



ALEC Submission to the Red Meat Industry Memorandum of Understanding Green Paper

Introduction

The Australian Livestock Exporters Council (ALEC) thanks the MoU Taskforce for their work and the opportunity to provide a submission to this process. ALEC is a proud signatory of the MoU recognising its importance to a unified industry and an efficient and effective industry structure.

We also welcome the forward thinking that has gone into developing the green paper, particularly in acknowledging that the challenges we now face as a collective industry are not the same challenges that we faced 20 years ago.

Proposals for change should not be met with alarm, but instead with healthy scepticism and a vision of what an ideal structure may look like. Like all structures, the red meat industry must evolve – the key question is how?

Importance of the Livestock Export Trade

According to market intelligence company Mercado, over \$620 million of revenue from live cattle exports is returned to the farm gate, representing around 50 per cent of total revenue.

Live Cattle exports are valued at \$1.2 billion, representing 13 per cent of the total cattle industry value. The live cattle industry also sustains approximately 10,000 full time jobs.

A similar report prepared by Mercado that in 2016-17, Australia's Live Sheep exports were valued at \$250 million. Western Australia is the largest exporter accounting for 85 per cent of all sheep exports and 30-40 per cent of total sheep turn off in Western Australia.

This indicates that the live export sector plays an integral role in underpinning price, which assists in growing the overall value of the sector. Many chilled and frozen markets have been established off the back of the live export industry's initial presence, providing a pathway for chilled and frozen exports.

There are also significant other benefits of the trade beyond economic.

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- Some countries do not produce enough livestock to feed their population and as a result they rely heavily on Australian livestock for their food security and in some cases, social harmony.
- Processing animals locally, for some nations, is often cheaper than buying boxed or chilled meat slaughtered in Australia, which is a high input cost industry compared to its global competitors.
- Religious requirements, particularly around festival times, dictate the slaughter of animals (under Australian controlled conditions where Australian animals are involved).
- International processors prefer to use not just the meat, but the entire animal for different products.
- The export of livestock supports a wide range of consumers and different market segments that live animals processed locally are most suited to (for example, wet markets).
- Exporting livestock strengthens breeding and herd numbers with quality genetics and aids many developing countries in achieving self-sustainability goals.
- Australia's live exports support the development of a local processing sector in developing countries.
- Live export supports public policy programs to increase meat and dairy consumption and the endeavours of importing countries to provide food security.

Over 100 countries export live animals with Australia having the highest standards in the world. Indeed, through the Livestock Global Assurance Program (LGAP) which is an initiative of the Australian industry, a global standard will be set for live animal exports.

Australia's increased efforts to help improve animal welfare is recognised as contributing to wider social and ethical change, better treatment of local livestock, improved worker safety and better meat quality. This positions the sector as a key driver of animal welfare improvements globally.

Over the next 20 to 30 years, the challenge for Australia's livestock and red meat industry is to continue to grow while demonstrating that it is a sustainable and important industry sector within the Australian economy, sustaining 440,000 jobs and turning over A\$65 billion every year.



The livestock export industry is determined to be a part of that evolution by strengthening demand for livestock, increasing market diversity and complementing domestic chilled and frozen Australian meat around the globe.

Importance of In-Market Resources

As the Green paper states on page 25:

Although Australia accounts for a small proportion of global beef and sheepmeat production, Australia is one of the largest red meat exporters. By value, we are the world's largest exporter of beef, sheepmeat and goat meat. By number we are the world's exporter of livestock overall. In 2015, approximately 70 per cent of Australian beef production, 56 per cent of lamb and 95 per cent of mutton production, as well as 1.9 million live sheep and 1.3 million live cattle were exported.

This statement speaks for itself, but it must be acknowledged that the scale and growth in our export markets is attributable by a large degree to the significant in-market resources that are funded by industry.

In the case of livestock exports, most in-market resources are implemented through a jointly levy-funded program between LiveCorp and Meat and Livestock Australia. This joint program was designed recognising the mutual benefit of both the live and boxed trades.

In 2017-18 the combine budget for this program was approximately A\$4.5 million with live export levies contributing A\$1 million. The key markets these are allocated to are Indonesia, Vietnam, broader south-east Asia and the MENA region. The largest strategic imperative in this allocation is animal health and welfare which receives approximately 65 per cent of the budget.

