



SUBMISSION

SUBMISSION TO

**THE SENATE STANDING COMMITTEE ON
RURAL & REGIONAL AFFAIRS & TRANSPORT**

IN RESPONSE TO

**AN INVITATION TO PROVIDE A REFERENCE ON
'INDUSTRY STRUCTURES' AND SYSTEMS
GOVERNING THE IMPOSITION AND
DISBURSEMENT OF MARKETING AND
RESEARCH AND DEVELOPMENT (R&D) LEVIES
IN THE AGRICULTUREAL SECTOR**

November 2014

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ABOUT THE AUSTRALIAN MEAT INDUSTRY COUNCIL

The red meat sector is Australia's No.1 agricultural enterprise and a significant contributor to the Australian economy representing over \$16.2 billion in gross domestic product, or 1.3% of total GDP and \$7.6 billion in household income in 2010.

It underpins more than 148,000 full-time employment positions (FTE's) across all sectors of the economy. The red meat processing sector however faces growing internal and external challenges placing increased pressure on its long-term ability to compete in an uncertain global marketplace.

The Australian Meat Industry Council (AMIC) is the recognised Peak Industry body in Australia representing the post-farm gate red meat sector including the export and domestic meat processing industry, smallgoods manufacturers, wholesalers, distributors, boning rooms and independent retail butchers.

Around 92% of livestock turnoff in Australia is processed in businesses located in Australia. AMIC represents close to 2,000 member companies across Australia.

AMIC provides services and support to members that improves their working environment and is focused on achieving the best outcomes for the industry and its members as part of one voice on issues critical to their business. In doing this AMIC also indirectly supports the Australian farming community and the Australian economy.

2. Introduction

The Australian Meat Industry Council (AMIC), on behalf of the red meat processing and export sector welcomes the opportunity to make the following comments on industry structures and systems governing the Imposition and disbursement of marketing and research and development levies in the agricultural sector. The red meat processing industry is one of Australia's largest food processing sectors.

AMIC's submission should be read in conjunction with the submission from the Australian Meat Processor Corporation (AMPC).

The relationship with government is a very important one. Both State and Federal Government should provide the framework for identifying and co-ordinating policy settings, legislation, operational activities, compliance and reporting activities for organisations and individual entities in Australia's food sector. Its scope should cover all inputs and outputs from paddock to plate.

Government should however seek to minimise the regulatory burden by avoiding duplication between regulatory jurisdictions. It should be able to recognise commercially driven verification activities conducted within national audit frameworks as being suitable alternatives for direct regulatory verification involvement.

Importantly, the relationship should reflect an Australian food supply chain-government partnership which clearly articulates outcomes-focused expectations to be delivered by industry (and other non-government entities) versus the specific role for government involvement in identified areas where industry cannot act on its own behalf. R&D is certainly one of these.

Recent decisions by General Motors Holden, Ford and now Toyota to cease production of motorcars in Australia plus the recent application by SPC Ardmona to the government for financial assistance in order to stay viable, highlights the delicate nature of manufacturing in Australia at present. The Australian food and beverage industry is increasingly left as the main player in this dwindling segment of the Australian economy with the red meat processing sector now arguably the largest trade-exposed manufacturing sector in Australia.

The red meat industry exports close to 70% of its total production so is very trade exposed. In 2013 we saw record beef and veal exports of 1.1 million tonnes (shipped weight) and over 420,000 tonnes of sheep and goat meat in the same year. In addition were shipments of offal, meat and bonemeal, tallow, hides and skins amounting to an additional 400, 000 tonnes.

Based on 2009-10 data and with flow-on (multiplier) effects taken into consideration, the most recent research suggests the red meat industry contributes \$16.2 billion in gross domestic product to the Australian economy, or 1.3% of total GDP, \$7.6 billion in household income and underpins more than 148,000 full-time employment (FTE) jobs across all sectors of the economy, many in rural Australia.

3. The Cost of Compliance

The Australian economy remains a high cost environment to operate labour intensive manufacturing facilities and the meat industry is not immune. Our processing costs are twice those of our competitors in South America and the US.

Despite these disadvantages the Australian red meat industry remains globally competitive because of a comparative advantage in the production of red meat that draws heavily on our expansive pastoral lands, our premier health and hygiene status around the world and the whole of life traceability systems that exist in Australia that few global competitors can match. In addition the quality, variety and shelf-life of Australian product is the envy of many.

The quest to lower costs has also encouraged the adoption of the latest technology in our processing facilities. Together with the entrepreneurial skills and professionalism of our export sector and their ability to provide a consistent customised product year round to over 100 countries, it still sees Australia as one of the world's market leaders in red meat exports, despite our high cost environment. This position has not been achieved without significant sacrifice, considerable cost and ongoing rationalisation of plant and equipment over the last 3 decades.

