CATTLE COUNCIL OF AUSTRALIA

<u>Submission</u>

An 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.

Senate Rural and Regional Affairs and Transport References Committee

Recommendations

The Cattle Council of Australia recommends that:

- Greater flexibility is applied the system to allow industries to shift apportionments within a quantum of levy to better meet evolving industry needs.
- That the definition of 'agripolitical activity' is interpreted broadly for the purposes of levy expenditure.

Introduction

The Cattle Council of Australia is the peak organisation representing Australia's grassfed cattle producers. It was established in July 1979, uniting beef producer from around Australia through their membership of farming organisations. The combined membership of these organisations equates to Cattle Council representing the interests of more than 15,000 cattle producers and more than 50 percent of Australia's cattle herd.

In addition to its traditional advocacy role, the Cattle Council has a prescribed function under the red meat industry structure which is set out under the Australian Meat and Live-stock Industry Act 1997. A Memorandum of Understanding (MOU), signed by all organisations involved in the red meat industry - including the Australian Government - underpins these arrangements. Under the MOU, the Cattle Council, like the other Red Meat Industry Peak Councils, has an oversight role to its designated service provider i.e. Levy Expenditure. Through these arrangements, the Cattle Council is intrinsically linked to the levy collection and distribution process.

This committee recently announced its findings of an inquiry into the industry structures and systems governing levies on grassfed cattle. This inquiry was comprehensive and this submission does not intend to cover issues considered during that inquiry. However, the Cattle Council feels that it is important to contribute to this inquiry through highlighting the role played by peak bodies in the current levy structure and through advocating for greater flexibility to enhance the system.

The Existing System

A fundamental element of the joint industry/government effort to improve Agriculture is the legislated system that allows for the collection of levies. The system enables all industry members to pay levies to fund research and development (R&D), marketing and promotion, animal health programs and residue testing activities. The compulsory system ensures that all industry members contribute to vital industry programs that benefit the whole industry and the government contributes through providing additional funding. Eligible R&D expenditure is matched dollar-for-dollar by the government, up to 0.5 percent of the industry Gross Value of Production.

The levy system is not unique to the beef sector. In fact, most commodity sectors have a levy system that funds their research and development, and marketing through their respective research and development corporations (RDC). The rate of the levy and the point at which it is charged is determined by each industry through a consultation process largely governed by the Levy Principles and Guidelines and implemented through various pieces of legislation.

In some sectors, the levies are distributed amongst a number of organisations with differing functions. In the grass-fed cattle sector, a total of $5.00 is collected per animal each time a transaction involving cattle is made. The cattle levy is distributed amongst various bodies in the following way:

- $3.66 to Marketing (MLA)
- $0.92 to R&D (MLA)
- $0.13 to Animal Health Australia;
- $0.29 to the National Residue Survey; and
- $0.00 to the Cattle Disease Contingency Fund.

Greater Flexibility Between Levy Streams

The issues affecting industry can alter rapidly and the current levy system lacks the flexibility required for industry to react effectively to altering priorities and new problems. The present system is not sufficiently flexible as the process for shifting funds between levy streams is very difficult and time consuming. When the grass-fed cattle industry wants to adjust the amount of the levy given to its various service providers, without increasing or decreasing the total paid by a producer, a costly and time consuming process must be undertaken.

The current process for the industry to amend any one of the levy allocations that make up the $5 levy, is firstly Cattle Council must develop a proposal for altering the distributions. The development of a proposal places a time consuming and costly process on the industry. After development, the proposal must then be given to the Minister who seeks advice from the Department of Agriculture. The Department assesses the proposal against the Levy Principles and Guidelines, and provides guidance to the Minster. If the proposal is approved, the Government drafts the legislation to implement the amendment to the levy allocation.

A clear example of the unfavorable impact that rigid levy allocation is having on industry is demonstrated by the current situation with NLIS Limited, the subsidiary company responsible for managing the National Livestock Identification System database. The red meat industry has agreed that NLIS Limited should be transferred to AHA from MLA. AHA is viewed as a more appropriate organisation for the system given its disease management responsibilities and also its ability to enhance the Government investment made in the system by utilising the technology in other industries. The transfer is complicated due to the need to continue funding NLIS Ltd and the simplest method available being to reapportion the levy funds MLA puts towards NLIS to AHA. However, under the current arrangements the industry cannot do this without undergoing the extensive consultation process– despite the fact the levy amount and usage has not changed.

Another example of the need for industry to have the ability to move funds around is the Cattle Disease Contingency Fund (CDCF). The CDCF was established in the 2002 to take the carry-over funds from the Brucellosis and Tuberculosis Eradication Campaign (BTEC) and subsequent Tuberculosis Freedom Assurance Program (TFAP) once these disease programs were finalised. From its inception in 2002, the CDCF received $0.17 of the transaction levy; this was reduced to $0.07 after three years in anticipation of the money coming from the finalised BTEC/TFAP. The CDCF levy was reduced to zero from 1 January 2007 where it has remained until today to maintain its ceiling of $20 million.

The negative result due to the inflexibility in the levy systems ability to allocate between streams would not be unique to the grassfed sector. The Cattle Council believes that all industries would benefit from a more flexible approach to adjusting the apportionment within their respective levies and this aligns with the Governments objective of reducing legislative impediments (red tape). The lack of flexibility to allocate funds to high priority issues within the industry, is severely limiting the ability of the beef industry to mitigate risks and take full advantage of emerging opportunities. Having the capacity to adjust levy rates using an appropriate, but less onerous, process would allow the industry to be more responsive to its changing needs ensuring that as the industry evolves and develops new priorities, its levy expenditure changes to address these needs and target new priorities.

Agripolitical Activity

Greater flexibility could also be applied in interpreting the definition of 'Agripolitical Activity' for the purposes of levy expenditure.

Across the entire agricultural sector there is an expectation for Government to consult with industry to develop sound policy. The ability of this consultation to be effective is reliant on representative bodies being adequately resourced, enabling them to truly reflect the wishes of the sector they represent. There is currently a problem in the ability of peak bodies to adequately fund such activities and this is illustrated by Cattle Council utilising service agreements with AHA, NRS and MLA to overcome these limitations. Service agreements provide Cattle Council with the financial capacity to increase producer consultation in order to receive producer feedback and develop policy, which is implemented by the service providers through levy expenditure. The ability of industry to effectively consult and formulate sound policy with government would be greatly assisted by such activities being better resourced.

Activities like Strategic Planning, Industry Management and 'Strategic Policy Development' are essential to achieving a robust industry. As these activities have no financial benefits for private entities, they have to be funded through industry and all industry members who are the benefactors of such activities must contribute. Currently individuals realise that they can benefit from the development and subsequent communication of a strategy or policy without any financial contribution. As these vital activities benefit the whole of industry it is appropriate that all industry members contribute, through levies, and this ensures that the 'free rider' situation does not occur.

Precedent for funding industry management and strategic policy development, which is not political, via the levy has already been established, through Australian Pork Limited, and other industries would benefit greatly through having similar access to such funds.

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