However, as outlined above, these in market resources must be geared towards a wholistic red meat supply chain that includes both chilled, frozen and livestock exports. In order, to fully achieve this, seamless structures must exist behind this resourcing.

RMAC and the Red Meat Industry MoU

By virtue of the current arrangements under the MoU, the Red Meat Advisory Council (RMAC) is only an advisory council to the Minister of Agriculture and does not have true status as an industry body.

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The MoU has ambiguous legal status given it is a convergence of wills rather than a binding agreement of parties. The practices that emanate from the MoU regarding oversight and the defined inter-relationships between organisations can therefore be considered industry convention.

To this end, the MoU cannot bind signatories to specific corporate structures, statuses nor roles within their sector. These decisions must be made by individual organisations in the same convergence of wills in which the original MoU was formed.

However, despite the MoU being a non-binding document, three organisations have been formed as a result of its inception - the RMAC, SAFEMEAT and AUSMEAT.

The flow on effects to these entities must be given due regard and ALEC suggests that reference to SAFEMEAT and AUSMEAT was not afforded sufficient consideration in the green paper and further consideration of their roles is required.

ALEC suggests that the opportunity that exists in reframing the MoU is reimagining and revitalising these entities as part of an innovative revised structure. The primary focus of this should be reframing RMAC to become a true industry body and voice for the entire red meat supply chain.

RMAC provides leadership on cross-sectoral issues and consults with the Minister for Agriculture and Water Resources on agreed whole of industry matters. However, it does not by mandate have a responsibility beyond the Agriculture portfolio. A truly representative entity would have the mandate to be representative to the whole of government on matter such as trade, carbon emissions and workforce. Such a mandate would be befitting of a \$20 billion industry.

The challenge that we must confront in this review process is how do we define and drive this mandate.

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RMAC is the custodian of the MoU, the Meat Industry Strategic Plan and the Red Meat Industry Fund. However, ALEC contends that RMAC has, since the MoU was signed, pursued a path where it has continually sought its relevance, but never truly successfully articulated what its relevance is in a manner that would enable it to carry enough sway on policy issues both internal and external to the red meat industry.

That is not to say that RMAC has stood stagnant since its inception nor to be critical of RMAC directors and staff both current and previous. Significant efforts have been made for the organisation to evolve from what was essentially a committee of Peak Industry Council (PIC) Chairs and Presidents with a rotating chair to an organisation that now has an independent chair and CEO in its own right. It has also carved itself a niche in the space of trade policy – an issue that overall enjoys unanimous industry support.

However, the PICs remain the reference point for Governments on most industry policy issues and more often than not, RMAC policy considerations are driven from the PICs as well. This has also led to situations where RMAC has been effectively hamstrung in scenarios where divergent sectoral views have negated consensus – the most glaring of these situations arose during the 2011 Live Exports Crisis where one RMAC member public stated its opposition to the livestock exports trade. This point isn't raised to go over old wounds; indeed, the industry has moved on, but to articulate that although RMAC carries crisis management responsibilities, its structure does not always lend itself to be a true industry voice.

However, the great strength of the MoU and therefore RMAC, is that this forum exists in the first place. It is a forum that is the envy of many other complex industries. However, while the PICs role (including ALEC's) is to develop policy and advocate for their respective red meat sectors, their roles have evolved to the point (and arguably because of the roles and responsibilities the MoU enshrines) that policy development and advocacy has become inwardly focused on issues of industry management, rather than the high level and outward looking policies that can truly advance their industries. ALEC is not immune from this scenario.

Given perennial resourcing constraints, the PICs have generally lacked a genuine government relations and political advocacy skill set – despite being based in Canberra. PICs have also been constrained in their ability to develop genuine blue-sky policy – or to put it another way,

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become “think tanks” for their industry. This reality is not consistent with the status these organisations carry amongst key stakeholders including government and PIC members.

The Research and Development Corporations (RDC’s) have sought to assist in this space, given they are generally better resourced than the PICs, by establishing facilities for “industry issues” research. However, this assistance has its limits as the RDC’s are constrained by their a-political mandate and their Marketing and R&D scope.

