



# **Response to the Senate inquiry into the industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector**

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## Executive summary

In the pioneering days of Australia's history, technology and innovation were used to overcome the obstacles faced by farmers trying to make a living off impoverished soil and very dry land. Since then, we see farmers making use of technology and innovation to remain viable players in a keenly competitive international market, while ensuring the sustainability of their social, economic and biophysical environments. Into the future, rural R&D and marketing will continue to help the agricultural sector meet the challenges associated with the rising cost of agricultural inputs, declining commodity prices, climate change, food security and meeting the increasingly discerning needs of consumers.

The challenges posed for the grain fed cattle sector are symptomatic of those in other Australian agricultural industries. Importantly such challenges are increasing (not decreasing) and the need for rural R&D and marketing are arguably more important into the future than they have ever been in the past. With world food production needing to double between now and 2050 to meet the requirements of a burgeoning population, Australian farmers will be expected to help achieve this goal with less water, less arable land, less fertiliser, a hotter climate and a trend of declining real investment in rural R&D. At the same time it is reasonable to expect that farmers terms of trade will continue to decline meaning productivity and efficiency improvements will be required to ensure farmers remain viable.

The Australian Lot Feeders' Association (ALFA) believes that there is a strong case for Government to play a leading role in ensuring Australian farmers meet these challenges through supporting the continuation of agricultural levy investment into both rural Research and Development (R&D) and marketing. Importantly Government needs to be more (not less) committed to this important sector.

From an R&D perspective, the use of such levies;

- Results in improved productivity and efficiency – a vital outcome given Australian producers are price takers, are affected by cost/ price squeeze trends and receive low levels of Government assistance and protection (yet compete against producers in international markets who are provided significant levels of Government assistance and protection). Council of Rural Research and Development Corporations (CRRDC 2010) research indicates that that every \$1.00 invested through the Rural Research and Development Corporations (RDCs) return (on average) \$10.51 to producers after 25 years;
- Provides considerable spill over benefits to all Australians in the form of such things as cheaper and more nutritious food, emission reductions etc ;
- Addresses the market failure associated with the inability of smaller producers (the vast bulk of Australian farmers) to fund R&D given limited capital raising capacity;
- Helps address the extended lag times between idea development and R&D delivery (again a problem associated with smaller less well funded producers).

From a marketing perspective, the use of such levies;

- Helps address the market failure associated with the inability of smaller producers (the vast bulk of Australian farmers) to market and promote what is largely a homogenous product in both domestic and export markets;
- Provides the ability to secure positive market access outcomes via bilateral, pleurelateral or multilateral trade agreements and for technical trade barriers. For example, the recent windfall gains for the beef industry in the Korean and Japan free Trade Agreements would most probably not have been achieved without the support of Meat and Livestock Australia (MLA) services funded by marketing levies. Moreover, the decline in Government funding towards attaché's in key international markets has meant that industry has had to increase its focus and resources to help address technical trade barriers which have become an increasing issue in agricultural trade. MLA estimate's that they have cost the red meat and livestock sector around \$1.25 billion;

- Provides funding for key industry programs which underpin Australia's international reputation as a producer of 'clean, green and disease free' product. From a beef industry perspective, such programs funded by marketing levies include the Livestock Production Assurance, National Vendor Declaration, National Livestock Identification System and Meat Standards Australia – all of which help maintain and improve our access to various markets. China for example has recently become our third largest beef market on the back of the food safety benefits delivered by these key programs;
- Are directed towards programs to help bridge the city/ country divide. It is clear that whilst consumers have never been more interested in food, they have conversely never been more disconnected with the industry that produces it – agriculture. This has manifested itself into a lack of knowledge and understanding of issues such as animal welfare and the plight of farmers. MLA contributes significant marketing dollars towards programs that aim to educate consumers regarding agricultural practices and activities.

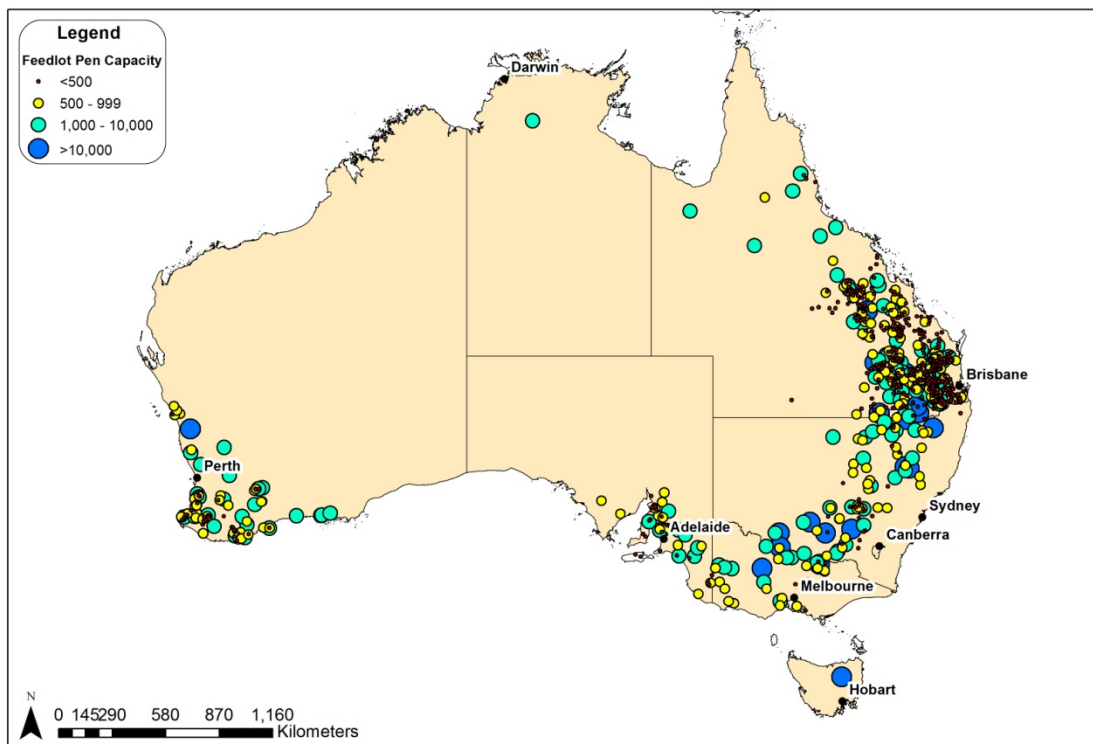
## Background

ALFA as the peak industry body for the cattle feedlot industry appreciates the opportunity to respond to the Senate inquiry into the industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector.

