

**PRODUCTIVITY COMMISSION INQUIRY INTO THE
AUSTRALIAN GOVERNMENT RESEARCH AND
DEVELOPMENT CORPORATIONS MODEL**

Submission by Sheepmeat Council of Australia

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1. SUMMARY

This submission from Sheepmeat Council of Australia (SCA) does not attempt to canvas the broad range of issues raised in the Productivity Commission Issues Paper. The submissions from Meat & Livestock Australia (MLA), the National Farmers' Federation (NFF) and an across industry submission prepared by the Australian Farm Institute have attempted that herculean task and are fully supported by SCA.

This SCA submission draws attention to two specific matters; the peak industry council (PIC) role in policy development and implementation as part of improving public and private good outcomes from the RDC model, and; the success that the RDC model has achieved in the sheepmeat industry.

In general terms however, SCA believes there is a need for increased Government investment in agricultural research and development because:

- improvements in agricultural productivity benefit the Australian economy, environment and society;
- productivity growth in agriculture has slowed as public investment in research, development and extension has declined;
- productivity gains in agriculture will only come if public investment continues;
- for agriculture to remain internationally competitive and continue to deliver public benefits it will need ongoing public and private investment; and
- the structure of agricultural businesses means that Government investment is required to deliver sufficient levels of research and development.

The red meat industry has been very successful in working together for productivity gains which have provided both public and private good outcomes. This success comes out of a strong partnership with interaction, transparency and collaboration across the full supply chain – vertical interaction through the red meat industry arising from the cooperation between producers and processors and a range of service sectors. A specific example was the significant effort made by all sectors of the industry in the reform process of the late 90s.

The success of the lamb industry over the last 20 years is a direct result of a coordinated supply chain approach. It would not have happened without public funding because the commercial drivers were not strong enough to encourage the necessary R&D to underpin the changes needed at an industry level. The outcome includes enhanced amenity and resilience of rural communities. Profitable agriculture means better rural communities and underpins spatial distribution of the population.

An industry owned service delivery body like MLA provides a unique mechanism to ensure that there is ownership of the company outputs and therefore faster adoption of new technology. Cross-sectoral issues are also best dealt with from an industry perspective, as this is the driver of efficiency and effectiveness. The combination of R&D and marketing maintains a strong linkage between understanding customer needs and the necessary R&D to underpin improved technology.

There is value in the involvement of producers in the development of MLA investment strategies. The industry, through peak councils, is directly involved in the selection of the Board, the Company's strategic direction and its yearly activities. Governance is therefore supported by independent and interested producer oversight.

The governance arrangements ensure that MLA operates efficiently, effectively and appropriately. The current model has been an excellent mechanism to achieve both public and private good outcomes for the sheepmeat and lamb industry, for the agricultural sector in general and for the Australian community.

It is difficult to obtain public benefit in isolation, as much of the resource base is in private hands, therefore to improve public amenity/public good, there has to be a concomitant private benefit. Given the nature of our industry, made up of small to medium size businesses, we do not have the capacity as individuals to seek out, adapt and capitalise on new technology, especially that which is generated overseas.

Current structures reflect the enormous diversity of need and effectively deal with the necessary quarantining of funds. There is a clear recognition of the significant diversity across agriculture and that a one size fits all approach is doomed to failure.

2. BACKGROUND - SHEEPMEAT COUNCIL OF AUSTRALIA

SCA is the national Peak Industry Council representing and promoting the needs of Australia's lamb and sheepmeat producers.

The objects of SCA are -

- (a) to represent and promote the interests of Australian sheepmeat producers;
- (b) to function as a specialist sheepmeat industry organisation with concern for the livelihood of all sheepmeat producers;
- (c) to carry out activities necessary for the betterment of the sheepmeat and live sheep export industries;
- (d) to collect and disseminate information concerning the sheepmeat and live sheep export industries;
- (e) to co-operate with appropriate organisations at the state and national level and overseas;
- (f) to maintain a high level of liaison and co-operation with its Members, relevant Government departments and authorities at Federal and State levels, with local government, and with other relevant industry organisations;
- (g) to promote the development of the agricultural and pastoral industry and resources of Australia;
- (h) to act as the Prescribed Body for the sheepmeat industry in Australia within the Red Meat Industry MoU under the *Australian Meat and Livestock Act 1997* (the Act).