As a high volume, low margin business however, driving down costs has always been essential to sustainability. A small difference in operating costs over a full year of high volume production can be crippling to the bottom line. The red meat processing sector continues to face significant pressure in maintaining its productive base in Australia. Wage increases without productivity offsets, increasing government charges, soaring utility costs and until recently an exchange rate at record levels to the US, have all acted to reduce competitiveness.

The opportunities afforded the Australian red meat industry in Asia, especially China over the next three decades, will not be realised unless we can increase productivity to remain competitive in growing markets. Growth in productivity through research and innovation will be an essential part of this. Productivity will define the future success of the Australian red meat industry.

The return by the previous Labor government to full cost-recovery for government inspection services and export certification has meant the industry is now faced with an annual bill exceeding A\$82 million a year and rising in order to raise a health certificate for each shipment. These are not costs faced by our major competitors such as the United States and Brazil, because their governments see inspection costs as a community benefit and therefore a legitimate cost of Government.. It is often impossible to build these costs into the meat customer's pricing meaning they inevitably are borne back through the chain in reduced margins at both the processor and livestock producer level. undermining their ability to remain competitive. Without livestock producers, processors don't have a business. The cost of compliance in Australia continues to be a major issue for the sector.

4. Our Export Dependence

Maximizing the value of our exports by having strong, internationally competitive processing capacity is extremely important to the meat processing sector. Export

markets allow business in Australia to develop scale economies to help offset the high domestic costs of production but market access then becomes essential if we are to leverage those economies.

5. Investment Certainty

Government policies that reduce the cost of doing business and provide targeted cost effective incentives for innovation and investment certainty in the medium to long term are essential. Securing growth and enhancing international competitiveness remain substantial challenges for the sector in the face of increasing costs of compliance, rising Government charges, energy and labour costs. The red meat industry is a major employer in rural and regional Australia but can still produce a quality product that is globally competitive. A strong and expanding meat processing sector in Australia will have flow on effects to other parts of the supply chain especially farmers.

6. Research & Development (R&D)

While it is growth in the productivity of the Australian food industries that ensures they remain internationally competitive, it is on-going investment in the R&D that underpins such productivity and remains one of, if not the, rate-limiting factor for progress. Ongoing industry and government investment in food production and processing research therefore has a large role to play in both industry competitiveness and our capacity to sustain food that is “profitable to produce and affordable to buy”. Traditionally red meat processing operates at 1%-3% margins against a set of tightly controlled cost-plus parameters.

Ongoing innovation is essential to ensure the sector is sustainable and globally competitive in terms of productivity (processing automation & sensing, manual assist), environmental sustainability (emissions, water and waste), research and technical capability, food safety systems, technical market access barriers and processing interventions to enhance product value. Australia has a global market opportunity to utilise innovation and marketing to drive value retention and industry growth. Government needs to understand the specific needs of the red meat processing sector when tailoring its R&D programs

7. Protecting Our Biosecurity Status

Australia remains free from many pests and diseases that affect agriculture. This favourable biosecurity status confers significant economic, environmental and community benefits and safeguards on what matters most - Australia’s people, environment and businesses.

Government and industry development of state-based biosecurity strategies, as well as collaborative planning and investment provided through the National Primary Industries Research Development & Extension (RD&E) Framework, will be critical in identifying, prioritising and sustaining continued investment in biosecurity systems and programs. This is of particular importance to the red meat processing sector, especially given the scope of its geographic coverage and the fact its producer stakeholders are often “first responders” in terms of surveillance and reporting in some of the country’s most remote areas.

In underpinning our biosecurity status, a strengthened on-farm risk management system is essential including a whole of chain risk management approach encompassing producers, saleyards, feedlots, transporters, live exports and meat processors. To maintain Australia's world's best practice ideals, the industry and government must continue to work together to develop stringent standards and systems designed to ensure the safety, integrity and traceability of our meat products remains unchallenged.

A number of these systems, including: National Vendor Declarations (NVDs), Livestock Production Assurance (LPA) and the Livestock Identification System (NLIS) have continually adapted to meet the emerging requirements of industry, customers and government. That review process has to be maintained to ensure these systems continue to meet the increasing demands that industry is likely to encounter in the future. Government needs to ensure they are adequately funded either directly or through industry levies. Strengthened industry assurance programs and improved integration throughout the supply chain with a sustainable funding model to ensure the effectiveness of the system into the future is a priority.

8. Response to Inquiry Terms of Reference

As indicated earlier, this submission should be reviewed in association with the submission from the Australian Meat Processor Corporation (AMPC) whose responsibility it is to deliver R&D programs to the meat processing sector in Australia. In addressing the specific terms of reference for the Inquiry we provide the following comments:

8.1 The basis upon which levies are imposed, collected and used

The red meat slaughter levies are defined under the Australian Meat and Livestock Industry Act 1977 which defines the amount paid to the meat processor 'marketing' body (64C) and the meat processor 'research' body (64D). Levies on livestock (cattle, bobby calves, sheep, lambs and goats) slaughter are payable by processors for each animal slaughtered at an abattoir for human consumption. The Primary Industry's Levies and Charges Collection Act 1991 gives the Department of Agriculture (Levies Revenue Service) an authorisation to collect the levies from processors or collected levies that then forward them onto the AMPC. Those red meat processor levies are strategically invested in research development, extension and marketing programs by the AMPC. They enter into extensive dialogue with members as part of an ongoing process facilitated by direct engagement in a series of face to face AMPC network meetings and training events that are regularly held throughout Australia.