These gaps are where RMAC should seek to fulfil its role and should therefore evolve to become a genuine industry supply chain voice and policy thought leader. This new organisation should also maintain responsibility for the development of industry strategy ie the Meat Industry Strategic Plan.

The RMAC Board must also evolve beyond the representative structure it currently comprises. A diverse skills-based board is required to arm industry with the strongest possible position in an increasingly dynamic industry.

Consideration should also be given to utilisation of levy funds for New Co. Levy funds are already utilised for industry issues research with some RDCs, which effectively forms the basis of policy development. A report commissioned by RMAC and undertaken by the Australian Farm Institute (AFI) supported this position. The (AFI) report was commissioned at the behest of the Minister for Agriculture following numerous parliamentary inquiries into the utilisation of levy funds and the role of RDCs. It concluded:

“...statutory functions performed by the PICs need to be adequately resourced; that these functions are carried out for the benefit of the entire industry therefore the use of compulsory levies or industry funds is appropriate; and that the funding needs to be made available in a way that does not compromise the independence of these organisations.”

“Policy analysis involves conducting detailed and objective research into policy issues with the objective of informing discussion about preferred policy settings for the industry or the economy more generally. There is merit in such analysis being funded using

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compulsory levy funds and managed by industry service organisations as part of their research and development portfolio, and this has occurred on an irregular basis in the past.”

It can be assumed that reticence on behalf of governments, and indeed some elements of industry, is driven by provision against levy funds being utilised for agri-political activities.

However, it must be asserted, as the AFI report did, policy development is distinct from political activity. Adopting such a narrow focus towards funds generated by industries themselves denies the statutory requirements, such as policy analysis, policy determination, industry advocacy, strategic planning and monitoring, that is expected of the PICs under the MoU.

This “new RMAC” or “New Co” should be the central pivot point of a revitalised industry structure, becoming the overarching organisation guiding both the policy of PICs and the strategy required for guiding levy expenditure for research and development, marketing and integrity systems.

Utilisation of the Red Meat Industry Fund

Proposals for new structures inevitably lead to questions of funding.

The MoU also sets out the arrangements for management of the Red Meat Industry Fund from which the PICs receive funding disbursements.

The convention for this disbursement stems from the fact residual reserves from the previous industry statutory authorities – the Australian Meat and Livestock Corporation and the Meat Research Corporation - which could not be delineated between sectors when the “new” industry owned RDCs of Meat and Livestock Australia, the Australian Meat Processor Corporation and the Australian Livestock Export Corporation were established. These residual funds were then placed in trust for the benefit of the entire red meat supply chain.

The disbursements are important as the majority of PICs operate in an environment where cashflow is critical. The PICs are also operating in an environment where general willingness to

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join associations and representative organisations is waning. ALEC suggests disbursements from the fund should be maintained.

However, in making this point, it should not be discounted that the Red Meat Industry Fund has been sitting at approximately A\$40 million since the fund was established. The whitepaper must consider whether this level of reserve offers the best utilisation and outcome for industry.

Building on the discussion above about the need for a central policy pillar for the red meat supply chain, ALEC believes that a significant proportion of the Red Meat Industry Fund should be used to both establish and operate New Co. Given New Co will also have the added benefit of focusing the PICs, potentially New Co could subsume elements of current PIC operations, which may gradually mitigate the requirement for disbursements at all – however it would be impractical to suggest this occurs immediately. This would surely generate a greater overall return to industry.

ALEC maintains each sector should maintain its autonomy to the extent that each sector determines the best models for their needs. This is in response to the inevitable question of should the PICs merge into New Co?

Each sector within the red meat supply chain is diverse and requires a bespoke approach to best meet the needs of their sector. Without the PICs the distinction between the sectors of the red meat supply chain and their identity is lost. For this reason, ALEC does not support the subsuming of the PICs into New Co.

However, this policy developed by the PICS can be better informed by policy and political input from New Co - arming the PICs with the right tools to truly advocate for their sectors externally, but also in a manner acknowledging the context of the supply chain in which they exist and operate. It can also focus the role of the PICs, contrasting with the current structure which often leads to unnecessary duplication and overlap.