The cattle feedlot industry has a value of production of approximately \$2.7 billion and employs some 9000 people directly and indirectly. Approximately 25% of Australia's total beef supply, 80% of beef sold in domestic supermarkets and the majority of beef industry growth over the last 15 years has been due to the expanding feedlot sector.

There are approximately 400 accredited feedlots in Australia located in areas that are in close proximity to cattle, grain, water and beef processing facilities. The majority of feedlots are located in Queensland followed by NSW, WA and then Victoria and South Australia.

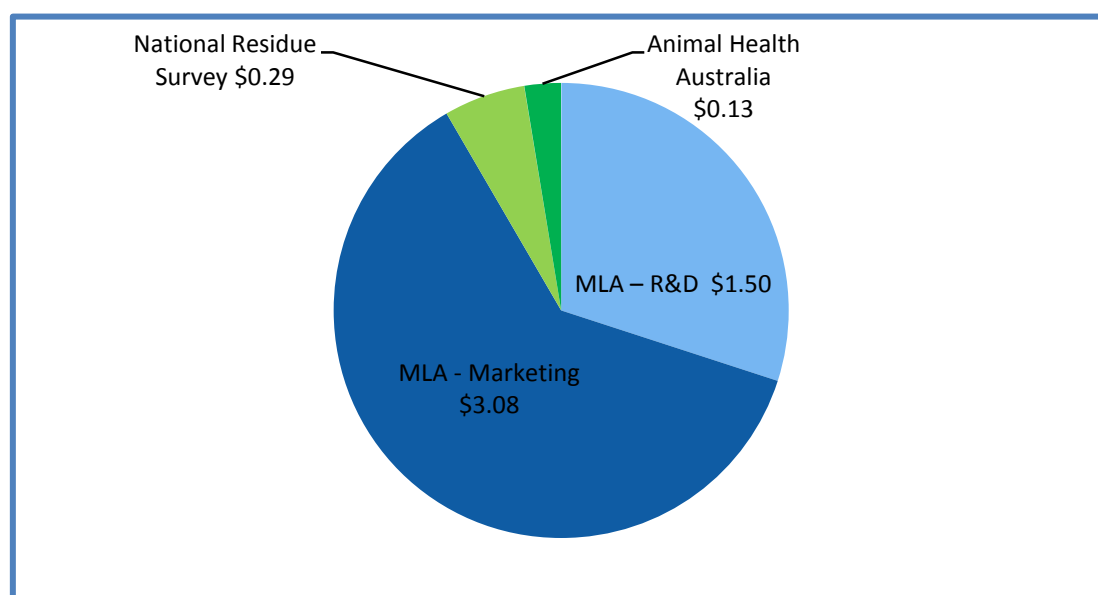
**The location, number and size of feedlots throughout Australia**



Around 98% of feedlots are owned and managed by Australian families. The vast majority are small operators which are vertically integrated with mixed broadacre grazing and cropping operations whilst a small number are vertically integrated with the processing sector.

ALFA as the peak industry body for the cattle feedlot industry, has a direct membership model and hence its members are lot feeders not state farming organisations. Moreover, it represents 82% of accredited feedlot capacity in the sector and accordingly is well placed to consult with its members regarding grain fed cattle levy issues. Notably, such member representation would not have been possible if ALFA did not consult and listen to its members regarding levy and other matters relevant to their businesses.

Among other roles and responsibilities, ALFA has a legislative obligation to determine priorities and activities in relation to the grain fed beef transaction levy in accordance with the *Australian Meat & Livestock Industry Act 1997*. The allocation of the \$5.00 grain fed cattle transaction levy is detailed in the following graph.



Notably, the \$4.58 allocated to Meat & Livestock Australia (MLA) within the grain fed beef transaction levy is different compared to the grass fed beef transaction levy. This is because ALFA is more readily able to adjust levy allocations for R&D and marketing given variances in levy income, reserves and needs. The current differences between the grain fed and grass fed levy allocations is outlined in the following table;

	Grain fed cattle transaction levy	Grass fed cattle transaction levy
R&D	\$1.50	\$0.92
Marketing	\$3.08	\$3.66
NRS	\$0.29	\$0.29
AHA	\$0.13	\$0.13

Notably, the grass and grain fed levy directed towards National Residue Survey (NRS) is amalgamated. Accordingly, any levy change for NRS (and Animal Health Australia (AHA) if the overall \$5 levy total is to remain unaltered) requires a far more exhaustive and onerous consultation process with the larger and more disparate grass fed cattle industry.

## Specific comments in relation to the inquiry

The inquiry terms of reference refer to the following specific matters;

*The industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector, with particular reference to:*

- a. an audit of reports, inquiries and reviews relevant to this inquiry;*
- b. the basis on which levies are imposed, collected and used;*
- c. competing pressures for finite R&D funds;*
- d. the opportunities levy payers have to influence the investment of the levies;*
- e. the opportunities levy payers have to approve and reapprove the imposition of levies;*
- f. the transformation of R&D and marketing into increased returns at the farm gate, including the effectiveness of extension systems;*
- g. collaboration on research to benefit multiple industry and research sectors;*
- h. industry governance arrangements, consultation and reporting frameworks; and*
- i. any other related matter.*

### **a. An audit of reports, inquiries and reviews relevant to this inquiry**

There have been numerous inquiries in regard to the justification and expenditure of agricultural levies over time;

- Productivity Commission inquiry into Rural Research and Development Corporations 2011;
- Senate inquiry into industry structures and systems governing levies on grass-fed cattle.