8.2 Competing pressures for finite R&D funds

While it is growth in the productivity of the Australian food industries that ensures they remain internationally competitive, it is on-going investment in the R&D that underpins such productivity and remains one of, if not a rate-limiting factor for progress. Ongoing industry and government investment in food production and processing research therefore has a large role to play in

both industry competitiveness and our capacity to sustain food that is "profitable to produce and affordable to buy". Traditionally red meat processing operates at 1%-3% margins against a set of tightly controlled cost-plus parameters. The risk/reward balance is not as attractive for R&D in the red meat processing sector, as it may be in other sectors, because of the small margins industry has to fund innovation from. Government needs to understand the specific needs of the red meat processing sector when tailoring R&D programs.

8.3 Opportunities for levy payers to influence the investment of levies

AMIC and AMPC operate transparent management processes that allow for member input into the composition of the core processing R&D program. AMIC invites all members to provide input on R&D issues through regular face to face State and National meetings and its strong Committee process.

For each of the five (5) core programs operated by AMPC there is an associated Program Advisory Committee (PAC). Each PAC is composed of approximately ten (10) representatives from member companies. PAC members are nominated and selected based on their skill set for the particular committee in question. The PAC is chaired by an AMPC Board member and facilitated by an AMPC program manager. The process of defining the program portfolio for levy investment is set out in the AMPC submission.

In addition to the abovementioned process, AMPC invests in an active and effective member and stakeholder engagement and extension program. In accordance with the Memorandum of Understanding (MoU), AMPC engages on a regular and consistent basis with the Australian Meat Industry Council (AMIC), as the peak industry body. Through representation of industry members on both the AMPC Board and on AMIC's Australian Processor Council (APC) there is a strong alignment in the interests of members with the investment of levies. The AMPC Board itself has strong member representation across both company size and species.

8.4 Opportunities for levy payers to approve and re-approve the imposition of levies

All red meat processor levy payers are eligible for membership of AMPC free of charge. As a member, levy payers have the opportunity to participate in the election of AMPC Directors. Elections are conducted by the Australian Electoral Commission every second year as per the AMPC Constitution. The AMPC Board consists of seven (7) processor directors and two (2) special qualification directors. The 7 processor directors represent companies that process over 75% of Australia's beef and livestock each year.

Through AMIC, the AMPC Board along with any other levy paying member can request an amendment to levy rates where that is deemed appropriate and consistent with AMPC's strategic plan. AMPC members can also request an increase in the levy rate which can be tabled and considered at every

Annual General Meeting. All members are given the opportunity to vote on the proposal

8.5 The transformation of R&D and marketing into increased returns at the farmgate, including the effectiveness of extension systems

The ultimate value of any R&D in the processing sector that has been financed through socialised levy funding, is how the benefits from that research can be conveyed to the broad cross-section of industry. If implementation of that R&D and the resulting innovation generates increased marginal returns, some of that increased return can flow down the supply chain to the producer in the form of better prices. This is often a difficult process to measure. It should however be an ultimate objective of all R&D. AMIC, together with AMPC, use their various electronic newsletter and social media interaction with members in conjunction with face to face meetings to facilitate that process.

8.6 Collaboration on research to benefit multiple industry and research sectors

AMIC collaborates with stakeholders and research providers across a range of initiatives. Within the red meat processing sector itself, AMIC works with AMPC in reviewing MLA managed joint programs with AMPC providing available funds to the approved MLA managed programs. Collaboration in the joint program includes whole of supply chain areas such as market access, domestic marketing and food safety/product integrity research. AMIC reviews MLA programs in these areas and provides considered advice to AMPC on where socialised levy funds will be best invested to maximise returns to industry.

8.7 Industry governance arrangements, consultation and reporting frameworks

AMIC recognises the value of strong corporate governance through its Board of Directors. Similarly, the Board of AMPC is responsible for corporate governance practice of its own activities and constantly updates its policies and procedures based on both independent advice and its own initiatives.

Conclusion

AMIC is committed to working with stakeholders to achieve an efficient application of levy funds through industry RD&E and marketing activities. This is enhanced by leveraging AMPC investments through close collaboration. AMPC works closely with the Australian Meat Industry Council as the peak industry body on behalf of the red meat processing sector. This relationship ensures that needs and issues identified by AMIC's processing members are considered in research development and extension activities.

*The Australian Meat Industry Council
November 2014*

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