SCA is a signatory to the red meat industry Memorandum of Understanding (MOU). The MOU highlights SCA's role as a Peak Industry Council. The MoU also identifies SCA as a member, along with other Peak Industry Councils, of the Red Meat Advisory Council Ltd (RMAC).

RMAC's role includes consulting with the Minister on agreed whole of industry matters; to be custodian of the Meat Industry Strategic Plan and MOU; and to manage the industry's financial reserves, known as the Fund.

SCA receives its funding primarily from three sources; the Fund for the activities specified in the MoU undertaken on behalf of the sheepmeat industry; by voluntary membership subscriptions paid by State Member Organisations, and; through specific service agreement arrangements.

SCA is accountable to RMAC, the Commonwealth, and the national sheepmeat industry through an annual business plan and audit as well as the normal annual accountabilities prescribed and expected of an incorporated association.

SCA represents all sheepmeat producers in Australia and provides an efficient mechanism to bring a diverse range of issues and needs to the policy making process. The Council draws on many formal and informal processes to achieve this. Principal amongst these is input from the state farming organisations, which have extensive

networks across their jurisdictions. As well, the Council as an entity and the Councillors as individuals utilise a very wide range of mechanisms to gather information and develop policy, for example, farmer cooperatives and groupings, informal interaction at meetings and other gatherings, through the Council's e-newsletter and annual publication, and the individual Councillor networks.

As the recognised peak body for the sheepmeat industry under the Act, SCA sets the strategic objectives to be pursued by the levy funded organisations Meat and Livestock Australia (MLA), Animal Health Australia (AHA), and the National Residue Survey (NRS), and examines and approves their programs and budgets.

2.1 Formation of SCA

The Sheepmeat Council was formed in 1979, along with the National Farmers' Federation (NFF), as one of the seven autonomous commodity councils of NFF and was established to represent the national interests of lamb and sheepmeat producers and more recently suppliers of sheep for live export.

The inauguration of the Sheepmeat Council and separate councils for cattle and wool, along with the creation of NFF, represented the culmination of federal farm unity discussions which started in October 1977.

2.2 The Council

The Council Board comprises nominees of its Members – the State Farmer Organisations. The current members of the SCA are; New South Wales Farmers' Association; Victorian Farmers' Federation; AgForce, Queensland; South Australian Farmers' Federation; Tasmanian Farmers' and Graziers' Association, and; Pastoralists & Graziers Association of Western Australia.

The Directors are volunteers and mostly active sheepmeat producers. The Council holds four meetings a year rotated between Canberra and other capitals or regional centres. It is supported by a small staff based in the NFF House in Canberra, ACT. SCA works closely with other like minded organisations to maximise the use of limited resources.

3. RESTRUCTURING MEAT AND LIVESTOCK STATUTORY BODIES¹

3.1 Red meat industry reforms

The meat industry is one of Australia's major agricultural industries. The value of livestock production was estimated at about \$20 billion in 2007-08, representing 48 per cent of all farm production². The red meat and livestock industry, which includes cattle, sheep, lamb and goats, constitutes the largest component of livestock production.

The red meat and livestock industry is a multi-sector industry represented by beef and sheepmeat producers, processors, lot feeders and live exporters. There is significant diversity of interest, size and structure within each component of the industry.