### **b. The basis on which levies are imposed, collected and used**

Grain fed cattle transaction levies are imposed in accordance with the definition of 'lot fed' as per Clause 1 of Schedule 3 to the *Primary Industries (Excise Levies) Act 1999* ie those cattle "that are, or are likely to be, used in the production of grain fed beef". More will be discussed around this definition later in this submission.

Grain fed cattle transaction levies are collected by the Department of Agriculture's Levies Revenue Service in accordance with the *Primary Industries Levies and Charges Collection Act 1999*. This Act enables collection through intermediaries.

Decisions surrounding the expenditure or use of grain fed cattle transaction levies is undertaken by ALFA in accordance with our responsibilities under the *Australian Meat & Livestock Industry Act 1997*.

From a grain fed cattle R&D levy perspective, the criteria taken into account when assessing priorities for expenditure are as follows;

- The current and future needs of the sector with respect to productivity, animal health, welfare, environment, Biosecurity, extension, adoption, training and research capacity;
- The policy and legislative environment;
- Reserve levels.

From a grain fed cattle marketing levy perspective, the criteria taken into account when assessing priorities for expenditure are as follows;

- Current and future consumer disposable income levels in international markets;
- Current and future population growth;
- Political risk in international markets;
- Market access (eg trade agreements and domestic/ international technical barriers to trade);
- Nutrition trends;

- Cultural factors;
- Competing protein trends;
- Competing countries trends;
- Human resource constraints within service providers;
- Maturity of market supply chains;
- Market size and ability to influence consumption levels;
- Private brand marketing activity by Australian exporters; and
- Reserve levels.

### **ALFA's consultation approach with levy payers**

ALFA has direct membership model, a directly elected board and committee structure; and a transparent and comprehensive consultation approach with the industry. For example, every year ALFA consults with the industry regarding the levy funded activities and budgets for the upcoming financial year. This feedback is then provided to the ALFA Council who uses it as part of its decision making process when it determines the priority areas for grain fed transaction levy expenditure. This annual consultation approach takes the form of both comprehensive surveys and presentations at ALFA's Annual General Meeting where members approve a motion regarding the levy programs and arrangements for the year.

ALFA has determined target reserve levels and closely monitors these for all grain fed cattle levy streams ie R&D, Marketing, AHA and NRS. Levy reserve levels are a factor of income, expenditure and previous year's reserves. Levy income is influenced by uncontrollable issues such as weather and market prices for both inputs and outputs. Levy expenditures are however far more manageable and hence, generally speaking, adjustments to expenditure are undertaken to control such matters.

For R&D and marketing levies, ALFA can additionally manage reserve levels via altering the allocation of the \$4.58 expenditure between these two levy streams. Given ALFA's direct membership model, smaller industry size and the fact it represents 82% of the cattle feedlot sector, we are more readily able to adjust the R&D and marketing levy allocation compared to the grass fed cattle sector. It is for this reason that the grain fed cattle R&D and marketing levy allocations are different to grass fed. Nonetheless, the levy principles and guidelines process makes this a costly and burdensome process.

Regardless, the ability to undertake this step more cost effectively than other sectors enables ALFA to effectively manage R&D and marketing reserve levels and the respective needs of the sector over time.

### **The management of levy expenditure within MLA, AHA and NRS**

As stated previously, ALFA (like other red meat and livestock peak industry bodies) has a legislative obligation to determine priorities and activities in relation to the grain fed beef transaction levy as per the requirements set out in the *Australian Meat & Livestock Industry Act 1997*. ALFA takes this responsibility very seriously and has set up specific committee's to ensure that we prudently manage grain fed levy funded programs and expenditures. Whilst we are a small organisation (3.5 FTE's and 11 Councillors) we have established a reputation for close scrutiny and judicious control of this process.

ALFA organises extension and adoption workshops among the industry on an array of industry matters including R&D and marketing. ALFA has a close working relationship with MLA regarding such workshops with MLA assisting in their funding and organisation.

ALFA has also contracted an extension officer who works closely on the ground with lot feeders regarding animal health, welfare, R&D and Biosecurity matters. The role aims to provide information, education, training and technical services to improve management practices among such lot feeders. It was initiated following the

recognition that small to medium sized feedlot operators have found it increasingly difficult to keep abreast of continual improvements in management practices. ALFA is striving to ensure that capability is being improved across the industry more broadly, rather than just within a narrow band of high achievers. The role is funded by both ALFA and MLA.

MLA has recently committed to implementing a more transparent and accessible national consultation framework through which levy payers can have a say on R&D investment. Whilst this is more relevant for the grass fed beef, sheep and goat sectors, it is applauded nonetheless.

### **Levies for strategic policy development**

ALFA is opposed to the potential direct use of levies by Peak Industry Councils (PIC's) for so called 'strategic policy development' activities for the following reasons;

#### **1. Such action stymies long term structural change**

It is clear that the rationale for securing access to levies is to financially support PIC's. Many PIC's are financially struggling due to the fact that their structures provide limited revenue generating options. In addition, such options are generating declines in funding over time (eg state farming organisation membership along with the Red Meat Advisory Council fund). However, the ability to access levies only serves to encourage PIC's to defer addressing the admittedly difficult but core structural and funding problems that has led to their financial predicament. Government can play a major role in securing much needed long term positive structural change among PIC's by opposing the direct use of levies for such organisations.