The Position of Research and Development Corporations

The livestock exports and the meat processing sectors operate in a different environment to most RDC's. Both entities receive both marketing and R&D Levies. However, because both

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entities were originally established as donor companies, and as a legacy matching R&D funding is funnelled through Meat and Livestock Australia to attract matching government funding. This creates a layer of management over research and development and a recent review of the sector's research and development program suggests that this complexity has affected the efficiency of the program.

By virtue of their funding structure, the RDC's are established as a service provider for their respective sectors. However, this also means that they are recipients of higher levels of income and therefore more adequately resourced than the PICs. This imbalance has often led to scope creep for the RDC's – usually at the behest of their PICs.

The current structure of industry's levy funding also lends itself to Marketing and Research and Development being done in isolation from the broader red meat supply chain. In the context of livestock exports it is a well-established fact that the industry has also assisted the growth of chilled and frozen exports in many markets. However, in recent times there has been a reluctance from in-market resources to assist in issues such as control and traceability as well as programs that seek the assurance of animal welfare in-market. This has not always been the case and it can be speculated that this is the result of concern that a negative perception of livestock exports can potentially damage the reputation of the chilled and frozen trade.

The two trades are inextricably linked and this cannot be escaped. While it is incumbent on the livestock exports industry to improve its reputation, in return a revised industry structure must reflect livestock exports place in a broader red meat supply chain.

A unique approach for the Live Export Industry

Within the red meat industry structure, the livestock export industry is small. It has a Peak Council and service provider with essentially common memberships. Both organisations operate with small, nimble teams and within the red meat structure the relationship between ALEC and LiveCorp can be viewed as the most cohesive and cooperative.

ALEC, and the broader live export sector, is fortunate that this environment exists. It is also fortunate that LiveCorp is highly regarded for its work and the high standard in which it

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undertakes its activities. It also seeks to empower its peak body which significantly strengthens the sector's position – and an outcome ALEC is continually grateful for.

Both options three and four presented in the Green Paper speak of the potential for merged PIC and service providers. ALEC has gauged the views of its membership and believes that this would be appropriate for the livestock exports sector noting agreement with the following benefits noted in the green paper:

- Increasing the ability to promote industry-wide adoption and commercialisation of R&D;
- Likely greater mechanisms to promote/enforce industry standards;
- Positive impact on industry's ability to pre-empt emergent issues;
- Positive impact on industry's ability to respond to crises or manage issues;
- Streamlined governance arrangements which are agile, easily understood and have broad industry buy in; and
- Clearer roles and responsibilities.

To this end ALEC proposes that it would be appropriate that further investigation take place for a merged service provision and representative organisation for the livestock exports sector. There are models as precedent for this around the world including within Australia.

At its members meeting on 16 April 2019, ALEC put this forward to its members. It was unanimously agreed that such a body should be further investigated – regardless of the outcomes of this whitepaper process. This position evolved iteratively over three days of discussion with the Boards of ALEC and LiveCorp as well the broader industry membership. The position was reached organically as members acknowledged that significant efficiencies could be gained from a possible merger as well as a more resilient basis from which to progress the industry.

However, this current review represents the ideal opportunity for a new body for the live export industry to be considered to work in line with a revitalised body charged with representing the interest of the entire red meat supply chain.

In considering the views of the ALEC Board as well as the broader industry membership, the LiveCorp Board considered the issue and came to following position on 17 April 2019:

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LiveCorp acknowledges the decision of ALEC, and notes that on a preliminary analysis it sees value in this approach due to:

- The size of the industry;*
- The common memberships between the organisations;*
- The strategic alignment of the organisations, and specifically their dedicated focus in providing a position representing livestock export (which, as identified in the Green Paper represents a distinct risk within the red meat supply chain);*
- The relationship between the organisations is very strong, and there would be willing participation from both ALEC and LiveCorp and the majority of their members in this model; and*
- This proposed option encompasses the advantages of both Option 3, Option 4 and the Principles we have outlined above.*

LiveCorp also believes that the option encompassed in ALEC's proposal must also include direct matching funding for R&D activities within the new livestock export merged entity.

Further work will of course be required to better develop the ALEC/LiveCorp proposed 'option', however we look forward to seeing further analysis from the RMAC review process to inform these considerations.