In March 1997, the Government announced the 'red meat reform package' with the purpose of increasing industry's role in self determination and self regulation and to minimise the involvement of Government while at the same time ensuring appropriate representation, governance and accountability of the industry. The key elements of the reforms were for:

- Australian Meat Livestock Corporation (AMLC), Meat Research Committee (MRC) and Meat Industry Council (MIC) to be replaced by a new producer-owned company, entitled Meat and Livestock Australia Ltd. The new company would be funded by compulsory levies paid for by producers, together with contributions from processors and livestock exporters to support agreed collective and core activities;
- meat processors and livestock exporters to establish separate voluntary funded companies (Australian Meat Processing Company Ltd. [AMPC] and LiveCorp Ltd. respectively) with statutory levies reduced to zero, with the Government retaining the power to raise the statutory levies if industry failed to collect sufficient funds to finance agreed collective activities with producers;
- the peak councils to establish a new company, the Red Meat Advisory Council (RMAC), to advise the Government on whole of industry matters, including industry multi-sector policy and strategic matters; and
- AUSMEAT to be established as a joint venture company, to be funded equally by MLA and AMPC. AUSMEAT is the organisation that is responsible for maintaining a universal trading language for meat and livestock.

The five new companies were incorporated under the Corporations Law as companies limited by guarantee.

Under the new industry arrangements:

- a Memorandum of Understanding (MoU) was drawn up between industry sectors, industry established companies and Government designed to achieve cooperation in the overall interests of the red meat industry;

¹ Based on Restructuring of Meat and Livestock Statutory Organisations, Australian National Audit Office, 1998.

² ABARE, Australian Commodity Statistics, 2008

- Commonwealth matching funds for research and development (R&D) continued; and
- the then Department of Primary Industries and Energy (DPIE), now DAFF, continued to collect and distribute statutory producer levies and took over the issuing of export licences and quotas from the AMLC.

The policy framework for the new structural arrangements was defined by the Government. The new arrangements were designed to minimise Government involvement in industry affairs, empower industry in running its own affairs and encourage ownership and leadership by industry. The Government did not prescribe the operational details of the new structures. The latter were to be the responsibility of the industry. Key linkages involving Government were established in the MoU and through Deeds of Agreement directing appropriate use and accountability for compulsory levies, industry reserves and Commonwealth matching funds for R&D with the new companies.

A Transition Team, comprising representatives from the six peak councils, the then AMLC and MRC, DPIE and a representative of the office of the Minister for Primary Industries and Energy, was established as the primary mechanism to implement the reforms within the framework of the Government's policy.

3.2 Outcome of reforms

The new arrangements for the red meat industry came into effect in 1998.

In undertaking the implementation, the Transition Team negotiated a number of complex issues with a very diverse industry. The Department contributed significantly to this process.

The reforms were ground breaking and required considerable effort on the part of all parties involved to resolve sometimes quite complex implementation issues. There were many challenges for all parties in facilitating and supporting their implementation.

The MOU, containing a statement of principles and supporting schedules outlining the new arrangement to which industry sectors had agreed, included the processing sector's collective R&D and marketing arrangements. These operated on the basis that processors' voluntary contributions would fund AMPC to finance marketing and R&D services and that AMPC would also run jointly-funded programs with MLA.

Under the MOU, processors were required to contribute to industry R&D and other activities and were asked every three years to continue their voluntary contributions. However, the scheme failed in the AMPC poll in May 2006, with an insufficient number of red-meat processors opting to continue their contributions to maintain long-term funding of MOU obligations.

Failure of the voluntary scheme meant that the whole MOU would fail unless a statutory levy scheme was established. Failure to agree on the format of statutory levies also left

open the possibility of the Commonwealth reactivating the pre-1998 statutory levy, which had been suspended while the voluntary scheme was active.

A ballot of meat-processor establishments was conducted by the Australian Electoral Commission in December 2006 asking that the Minister for Agriculture, Fisheries and Forestry amend relevant legislation to enact a new statutory levy for red meat processors. This was agreed by processors.

The above outlines an amazing story of cooperation in what is fundamentally a very diverse group of organisations and individuals with very different aims and objectives. The fractious relationships which existed between parts of the red-meat industry at that time were largely overcome in building a real partnership for the red meat and livestock industry. The resources required to achieve the outcome were significant. The time and energy invested by many industry and Government players was substantial. The partnership continues and, whilst not always harmonious, provides a robust platform for ongoing policy debate and resolution. The collaborative arrangement between producer and processor peak councils and service companies ensures strategic investments along the supply chain are possible within an administratively efficient framework that avoids duplication and supports a coordinated approach. This unique framework should not be jeopardised in any attempt to change the rural RDC arrangements.

