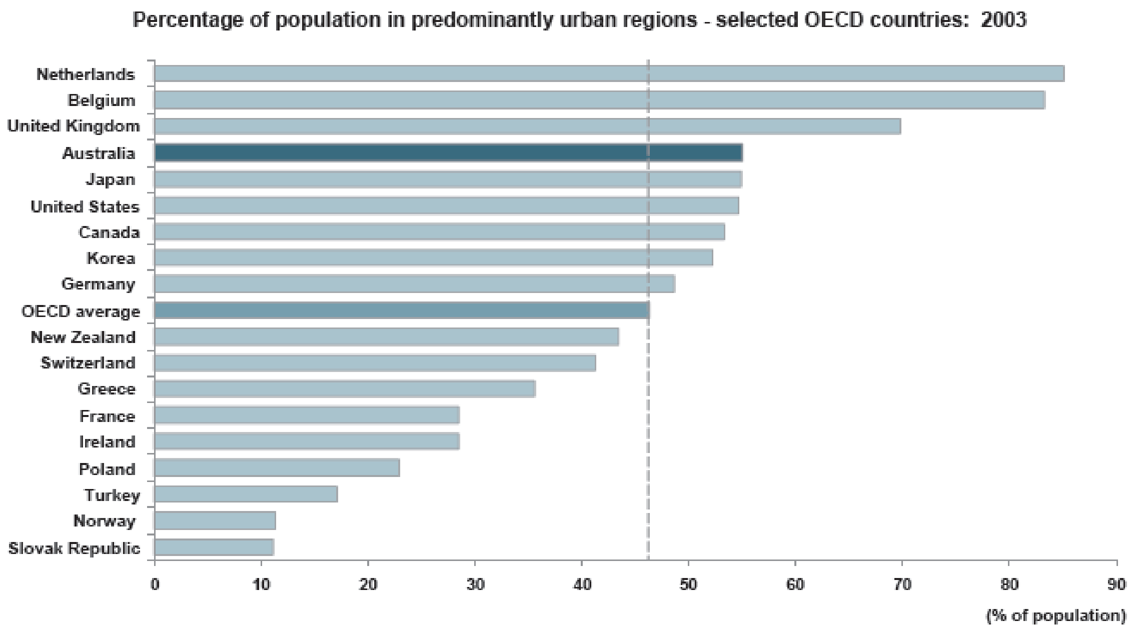
At the same time the world food production system will be increasingly constrained by the demand for land, water and resources generated by the growing urbanised population. The productivity of Australian agriculture must therefore be viewed not only as an economic imperative, but as a matter of national food security.

Putting the People Where they Are Needed

In Australia, the population is forecast to increase to 36 million people by 2050. 75% of Australian's population currently lives on the coast and the population of major cities has increased by over 10%.

Meanwhile the population in rural and regional areas has been declining.

In NSW the population of Sydney has increased by over 10% in the last 10 years with the population in coastal areas increasing by an extraordinary 60% while the population of rural regional NSW has declined by about 20%.



Source: OECD, *OECD Regions at a Glance:* 2007

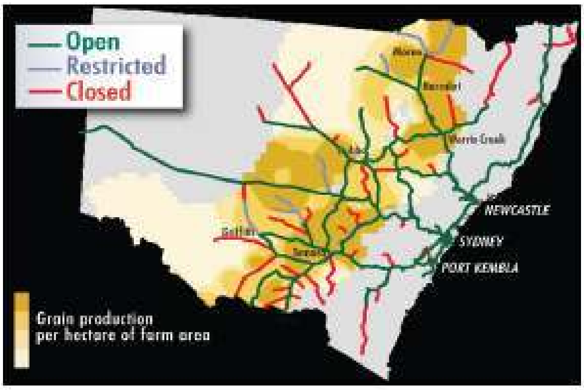
Fresh produce agricultural land at the fringe of the cities has been eaten up by the continuing urban sprawl. The cost of providing infrastructure for an ever increasing city population far outweighs the cost of providing infrastructure in country towns and regional centres to accommodate the projected increase in Australia's population. The decline in key rural and regional infrastructure provision should be reversed.

Rail infrastructure investment lags increased agricultural yields

"Most of the present regional road and rail network infrastructure has been based on the production levels of some 30 or 40 years ago, or roughly half the current required capacity."[1]

"Over the past 25 years, the NSW rail network has been rationalised with the closure of 17 restricted lines."[2]

Rail infrastructure in grain producing regions of NSW



Sources: 1. AWB, *submission to the House of Representatives Standing Committee on Transport and Regional Services (2007)* 2. NSW Farmers' Association, (March 2008).

Regional areas need increased population to provide the workforce to meet the increased food production which will be required as Australia's and the world's population increases. It would be more cost-effective to locate immigrants to Australia into housing in rural and regional Australia than in the cities.

Objective

- To halt the decline of rural and regional Australia and provide the population, workforce and infrastructure necessary for the beef industry and other rural industries to produce the food necessary to support an increasing Australian and global population.