#### **2. There is not market failure**

The first requirement within the Levies Principles and Guidelines to secure a new levy is that; *The proposed levy must relate to a function for which there is a **market failure**.* As stated above, the problems with the current financial position of many PIC's is not 'market' failure but 'structural' failure with the latter able to be addressed through the efforts of the peak industry council itself. It is clear that some PIC's need to develop structures that provide improved linkages, transparency, accountability and services for the constituents that they represent. Achievement of this will deliver a more financially viable and effective model. There are examples where PIC structures have delivered upon this goal (the Northern Territory Cattlemen's Association and ALFA are examples) so this challenge is not insurmountable.

#### **3. They create transparency and accountability concerns**

ALFA is concerned that PIC's would be able to access levies without sufficient transparency and accountability to levy payers. For instance, ALFA is concerned that such levies will either be used for industry activities for which they already receive monies (eg the RMAC fund) or that the funds will be utilised for matters outside their primary purpose eg agri-political activities. In addition, given that the members of many PIC's are State Farming Organisations rather than levy payers themselves, levy payers may be financially contributing to such PIC's without their knowledge, without supporting their policies and without being a member.

In short, ALFA believes this may create an environment which may encourage potential inappropriate expenditure of levy funds and consequential problems for the wider industry and Government in future. ALFA also understands that the precedential examples regarding the direct use of levies by PIC's have been problematic and not necessarily a model which should be replicated. For example, US cattle producers have either voiced concerns or are pursuing legal action regarding the use of levy funds by their peak bodies.

#### **4. They lead to conflicts of interest issues**

The ability of PIC's to access levies directly places them in major perceived or actual conflicts of interest. For instance, PIC's have a legislative responsibility to allocate levy funds to programs and activities which provide the most benefit to levy payers. However, PIC directors also have a legislative responsibility to prevent

insolvency within their organisation. These matters may not necessarily be aligned thereby placing such directors in a potential conflict of interest.

#### **5. The use of levies raises questions regarding their validity**

Cattle Council has argued that it should utilise a portion of the current grass fed beef marketing levy allocation. However, utilising this allocation suggests that the marketing levy has been in excess of the needs of the sector. This is a direct contradiction to the public statements issued by PIC's and MLA at both the time the levy was raised from \$3.50/head to \$5.00/head in January 2006, and following an industry wide review in 2010 that the levy be maintained at \$5/head.

#### **6. There are better options**

There are other funding options which provide more transparency, better linkages, levy payer accountability and are more sustainable into the longer term. For example, a direct membership model for PICs and potential industry consolidation need to be considered and explored before levies are directly allocated to PIC's.

#### **7. Promotes inefficiencies over time**

Funding or resourcing of peak councils from a portion of the levy effectively promotes inefficient representation over time. Conversely, voluntary membership models achieve genuine accountability from the organisation in terms transparency, performance and value for money outcomes delivered to members.

### **Regulatory clarification regarding 'grain fed'**

Whilst ALFA is supportive of the levy collation process, we nonetheless believe that regulatory clarification regarding the payment of 'grain fed' cattle transaction levies can occur.

Specifically, ALFA supports legislative amendment within the *Primary Industries (Excise Levies) Act 1999* to provide more clarity surrounding the payment of 'grain fed' cattle transaction levies given that the current arrangements are ambiguous, confusing, inconsistent with industry practice and inequitable. This issue has been previously been highlighted by ALFA to the Levies Revenue Service who also has acknowledged the flaws in the current statute.

This matter is relevant to the review, as such ambiguity results in confusion and potential misallocation of grass versus grain fed cattle transaction levies (given levies not directed to 'grain fed' default to grass fed).

Specifically, the payment of 'grain fed' cattle transaction levies is managed through the definition of 'lot fed' as per Clause 1 of Schedule 3 to the *Primary Industries (Excise Levies) Act 1999* ie those cattle "that are, or are likely to be, used in the production of grain fed beef".

Notably, there is no legislative definition of "grain fed beef" or any reference to NFAS, AUS-MEAT or any other particular requirements. The current arrangement also allows cattle 'that are likely to be used in the production of grain fed beef' to be classified as 'grain fed' despite the fact that they have not yet entered a feedlot.

ALFA supports legislative amendment to require the payment of 'grain fed' cattle transaction levies for all cattle that have exited a National Feedlot Accreditation Scheme (NFAS) accredited feedlot. This amendment we believe would provide increased transparency, understanding and rigour surrounding grass fed versus grain fed cattle transaction levy payments.

ALFA also believes that this option is preferable to a legislative definition of 'grain fed' through reference to the minimum standards within NFAS. This is because it would provide for the first time recognition that the grain fed levy should be paid for all cattle that exit an NFAS feedlot. Previously, lot feeders could direct their cattle



transaction levy to the 'grass fed' pool if the cattle in their feedlot did not meet the minimum standards required for 'grain fed' under NFAS.

NFAS is the quality assurance program for the cattle lot feeding industry. The program is independently owned, managed and audited to the industry and covers animal welfare, environment and food safety matters. AUS-MEAT owns, administers and audits the scheme on behalf of the sector. Given its credibility and integrity it is highly respected by both industry and Government with some states enshrining the program within regulations.

ALFA believes that our proposal would have a negligible impact upon the amount of grain fed cattle transaction levies collected. This is because any levy collection gains obtained by including all cattle exiting NFAS feedlots would be offset by the losses from removing the ability to recoup grain fed levies for cattle that 'may' in future be used to produce grain fed beef along with the fact that the proposal is limited to only NFAS accredited feedlots.

Accordingly, ALFA believes that this proposal would be supported by both grass and grain fed cattle levy payers.

### **c. Competing pressures for finite R&D funds**

In recent years there has been increasing pressure on grain and grass fed cattle transaction levies due to the following;

- Declining state and federal Government resources and funding towards agriculture. Whilst this is particularly relevant for R&D, it is also pertinent for a range of key industry programs that were previously considered to be in the public interest eg compliance and enforcement for residue management, Biosecurity and disease management;
- Declining grass fed levy reserves due to drought;
- Rising costs for the normal operation of levy funded programs.