4. THE POLICY ROLE³

The Productivity Commission Issues Paper asks about the efficiency of the consultation protocols and specifically whether the legislative requirement for some RDCs to consult with peak industry groups should be scrapped.

PICs play an extremely important role in collecting, synthesising and responding to the diverse range of issues and concerns within the industry and in meeting their wide range of responsibilities. Society is placing greater demands on our food production systems to deliver social and environmental outcomes. Government looks to PICs to continue to provide fair and robust policy advice. With our limited resources we provide a consistent national focus, consider consumer needs, work for a strong return on investment to Government and levy players, support research aligned with national RDE priorities, keep research relevant and assist uptake and evaluate the performance of the service bodies such as MLA.

If this were to be “replaced by a more generic requirement simply requiring consultation with an appropriate range of stakeholders” then MLA, AHA and the NRS would need to establish a transparent, accountable internal mechanism that was able to demonstrate that the Company could, for all matters, identify the appropriate range of stakeholders. This would require extensive checks and balances and arms length provisions (Chinese walls). The current system provides all this at minimal cost. Attempts to replace the current

³ Drawing on material from the RMAC response to the December 2002 Report by the Senate Committee on Rural and Regional Affairs and Transport Legislation submitted on 31 March 2003

system must not only demonstrate that it is practical, that it is financially advantageous and that it improves consultation but that it enhances performance in R&D and in uptake of technology.

The aggregation of existing Peak Industry Councils (PICs) into “a single voice” through RMAC under the reforms has been an excellent move by the Government to ensure industry, where possible, presents a single view. It also recognised the important role the individual PICs have played for decades, and will continue to play, in the formation of policy for the specific sector each represents.

With very few exceptions, RMAC’s co-ordination of policy advice to the Minister has been sound. RMAC does not see itself as the sole purveyor of industry wisdom and the only body with whom the Minister should consult. The Minister clearly accepts this by having an open-door policy for anyone in industry wishing to convey their views.

RMAC strength rests with its diversity and thorough knowledge of all sectors of industry, and its ability to act as a single industry touch-point for the Minister if and when he requires it.

Each sector’s fortunes are integrally linked with those of the other sectors and that given the general degree of overlap between these sectors regarding most policy and financial issues, each is well equipped to have an opinion and to influence debate. Divergence of opinion is not a weakness in the policy making mechanism that has worked effectively.

It is important that if any changes are made there remain national bodies that perform a service for more than just their members. Following the ‘market failure’ principle, these bodies can and do justify generic funding from a central industry source. In so doing, these bodies accept the necessity to be transparent and accountable in the way they spend such funds.

5. BUILDING THE AUSTRALIAN PRIME LAMB INDUSTRY⁴

The following is a snapshot of success in the Australian lamb industry - how industry and Government worked together on a vision to build a domestic and export lamb industry with a combined value of nearly \$3 billion. This is an excellent demonstration of the contribution made through the current unique Government /Industry partnership to the achievement of a common goal. This common goal was achieved using public and private investment to achieve public and private good outcomes – outcomes that would not have been achieved if left to one of the two partners.

5.1 Where we started

In the late 1980s lamb attracted low auction prices, with fluctuating quality and an ‘old fashioned’ image labelling it an inferior choice to skinless chicken breast fillets and ‘New

⁴ Section 5 is based on material contained in the MLA publication “Building the Australian prime lamb industry. The Industry Impact”. Evaluation Series 3.1 Increasing cost efficiency and productivity – on-farm. 2.6 Aggressive promotion in the market place.

Fashioned Pork'. In 1990 the lamb industry was valued at \$1.1 billion and 85 per cent of its product was consumed by the domestic market.