To this end, ALEC believes the joint PIC/service provider entity outlined above should continue to have the ability to work with producer service providers similar vein to what the current Livestock Export Program and the Live Export Research and Development Program which are funded by both exporter and producer levies.

A Unique Solution for Each Red Meat Sector

Consistent with identifying a unique approach for livestock exports, ALEC believes, within a revised structure, that it is incumbent on each sector to define a model that works best for them in retaining their identity underneath New Co. This includes defining their own relationship with RDCs.

This is consistent with a discussion of RMAC CEO's in early April which resolved that each sector should retain its identity and work towards a service provision model that prioritises R&D,

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Adoption, Marketing and Integrity Systems for the entire supply chain. This furthers the conclusion that PICs should not be subsumed into New Co. It also leads to the point that the role of the RDCs, however structured, should also be distinct from New Co given the important functions they are required to undertake distinct from policy development.

The Importance of Industry Integrity Systems

The presence of SAFEMEAT as an initiative of the MoU acknowledges the importance of food safety and product integrity in our supply chains, as well as the genuine partnership required between industry and all levels of government to successfully implement it. Indeed, the international trade outlined above would not be possible without robust integrity systems.

Although not a producer of food for domestic consumption, the livestock export sector maintains a seat at the table as the utilisation of the systems SAFEMEAT monitor domestically ensure our sectors' market access.

The livestock export sector is arguably unique at this table as it is the only sector that advances these traceability systems into receiving markets through Export Supply Chain Assurance Program.

The design and implementation of AUSMEAT 20 years ago is also a demonstration of how advanced the red meat sector was in acknowledging Quality Assurance (QA) as a critical factor in the red meat industry's success. Many other agricultural industries are only just coming to terms with QA, and indicative of this fact is the expansion of AUSMEAT into other agricultural industries such as horticulture and poultry as well as into other jurisdictions such as New Zealand.

The Livestock Export Industry is also commencing its foray into QA with the roll out of LGAP which seeks to set a global standard in animal welfare for live animal exports. Critical to LGAP's success will be its alignment and possible integration into domestic integrity systems.

The recently concluded SAFEMEAT Initiatives Review lead to the establishment of the Integrity Systems Company – ALEC considers that a strong levy funded Integrity Systems Company should be another pillar of a revitalised industry structure.

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Other Considerations

Review of Levy Systems

The levy flows are currently managed by legislation that give rise to the collection of levies. The machinations of the levy collection and it's enabling legislation is currently under review by the Australian Government. This is because arrangements within each commodity sector is managed by a unique piece of legislation giving rise to idiosyncrasies across research and development corporations about how the relationship between PICs (or "Representatives Organisations" as they are termed in other industry structures) and RDC's operate.

This review is also going to have regard to uniformity amongst peak industry bodies/representative organisations and their oversight role of levy expenditure. In formulating the white paper, the MoU must have regard to the possible implications of this review.

Statutory Funding Agreements

Statutory Funding Agreements between the Australian Government and the RDC's also play a role in determining the relationship between PICs and RDCs by enshrining consultation mechanisms. These are also the contractual mechanisms by which preclusions against agri-political preclusions are enforced.

ALEC understands these are currently consistent with the relationships articulated in the MoU. Depending on future structures, mechanisms such as statutory funding agreements will need to be redefined. In particular, ALEC would argue that the composition of Statutory Funding Agreements should have regard to the findings of the AFI report, and accordingly a distinction clearly drawn on agri-political activity as distinct from policy.

Review of Research and Development Corporations

The Australian Labor Party has flagged that if it forms government (a Federal election is underway at the time of writing) then it will instigate a review of RDC's.



It is highly likely that the outcomes of this review will essentially form the red meat industry's contribution to this prospective process as well. Any recommendations of the whitepaper must be made through this lens.

Next Steps Following Whitepaper

Clarification of the process going forward once the whitepaper is completed is required. ALEC understands the process to be that the whitepaper will be provided to the RMAC Board for consideration. While this is necessary to consider next steps, given the Australian Government is also a signatory to the MoU, and through this relationship essentially endorses the MoU as a government recognised convention, what process will be undertaken to consider the government's ability to implement changes and also their willingness to enter into a revised MoU.

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