As a result, ALFA (among other PIC's) have been forced to prioritise investments to 'cut the cloth to fit' as it were. Whilst undertaking this step is standard business practice for any organisation, it is not expected that Government will increase its funding in future in these key industry programs when Treasury forecasts improve. Accordingly, the pressure on the current levy system will only increase. Any efforts to therefore break down the current levy arrangements will have large ramifications for agriculture.

### **d. The opportunities levy payers have to influence the investment of levies**

As stated previously, grain fed cattle levy payers are able to have influence in the investment of their levies via a large number of avenues;

- Annual ALFA surveys as part of its standard levy program approval process;
- ALFA Annual General Meeting's;
- ALFA's BeefEx and BeefWorks conferences;
- ALFA regional workshops held throughout Australia;
- ALFA strategic R&D and marketing workshops with relevant industry and non industry stakeholders;
- Meat Industry Strategic Plan workshops organised by the Red Meat Advisory Council.

Moreover, ALFA regularly communicates with grain fed levy payers via its fortnightly e-newsletter, bi-monthly magazine and emails on levy related issues.

Given ALFA's direct membership and board election model, representativeness of the sector, streamlined Committee structures and consultative approach; levy payers have considerable opportunity to have input into the investment of their levies.

### **e. The opportunities levy payers have to approve and reapprove the imposition of levies**

ALFA members have the opportunity to approve and reapprove their levy via a motion specifically related to this matter which is tabled at each ALFA Annual General Meeting. The motion is preceded by an extensive presentation on the programs, projects and budgets within each levy stream (i.e. R&D, marketing, AHA and NRS) for the current and previous financial year.

As stated previously, ALFA's membership comprises 82% of the industry so is highly representative of the sector.

The ALFA AGM is held in conjunction with ALFA's BeefEx and BeefWorks conferences which have a high participation rate among the sector. As per standard practice under Corporations Law, members can vote via proxy if they are unable to attend in person.

Given the above, ALFA does not believe that additional regular plebiscites of grain fed levy payers is warranted.

### **f. The transformation of R&D and marketing into increased returns at the farm gate, including the effectiveness of extension systems**

The Council of Rural Research and Development Corporations (CRRDC 2010) has determined that every \$1.00 invested through the Rural Research and Development Corporations (RDCs) provides an average return to producers of \$10.51 over 25 years.

More specifically, MLA conducts evaluation reports of its R&D and marketing programs to determine returns on investment for levy payers through a cost benefit analysis approach. Some examples of these findings are detailed below;

- MLA's market access program (funded via marketing levies) had returns of \$8 for every dollar invested. In particular, it has been fundamental in delivering significant windfall gains for the red meat and livestock industry with respect to various bi lateral agreements. For example, the Japan Australian Economic Partnership Agreement will reduce tariffs on beef from 38.5 per cent to an average of 22.1 per cent across fresh and frozen product by 2032 whilst the Korean Australian Free Trade Agreement will eliminate a 40 per cent tariff on beef and 18 per cent tariff on bovine offal over 15 years..
- MLA's food safety research program (funded by R&D levies) had returns of \$11 for every dollar invested;
- MLA's National Livestock Identification System (funded by R&D and marketing levies), was determined by various state regulatory impact statements to have a benefit:cost ratio of 4:1 (NSW) - the Queensland Government estimated a return of \$625 million per year on a cost to industry there of \$32.5 million.
- MLA's Meat Standards Australia program (funded by R&D and marketing levies), the eating quality and grading system, was determined to deliver a producer return of \$5.30 per dollar invested. The total industry-wide net benefit of MSA was estimated at between \$967.1 million and \$1,043.4 billion with a benefit:cost ratio of between 3.7 and 4.7 to 1 (CIE 2012).

### **g. Collaboration on research to benefit multiple industry and research sectors**

Collaboration on agricultural R&D ensures that finite R&D funds are leveraged to their full extent. Examples of such collaboration from a grain fed R&D levy perspective include the following;

- The improvement in knowledge surrounding meat science within the Meat Standards Australia program (the eating quality grading system for cattle and sheep). Given that the area is quite specific with

expertise therefore shared around the world, collaboration between Australian and international researchers has been occurring for many years;

- Collaborative R&D to improve the understanding of the supply and demand fundamentals for grain stocks has occurred for over a decade. Such R&D is jointly funded by MLA, Australian Egg Corporation Ltd, Australian Chicken Meat Federation, Australian Pork Ltd, Dairy Australia and the Grains Research and Development Corporation;
- Methane emission research. MLA has been involved in collaborative research with the University of WA, Qld department of Agriculture and the CSIRO to improve our understanding of methane emissions with a view to reducing them into the future;
- Manure emission management. Many of the issues associated with managing manure emissions are shared across intensive livestock industries. MLA has been involved in a consortium with Australian Egg Corporation Ltd, Australian Chicken Meat Federation, Australian Pork Ltd and Dairy Australia under the Federal Government's 'Filling the Research Gap' program to explore opportunities to reduce manure emissions.

## **h. Industry governance arrangements, consultation and reporting frameworks**

ALFA is supportive of the current red meat industry structural arrangements in terms of Meat & Livestock Australia, Animal Health Australia and the National Residue Survey.

In recent years MLA has committed to focusing solely on R&D and marketing matters, and this approach is applauded by ALFA. It is not the role of service providers to be involved in agri-political matters or be the peak body for the sector as this is the remit of peak industry councils. More detail regarding the current Australian red meat agri-political and service provider structure can be found in the appendix. MLA has more recently committed to implementing a more transparent and accessible national consultation framework through which levy payers can have a greater say on R&D investment. Whilst this is most relevant for the grass fed beef, sheep and goat sectors, it is also applauded nonetheless.