Two decades ago lamb was primarily a wool industry by-product: production was dominated by very seasonal supply and domestic market requirements, with per capita consumption declining rapidly at five per cent per year. Consumer tracking studies showed that lamb was losing ground with younger consumers due to its perceived fattiness, wastage, lack of versatility and difficulty to cook.

Meanwhile, in the United States (US) a weakened domestic lamb industry and restrictions on export competitors such as New Zealand provided lucrative opportunities for the Australian industry.

5.2 A strategic response - industry leadership and collaboration

The 1995 Lamb Industry Strategic Plan (LISP) facilitated by the Meat Research Corporation (MRC) and the Sheepmeat Council of Australia (SCA) established high-level goals targeting an industry value of \$2 billion per year by 2000. The subsequent industry revolution was market driven and underpinned by a program to identify, promote and create supply pathways for what consumers wanted, and an on-farm research and development (R&D) program focused on delivering it.

MLA collaborated with SCA and key industry players to execute R&D and marketing programs that facilitated cooperation and co-investment through the supply chain involving producers, processors, independent retailers and supermarkets. The federal and state governments' critical financial contribution saw state agriculture department extension staff and research institutions play a pivotal role in building industry capability. This collaboration has underpinned public and private benefits.

The \$639 million invested between 1991 and 2007 has had a positive influence on lamb production, industry and consumer attitudes, contributing to increased turn-off of larger, leaner carcasses; increased consumer demand; higher returns; and up to \$2.39 billion in industry value added at the farm gate.

An independent review by CIE showed that activities conducted under MLA's on-farm lamb R&D and marketing programs contributed to a significant reversal in industry and consumer attitudes, transforming lamb from a discount commodity to an aspirational product and valuable export.

The LISP aspired to achieve a lamb industry valued at \$2 billion by 2000 and \$2.8 billion by 2005. The 2000 target was not achieved until 2003, however both LISP targets were surpassed in 2007 with annual industry sales valued at approximately \$2.9 billion - \$2.1 billion and \$820 million in the domestic and export markets respectively.

5.3 Reinventing the product

Market research identified domestic and international preferences, while product research equipped the industry to meet requirements for large, lean lambs; move to dedicated lamb processing; and develop trim, versatile cuts. Collaboration with state agriculture departments was significant; apart from facilitating research and adoption of R&D outputs, they maintained research facilities critical to delivery of R&D outcomes.

R&D extension enabled MLA to maximise outcomes from its on-farm investment, encouraging adoption of new technologies and a production shift towards large, lean lambs. This approach was key to ensuring the development of a specialist industry. It worked on the key elements of sheep genetics, reproduction, sheep health, sheep nutrition, sheep management and adoption.

5.4 Growing the market

Transforming retail supply from lamb carcasses to cuts and generating consumer demand required collaboration between AMLC/MLA and industry: on-farm, processing and retail. Engagement to communicate domestic expectations encouraged producers to turn out higher carcass quality and meat yields, which influenced value-added retail products. The 'Trim Lamb' campaign introduced new cuts and trimming practices to address the lamb popularity slump.

The Australian lamb industry's turnaround was dependent on comprehensive marketing to popularise lamb as Australia's national meat. Leveraging media and community interest and seizing tactical promotion opportunities was a valuable lesson and MLA has continued to build on this approach. Eating quality improvements attracted retailer interest and motivated value-added products attracting higher prices. Focusing on the core product's potential and cementing retailer confidence in lamb has ensured ongoing marketing support.

Engagement with government and industry was necessary to overcome barriers, economic and technical issues impeding international market access. AMLC/MLA marketing and distribution support helped to sustain supply and export growth

5.5 Reinvention, reinvigoration and growth

The above is a story about the transition of the lamb industry from reinventing the product to reinvigorating the market, about growth and global expansion towards market diversification. Each stage of the journey has been facilitated by key initiatives that have integrated emerging market opportunities with the development of an export-oriented specialist prime lamb industry. This was demand driven adoption with coordinated marketing and R&D – made possible by the structure of MLA – and had a significant and positive effect on the lamb industry. It is a real success story bought about through planning, commitment and teamwork within the current RDC framework.