- To form a coalition of producers, agricultural and mining industries, rural businesses and Shire Councils to develop policy and influence Government to encourage infrastructure investment and reverse the population decline in rural and regional Australia.

- To encourage the development of regional Australia on a common catchment/common interest area basis.

Method: Decentralisation Incentives

1. Provide incentives for businesses to continue to operate in and to relocate to rural and regional areas by introducing, for example:
   - taxation zones in rural and regional Australia;
   - payroll and stamp duty relief for businesses in rural and regional Australia;
   - government incentive grants for the relocation of businesses into rural and regional Australia.
2. Provide the infrastructure necessary for growth in rural and regional areas by:
   - improving rural and regional township water supplies;
   - Improving regional road and rail transport infrastructure; and
   - relocating rural and regional department and statutory body offices and personnel to rural and regional Australia.

The Success of Enterprise Zone Programs

The June 2003 Cost Benefit Analysis of California's Enterprise Zone Program prepared by Applied Development Economics in association with Ted K Bradshaw PhD found that the State of California's Enterprise Zones, which included selected tax credits and deductions with business retention and expansion goals in geographic areas of California, coupled with business attraction programs and help for low income residents, provided a cumulative net benefit to the State of California in the years between 1992 and 2002 (inclusive) estimated at $1.7 billion dollars.[1]

The evaluation of California's Enterprise Zones carried out by Roger Dunstan (the Assistant Director for the California Research Bureau) and Susan O'Keefe PhD (Faculty Member of the US School of Policy Planning and Development) in 2001 found that during the 1990s employment in the Californian Enterprise Zones grew at

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[1] Susan O'Keefe and Roger Dunstan, *Evaluation of California's Enterprise Zones*, August 2001.

an average of twice the rate of control areas studied for a several year period when the tax incentives had their maximum effect. For zones created during the late 1980s this high employment growth occurred during the early 1990s even though the state was in severe recession.

The 2001 Enterprise Zones study undertaken by Dr Ian Manning from the National Institute of Economic and Industry Research on behalf of the Institute of Chartered Accountants in Australia and the Local Government and Shires Association of NSW found that compared to the USA, Australia lacked programs which:

- encouraged and resourced regional governments to prepare regional development strategies and again community ownership of the strategies; and
- provided resources to underpin job creation through the private sector.

The Manning Report refuted the popular conception that the USA was a haven of laissez faire with respect to regional policy and noted that the considerable economic achievements in the USA including the invention and spread of the knowledge model of industry organisation had been accomplished in the context of high levels of government economic intervention. It is noted that the Australian "hands off" approach to a regional economic development policy could not be supported by appeal to American practice. The Manning Report noted that in Australia, the Commonwealth directly matched only two of nearly fifty US programs relevant to regional business development. The Manning Report also noted that if the Commonwealth were to initiate limited enterprise zone programs restricted to disadvantaged and economically distressed regions, the following gaps in its program coverage would become acute:

- the lack of programs to provide loan guarantees and venture capital for small and medium business for local government;
- the lack of grants for local economic development planning, investment attraction, business development and community development; and
- lack of assistance with business development.

The Manning Report made sixteen (16) recommendations including the creation of enterprise zones to encourage the introduction of new industry and the expansion of existing industry in underperforming areas are set out in detail in Appendix B.

Method: Establish a Rural and Regional Development Bank

1. Establish a rural and regional development bank along the lines of the old Commonwealth Development Bank to provide development finance for new and existing Australian businesses in rural and regional Australia at global competitive interest rates.

2. The Development Bank is to provide loans to persons and business enterprises engaged in primary and secondary industry where, in the opinion of the Bank, such financial assistance will result in an increase in productivity and is not otherwise available on suitable and reasonable terms.

3. The proposed Development Bank would be Government guaranteed and therefore triple A rated which would allow it to borrow at least half a percent below the Major Bank's AA rating borrow rate.

4. It is also proposed that the Development Bank would be essentially a non-profit bank which should also reduce interest rates.

5. The essential purpose of the Development Bank is to provide rural and regional Australia with access to finance.

Appendix A

Armidale Forum 27 February 2010 Resolutions

RESOLUTION 1

This forum calls on the Federal Government to reverse its decision to allow imports of beef into Australia from countries affected by BSE.

RESOLUTION 2

This forum supports the introduction of a National Beef Grading Scheme.

RESOLUTION 3

This forum calls on the Federal Government to establish an independent review/inquiry into the governance and operations of RMAC, MLA and AMPC.

RESOLUTION 4

This forum calls for relief from levy payments, AQIS charges and NLIS fees while the investigations into, and review of, the statutory organisations and the burden of government charges are being conducted.

RESOLUTION 5

This forum calls on the Federal Government to establish an independent review of the uncompetitive burden of government influenced costs and charges on the beef industry.

RESOLUTION 6

That all Australian beef be clearly labelled 100% Australian Beef.