The structure and financial viability of PIC's has a large bearing on their ability to capably meet their legislative responsibilities with respect to levy expenditure management and oversight. ALFA believes that many PIC's can address concerns surrounding their financial woes by breaking their ties with state farming organisations and transitioning to a 100% direct membership model. The financial advantages of a direct membership model are that it provides the opportunity to;

- Attract sponsorship;
- Undertake events such as conferences and workshops in accordance with member needs;
- Sell other goods and services of relevance to producers;
- Increase membership fees over time.

ALFA prides itself on its ability to thoroughly scrutinise the levies under its jurisdiction and respond expeditiously on matters within its bailiwick. This is possible due to its direct membership and board election model, representative of the sector among its membership, and direct and streamlined Committee structure. For example, the ALFA R&D Committee provides direct decision making input into R&D projects and programs.

As stated previously, ALFA consults and reports to grain fed levy payers regarding levy investments via;

- Annual ALFA surveys as part of its standard levy program approval process;
- ALFA Annual General Meeting's;
- ALFA's BeefEx and BeefWorks conferences;
- ALFA regional workshops held throughout Australia;
- ALFA strategic R&D and marketing meetings;
- Fortnightly e-newsletter, bi-monthly magazine and emails on levy related issues to lot feeders.

There are several recommendations that ALFA would like to advocate that would improve the administration and allocation of the grass and grain fed transaction levy across all funding streams (ie MLA, NRS and AHA).

### 1. Provide a dedicated levy allocation towards key industry programs

There are a range of key industry food safety programs such as the National Livestock Identification System (NLIS), the Livestock Production Assurance (LPA) program and the National Vendor Declaration (NVD) that require a dedicated levy allocation to provide a more sustainable funding model. Programs such as these are critical for the delivery of safe red meat to consumers and hence have had the support of industry, state and Federal Government for over a decade.

Whilst ALFA does not believe this dedicated allocation should be confined to these programs, these are the most important at this point in time. A quick snapshot of these programs is detailed in the following table. Of particular note is the fact that the vital NLIS program is currently funded through 4 funding sources, a less than ideal arrangement.

	NLIS	LPA	NVD
Role	NLIS is a system for the identification and tracing of livestock. In the cattle industry, radio frequency ear tags are used to provide permanent lifetime identification for the purposes of disease control, biosecurity, food safety, market access and other industry related purposes.	LPA is an on-farm program that provides food safety assurances to domestic and export markets regarding Australian beef, lamb and goat meat.	The NVD is a document which cattle, sheep and goat producers complete to provide information about the food safety status of livestock being sold. It is a key element of the LPA program.
Funding	MLA Marketing levies MLA R&D levies NRS levies Cattle Disease Contingency Fund	MLA Marketing levies MLA R&D levies NRS levies	MLA Marketing levies MLA R&D levies NRS levies

Unfortunately the funding towards these key programs has become ad hoc, inconsistent, multifaceted and in decline. This is due to the following;

- The inability to transfer grass and grain fed cattle transaction levies between levy streams;
- The gradual decline in state and federal Government grant, compliance, enforcement and R&D funding towards these programs over time (despite the clear public benefits in terms of safe food production). From an R&D perspective, this is a reflection of the mature status of these programs which has meant that R&D requirements (and hence matching federal Government funding) have reduced accordingly;
- The increasing demands of these programs as a result of market access and customer requirements. The Australian beef industry is highly export orientated with around two thirds of production exported each year. As multi lateral, plurilateral and bilateral trade agreements have reduced tariffs and subsidies over time, our beef markets have introduced increasingly demanding non-tariff related requirements which effectively serve as technical barriers to trade. Many of these requirements relate to food safety assurances which are delivered via our industry programs. In addition, customers around the world are becoming more interested in how food is produced and its attributes beyond price. Such requests may relate to provenance or other issues such as GM, HGP's, antibiotics etc. Such information is managed predominantly through the beef industry's key industry programs.

As a result of these factors, industry has had to bear a larger portion of funding towards these key programs using existing levies and reserves. Given the large existing demands for such levy revenue, industry has been forced to seek funding from other areas such as the NRS and the Cattle Disease Contingency Fund (CDCF). Unsurprisingly, this has in turn led to declines in reserves for both, a problem which has been aggravated by the recent reduction in grass fed income due to drought and the consequential decline in the cattle herd. The decline in NRS reserves is readily demonstrated in previous graph.

It is expected that state and federal Government's are highly unlikely to reinstate funding and resources to these programs. Instead it is expected that such declines in funding and resources will continue over time. Accordingly, the demands for industry levies will continue to grow. As a result, it is imperative that flexibility be provided to allow industry to better manage the peaks and troughs in levy revenues and expenditures.

The funding issue has been a key catalyst for the recently completed 'Safemeat Initiatives review'. This has been a beneficial exercise which (among other things) has precipitated industry to determine opportunities for cost recovery, identification of potential savings, better leveraging of current levy funding; and the potential for the delivery of a more sustainable funding model.

Given the funding challenges associated with these key areas, ALFA believes that there needs to be modernisation of the levy arrangements to allow a dedicated grass and grain fed cattle levy allocation to key industry programs such as the NLIS, NVD and LPA programs. This would eliminate the need for multiple funding sources and would provide a more sustainable funding model and in turn more investment and program certainty into the future.

## **2. Provide the legislative flexibility to more easily adjust grass and grain fed cattle levy allocations between AHA, NRS and MLA (R&D and Marketing).**

Unfortunately, the currently legislative framework makes it extremely difficult to adjust and transfer levies between one or more of the four grass or grain fed cattle levy streams. This is because each levy is enshrined in several pieces of regulation and hence any adjustment or transfer requires regulatory change. For any regulatory amendment process to be successful, peak industry councils must embark on an arduous, exhaustive and expensive consultation process as set out in the Levies Revenue Service's Levy Principles and Guidelines document.

