



Presentation of Findings

Study into the Impact of Government on Industry Competitiveness

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KEY FINDINGS

- Project commissioned by Meat & Livestock Australia in June 2000 under the guidance of the Steering Group to research impact of government charges/costs and assistance/subsidies on the Australian meat industry in comparison with our major competitors (NZ and USA).
 - The research is a “first” of its kind. Also a “first” in looking at the entire value chain of livestock, feedlot and processing sectors.
 - The methodology and data collection goes beyond the traditional focus of the meat industry on areas such as inspection charges by encompassing a wide range of costs and charges influenced directly or indirectly by government (e.g. labour on-costs, utilities & fuel, meat specific costs & charges, environmental costs, etc).
 - Data collection of public, private and company in-confidence material was significant and overseas visits were required which, understandably, were constrained by expense and time available to complete the project on schedule. Significant cooperation from private companies and industry organisations was secured.
 - Presentation today will focus on key report findings of relevance to the Inquiry.
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KEY FINDINGS

- Australian livestock and meat producers generally have higher Government-influenced costs and charges overall than their key international competitors, and receive less assistance from Government.

EXAMPLE Sheep Farm Government Charges & Costs as % of Revenue			
	% Livestock Excl. Wool	% Livestock Incl. Wool	% of Farm Revenue
Australia Sheep Farms	56.8	23.9	18.3
Australia Sheep-Beef Farms	30.9	21.1	17.9
New Zealand Sheep-Beef Farms	13.1	10.3	9
United States Sheep Farms	12.7	12.7	8

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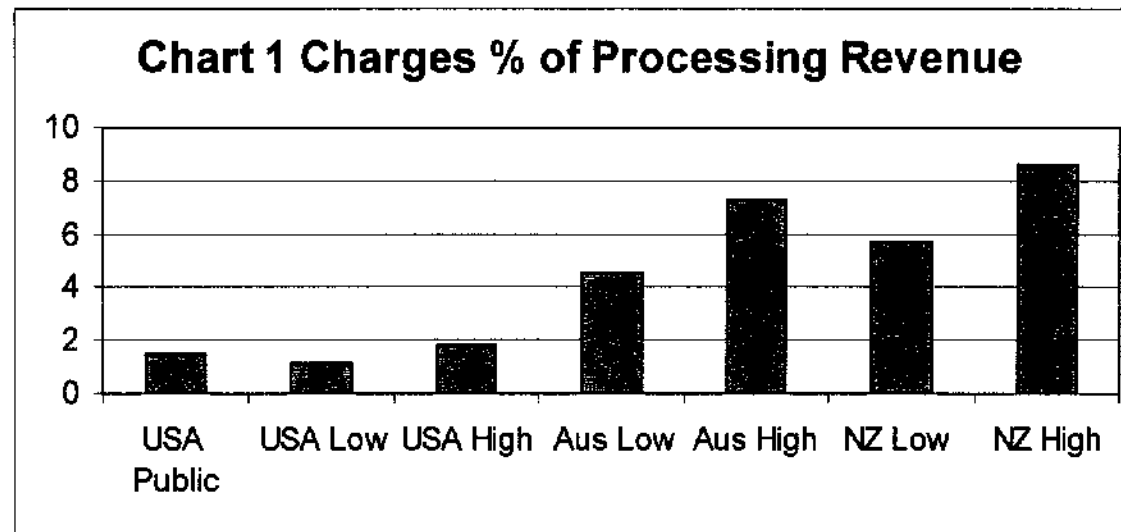
- Oncosts are far higher as a percentage of revenue in Australian processing than in competing countries.