RESOLUTION 7

This meeting urges MLA, RMAC and the Cattle Council to support the Coalition's Private Member's Bill, Food Importation (Bovine Meat Standards) Bill 2010, in Federal Parliament so that that any country which has had a BSE outbreak must:

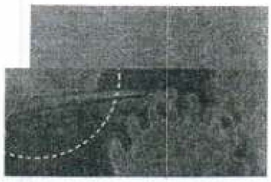
1) have a national animal identification scheme with the same physical ability to trace an individual animal from birth to plate;
2) ensure that a full import risk analysis be undertaken before any beef is imported; and
3) ensure that all imported beef has a country of origin label to give consumers a choice as to whether they eat beef from countries which have had a BSE outbreak.

Appendix B

Recommendations

1. The Commonwealth government, the Australian Local Government Association, the Institute of Chartered Accountants in Australia, the State governments and other relevant business and industry groups should join in a Federal Parliamentary Task Force to develop targeted incentives for regional Australia. This work should be completed by 30 September 2001.
2. The Commonwealth government should recognise the need for policies specifically designed to improve the economic performance of under-performing regional areas.
3. The Commonwealth government should recognise the role of business and private industry in supplying job growth in under-performing regions, and implement policies to assist such industry to develop and prosper.
4. The incentive program should include the creation of Enterprise Zones to encourage the introduction of new industry and the expansion of existing industry in under-performing regional areas.
5. For the purpose of identifying Enterprise Zones, regions should be defined as Local Government Areas, with provision that:
   - regional groupings of LGAs should be encouraged, particularly where LGAs are small in relation to economic regions and
   - possibly, that where a large non-eligible LGA adjoins an eligible LGA, and identifiable parts of the large LGA share the disadvantaged status of the eligible LGA, those parts may be considered for inclusion in the enterprise zone.
6. Declaration as an Enterprise Zone should be available to regions which are experiencing economic distress, particularly high unemployment. Eligibility for enterprise zone assistance should be based on objective criteria of disadvantage which should include:
   - high unemployment rates, calculated by a broader measure than the standard ABS labour force survey definition, and including allowance for persons working noticeably shorter hours than they would wish and persons not actively looking for work, but who are anxious to join the workforce, including early retirees;
   - either as part of the unemployment measure, or separately, allowance should be made for the number of social security claimants likely to be affected by the government's 'mutual obligation' requirements, including persons in work-for-the-dole schemes; while
   - consideration may be given to low rural land values per farm property as a supplementary indicator in rural areas (defined as those with a high proportion of rural production in GRP) and
   - consideration may also be given to favouring areas with significant production in export industries organised on small-business lines (on the grounds that returns to an Enterprise Zone program are likely to be unusually high in such areas).

It is noticeable that, in Australia, the Commonwealth directly matches only two of nearly fifty US programs relevant to regional business development: the export development program and the indigenous land purchase program.



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Recommendations

7. Regional commitment to an economic development strategy plan should be mandatory for selection as an Enterprise Zone. These strategies and/or plans may require further development following declaration, and should be updated regularly. Provided that it is consonant with the general aims of the enterprise zone program, the development plan may identify particular industries and particular types of investment for support. All incentives offered in the Enterprise Zone should support the development strategy, with particular attention to reducing investment risk.

8. Enterprise Zones should be financed by the Commonwealth but implemented by state and local governments, subject to Commonwealth guidelines.

9. Each Enterprise Zone should provide strong incentives to job generation and to investment which is expected to result in job generation, but there should be flexibility for regions to select from a range of acceptable measures and within a broad financial envelope. The merits of providing incentives as tax incentives available only in Enterprise Zones should be considered as an alternative to budgetary expenditures.

10. Investment incentives in Enterprise Zones should be guaranteed to remain in place for sufficient time to have a full incentive effect, ie for at least ten years and preferably 15.

11. Financial intermediaries should be required to report their investments by region, and should receive incentives (and perhaps regulation) to invest in Enterprise Zones, subject to these investments meeting commercial requirements.

12. Wage subsidies should be a permissible form of expenditure in Enterprise Zones. However, they should only be a compulsory component if adopted by the Commonwealth as an adjunct to its social security policies, and then only if the Commonwealth elects to provide them through the enterprise zone program rather than as an independent program. Job generation should, however, be a major aim of regional development strategies, and should be included as a criterion in the assessment of plans and hence the selection of regions to become Enterprise Zones.

13. There should be provision for increased priority for infrastructure projects in enterprise zones, at least as regards infrastructure identified as essential for plan success.

14. The development of community colleges and similar educational, research and technology diffusion institutions should form a part of the development plan and of the program in each enterprise zone.

15. Each enterprise zone should be monitored under Commonwealth guidelines. The Zone administration should report on assistance granted and compliance with the conditions under which assistance was granted.

16. When the enterprise zone program is implemented, Zone Rebates should continue to be provided in the income tax system, but the boundaries of the regions of eligibility should be reviewed.