Legislation is a blunt instrument and as such there is extremely limited flexibility that would otherwise allow levies to be more effectively managed. This lack of flexibility is readily demonstrated when one levy stream has imprudently high reserves whilst another has dangerously low levy reserve levels, yet funds cannot be readily transferred between them (even when the 'purpose' or use of funds is extremely similar or identical).

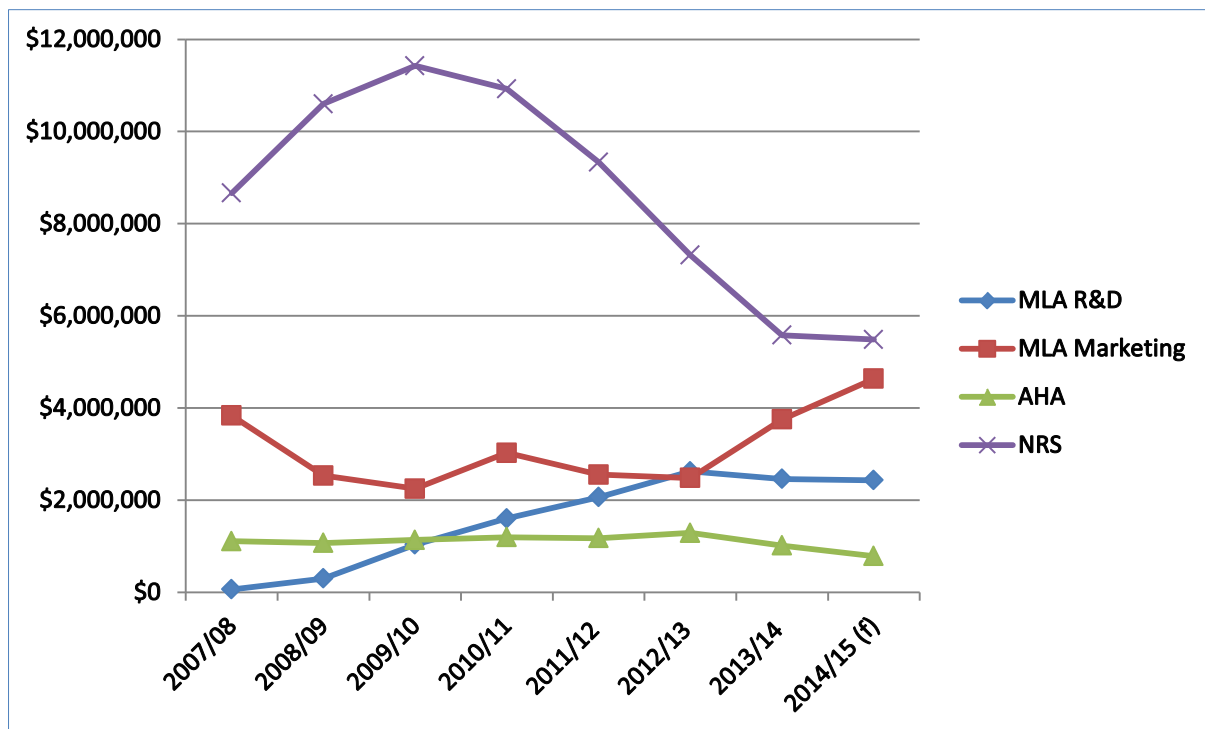
Current regulations provide the opportunity to increase or decrease a levy for a defined period before it reverts to its previous level. However, this does not provide an effective solution to this issue given;

- The dynamic nature of livestock production over time. For example, the vagaries of seasons and markets makes it difficult to accurately predict levy income whilst changing market access, residue, disease or Government policy requirements makes it difficult to accurately predict levy expenditure. In addition, if unforeseen changes in Government policy or market access occur after such an increase or decrease is implemented, then there is limited ability to make further levy adjustments to ensure reserves are not deleteriously affected;

- The 3 month lag period before levy adjustments begin impacting upon levy collections (as this further complicates levy collection estimates).

As the below graph demonstrates, it would have been advantageous to divert imprudent grass and grain fed cattle NRS reserves to MLA Marketing in 2009/10, yet this option was not available. Instead ALFA and CCA had to reduce NRS reserve levels by expending levies on programs such as the Livestock Production Assurance Program and the National Livestock Identification System, a strategy which has since caused other issues.

**Grain fed cattle levy reserves since 2007/08**



Accordingly, the current rigid levy framework needs more flexibility to better reflect the dynamic nature of livestock production.

One possible solution to allow this to occur is to permit the grass and grain fed cattle MLA, AHA and NRS levy allocations to increase or decrease within a set range (provided the total \$5 amount is never exceeded). This range may be based on a percentage or cent amount and be calculated after taking into account the fluctuations in levy income generated over time. This would allow sufficient flexibility to cope with the fluctuating nature of levy income and expenditure along with potential changes in Government policy both here and overseas.

Another option is to allow the transfer of funds between each of the grass and grain fed levy streams without exceeding the \$5 levy total. Notably, the levy Principles and Guidelines process would be first undertaken to allow such flexibility to occur. Importantly however, the regulatory framework must also allow such flexibility.

## Appendix

### The Australian red meat industry agripolitical structure

The Australian red meat industry agri-political structure is complex and consequently poorly understood by industry and Government alike. It is not surprising therefore that Peak Industry Councils (PIC's) find it difficult to explain their role and function to internal and external stakeholders. This briefing note attempts to undertake this task for red meat and livestock peak councils, the companies that provide services to the industry and their respective relationship with each other and various levels of Government;