EXAMPLE Oncosts as % of Revenue

	Livestock		Processing (non-service)	
	Public data	Private data	Public data	Private data
Australia	2-10%	2-10%	NA	2 to 4%
New Zealand	1%	0.5%	NA	1.5 to 1.9%
USA	0.5%	1%	0.2%	0.4-0.6%

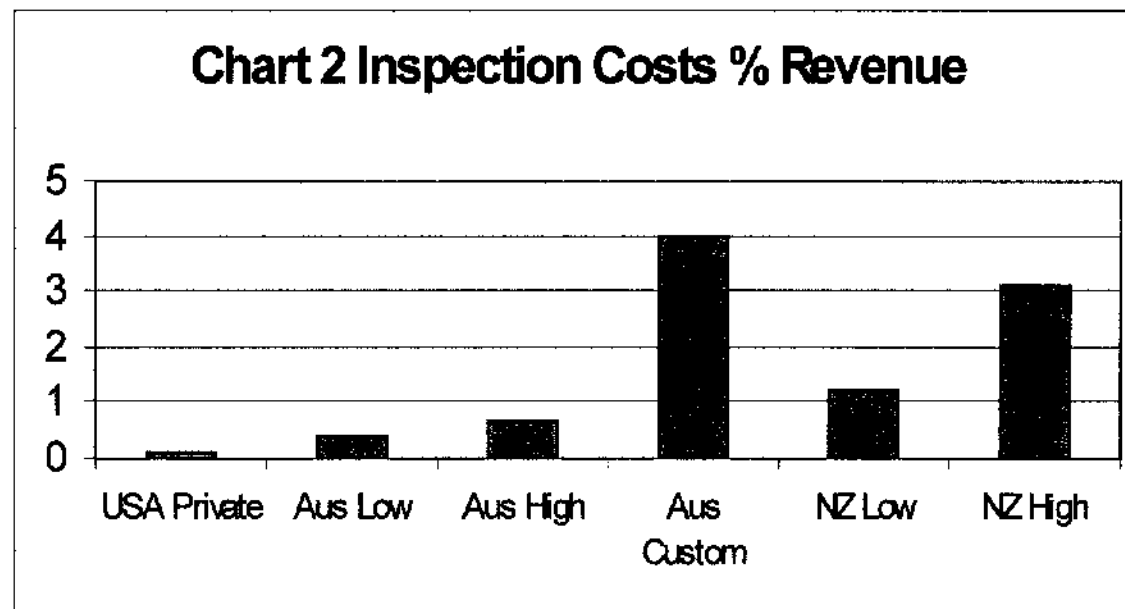
KEY FINDINGS

•If Australian low cost processors were to experience the same level of government influenced costs and charges as their US counterparts it would mean a saving of over \$A200 million in costs to the Australian industry. If Australian high cost processors were to achieve US low cost levels it would mean a saving of over \$A400 million.



KEY FINDINGS

- Inspection charges are significantly higher in Australia than the USA but lower than New Zealand as a percentage of revenue



COST RECOVERY

- Australian livestock and meat producers pay 100% of the cost of meat inspection.. These include fixed costs, service delivery costs, area technical managers, overtime and Export Documentation.
- New Zealand pay full costs, including direct and indirect costs of inspection, standard setting, compliance, the overhead costs of running the Ministry of Agriculture (including “the appropriate share of the costs of the Director General and his team”), legal and accommodation costs, depreciation and capital charges).
- USA costs recovered are restricted to overtime or unscheduled meat inspection. These account for around 13% of outlays. Recently the National Advisory Committee on Meat & Poultry Inspection recommended that user fees not be imposed at all in future.
- Cost recovery of inspection services vary in other countries. In Ireland the meat industry pays some 40% less than full cost whilst the UK is at the higher end of the spectrum of cost recovery amongst EU countries.

COST RECOVERY

- The basic economic principle for determining the amount that should be recovered is marginal cost pricing. Any price over this level charges for a Government service is effectively a tax.
 - Economic analysis usually focuses on allocative efficiency. But issues of allocative efficiency are irrelevant since the demand for services is insensitive to the fee charged – inspection is compulsory.
 - Meat processors are direct users of inspection services and consumers are indirect users. However users and their share of the benefits are an issue only if the demand for the service is sensitive to prices, which it is not.
 - The main economic purpose of user fees in inspection is therefore to help the agency operate efficiently in a cost efficient manner. This entails marginal or incremental cost pricing.
 - The US system would be far closer to marginal cost pricing than the Australian system, which is taxing the meat industry. The extent of this tax requires more detailed data than has been available to date.
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