	Red Meat Advisory Council (RMAC)	Australian Livestock Exporters Council (ALEC)	Australian Lot Feeders' Association (ALFA)	Australian Meat Industry Council (AMIC)	Cattle Council of Australia (CCA)	Goat Industry Council of Australia (GICA)	Sheepmeat Council of Australia (SCA)
<b>Represents</b>	Red meat Peak Industry Councils (PIC's)	Live exporters	Cattle lot feeders	Meat processors and independent butchers	Grass fed cattle producers	Goat producers	Sheepmeat producers
<b>Funded by:</b>	The RMAC fund	<ul style="list-style-type: none"> <li>• The RMAC fund</li> <li>• Membership</li> <li>• Levies</li> </ul>	<ul style="list-style-type: none"> <li>• The RMAC fund</li> <li>• Membership</li> <li>• Sponsorship</li> <li>• Events</li> <li>• Levies</li> </ul>	<ul style="list-style-type: none"> <li>• The RMAC fund</li> <li>• Membership</li> <li>• Sponsorship</li> <li>• Events</li> <li>• Reserves</li> </ul>	<ul style="list-style-type: none"> <li>• The RMAC fund</li> <li>• SFO's</li> <li>• Levies</li> <li>• Direct membership</li> </ul>	<ul style="list-style-type: none"> <li>• The RMAC fund</li> <li>• SFO's</li> <li>• Breeding societies</li> </ul>	<ul style="list-style-type: none"> <li>• The RMAC fund</li> <li>• SFO's</li> <li>• Levies</li> </ul>
<b>Members</b>	Red meat PIC's	Live exporters	Cattle lot feeders	Meat processors & independent butchers	State Farming Organisations (SFO's)	State Farming Organisations (SFO's) and breed societies	State Farming Organisations (SFO's)
<b>Main roles</b>	<ul style="list-style-type: none"> <li>• Advises Government on red meat issues</li> <li>• Fund Peak Industry Councils</li> </ul>	<ul style="list-style-type: none"> <li>• Advocacy</li> <li>• Decides where <b>live export</b> levy spent.</li> <li>• Resolves export certification issues</li> </ul>	<ul style="list-style-type: none"> <li>• Advocacy</li> <li>• Decides where <b>grain fed</b> beef levy spent.</li> <li>• Industry development</li> </ul>	<ul style="list-style-type: none"> <li>• Advocacy</li> <li>• Decides where <b>beef processing</b> levy spent.</li> </ul>	<ul style="list-style-type: none"> <li>• Advocacy</li> <li>• Decides where <b>grass fed</b> beef levy spent.</li> </ul>	<ul style="list-style-type: none"> <li>• Advocacy</li> <li>• Decides where <b>goat</b> levy spent.</li> </ul>	<ul style="list-style-type: none"> <li>• Advocacy</li> <li>• Decides where <b>sheepmeat</b> levy spent.</li> </ul>
<b>Key relationships</b>	<ul style="list-style-type: none"> <li>• PIC's</li> <li>• Federal Government</li> </ul>	<ul style="list-style-type: none"> <li>• PIC's</li> <li>• Federal Government</li> <li>• NFF</li> </ul>	<ul style="list-style-type: none"> <li>• Lot feeders</li> <li>• PIC's</li> <li>• Federal/ State Governments</li> <li>• MLA, AHA, NRS, SAFEMEAT, AUS-MEAT</li> </ul>	<ul style="list-style-type: none"> <li>• Processors, butchers</li> <li>• PIC's</li> <li>• Federal/ State Governments</li> <li>• AMPC, MLA, NRS, SAFEMEAT, AUS-MEAT</li> </ul>	<ul style="list-style-type: none"> <li>• SFO's</li> <li>• NFF</li> <li>• PIC's</li> <li>• Federal Government</li> <li>• MLA, AHA, NRS, SAFEMEAT, AUS-MEAT</li> </ul>	<ul style="list-style-type: none"> <li>• SFO's</li> <li>• Federal Government</li> <li>• MLA, AHA, SAFEMEAT</li> </ul>	<ul style="list-style-type: none"> <li>• PIC's</li> <li>• SFO's</li> <li>• Federal Government</li> <li>• MLA, AHA, NRS, SAFEMEAT, AUS-MEAT</li> </ul>

State Farming Organisations (SFO's) include NSW Farmers' Association, AgForce, Victorian Farmers' Federation, Primary Producers South Australia and Western Australia Farmers' Federation. The main difference between SFO's and the PIC's are that SFO's represent their members on a broad suite of state agricultural and commodity issues whilst the PIC's focus on national commodity issues. The other major distinction is that SFO's have direct membership with producers while the PIC's (CCA, GICA and SCA) do not.

The National Farmers' Federation (NFF) is the peak agripolitical body in Australia. NFF focuses on general agricultural issues that impact on all farmers such as water, climate change, rural services, industrial relations, native vegetation laws, taxes etc. It does not focus on commodity specific issues as these are managed by peak industry councils. NFF members comprise the PIC's (CCA, SCA and ALEC), SFO's and other agribusinesses.

## The Australian red meat industry service provider structure

	<b>Meat &amp; Livestock Australia (MLA)</b>	<b>Animal Health Australia (AHA)</b>	<b>National Residue Survey (NRS)</b>	<b>Australian Meat Processor Corporation (AMPC)</b>	<b>LiveCorp</b>
<b>Provides services for:</b>	Red meat producers ie cattle, sheepmeat and goats	Major livestock industries ie cattle, sheep, dairy, wool, goat, horse, pork, egg, honey, alpaca.	Animal and plant industries	Meat processors and independent butchers	Live export cattle, sheepmeat and goat producers
<b>Funded by:</b>	<ul style="list-style-type: none"> <li>• Grass and grain fed cattle, sheepmeat and goat levies.</li> <li>• Federal Government</li> </ul>	<ul style="list-style-type: none"> <li>• Industry levies</li> <li>• Federal/ state Government's</li> </ul>	Animal (meat, egg, honey and fish) and plant (grain, oilseed and horticulture) levies and the Federal Government	Meat slaughter levies	Customs charges on live animal exports
<b>Role</b>	Conducts R&D and marketing for the red meat industry	Conducts programs to improve animal health, welfare and biosecurity.	Undertakes residue testing programs to facilitate domestic/ export market access	Conducts R&D for the meat processing industry	Conducts R&D, education, training, quality assurance and communications for live export industry.