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Preserving Meat and Livestock Australia

The Federal Government's Concerns

The Federal Government's 15 July 2015 initial response to the Senate Rural and Regional Affairs and Transport References Committee report on grass fed cattle levies rejected implementation of that part of the Senate Committee's recommendation which called for the formation of a grass fed cattle levy producer owned body that had the authority to receive and disperse all of the grass fed cattle transaction levies.

One of the reasons given in the Federal Government's published response for rejecting the Senate enquiry recommendation that the new grass fed cattle levy payer Corporation receive all the grass fed cattle transaction levies was that:

“(t)he government has formed this view on the basis that full redirection of the grass fed levy would fundamentally destabilise Meat & Livestock Australia, to the detriment of other components of the red meat industry”

The Government's 15 July 2015 response went on to express concern about administrative duplication and cost inefficiencies if the new grass fed cattle corporation were to receive all the grass fed cattle transaction levies suggesting that “... *there would be little, if any, benefit to grass fed levy payers... that could not be achieved through modification of the current structures*”

The Government also stated in its response that it would be necessary to revise the Red Meat Memorandum of Understanding (MOU) ‘... *to more clearly define the roles and responsibilities of each entity around consultation requirements and agreement on forward work plans and levy expenditure.*”

Problems with the Government's Position

The Government's position outlined above is somewhat contradictory and overlooks a number of competing considerations which, on balance, outweigh any administrative inefficiencies that may flow, from the Government's perspective, from the need to oversee an additional industry body's levy expenditure.

First, it is difficult to understand the rationale for the perceived requirement that grass fed cattle producers should bear the burden and financial responsibility of preserving Meat and Livestock Australia's (MLA) role for the benefit of other sectors of the red meat industry, including the sheepmeat industry, which is a direct competitor of beef in the red meat market.

In the 2012-13 financial year the grass-fed cattle sector was by far the largest single contributor to the total revenue of MLA, contributing 57% of MLA's levy revenues or nearly twice the levy revenue amount contributed by the lamb and sheep sector.

Second, there are two ways in which the MOU could be revised in order to meet the twin aims of ensuring the new grass fed cattle corporation (Newco) has adequate control over the expenditure of the grass fed cattle transaction levy and the perceived need to preserve MLA's role:

- (a) in the event that Newco were to receive all the grass fed cattle transaction levies MLA's role can be preserved by amending the MOU to require Newco to contribute that proportion of the grass fed cattle transaction levy that it received that was necessary to fund the *core functions* and *joint functions* set out in the MOU in the same way that the Australian Meat Processor Corporation (AMPC) and LiveCorp are required to contribute levy funds that they receive for red meat industry *core functions* and *joint functions*, alternatively
- (b) the MOU could be amended to require the grass fed cattle transaction levy to be held by MLA in a special grass fed cattle levy trust with the expenditure of the levies from that trust to be dependent upon the written authorisation and direction of Newco (similar trust arrangements could be made with respect to the sheepmeat slaughter levy)

Third, the Federal Government's position overlooks a number of dysfunctional flaws in the current red meat industry organisational structure, including:

- (a) the dysfunctional divide between policy setting and policy delivery under the current RMAC, MLA, and Peak Council MOU structure;
- (b) the Cattle Council of Australia (CCA), and indeed, Sheepmeat Council of Australia (SCA) funding problems;
- (c) confusion by both government and industry as to who is the "voice" of the industry and each sector industry;
- (d) the perception by many sheep and cattle producers that they are disenfranchised under the current structure with a resultant disconnect between the organisational structures and their levy paying constituents;
- (e) the fact that sheepmeat and beef are direct competitors for the red meat market, but nevertheless MLA is obligated to use its best endeavours to market and promote the consumption of both sheepmeat and beef; and
- (f) the fact that under the current structures red meat levy expenditure by the MLA service provider for non-core and non-joint functions is not directly contestable, which means

that the levy payers are not necessarily receiving the cheapest price that could be obtained in the marketplace for the provision of those services.

The financial and structural inefficiencies for the red meat industry arising out of the dysfunctional flaws in the current organisational structures outlined above would far outweigh any financial inefficiency of the government having to oversee levy expenditure by an additional industry body.

Greater operative and financial efficiencies could be obtained from both a government and industry perspective if levy funded Australian Wool Innovations were merged with a levy funded Sheepmeat Council to form a single sheep industry levy funded body as one of Australia's largest wool and sheep levy payers Roger Fletcher suggests, than any operative and financial efficiencies that could conceivably be achieved through the current combined sheepmeat and beef structure.

Based on the current combined sheepmeat and beef structure, if Newco were to receive all the grass fed cattle transaction levies subject to the MOU requirement to fund MLA core and joint functions dysfunctional flaws (a), (b), (c), (d), and (f) would largely be addressed and dysfunctional flaw (e) would be to some extent ameliorated.

If Newco were to receive some of the grass fed cattle transaction levy, with the balance being held in trust by MLA, with expenditure of that money being subject to the written direction of Newco then dysfunctional flaws (a) to (d) would also be largely addressed and dysfunctional flaw (e) would be to some extent ameliorated; however dysfunctional flaw (f) would not be addressed which would almost inevitably result in Newco having to pay more for the provision of those non-core and non-joint functions than it would if the provision of those services would be fully contestable in the marketplace.

The functional inefficiency and financial cost of the provision of uncontested services should not be underestimated.

Conclusion

It follows from the above that grass fed levy payers would achieve greater benefits if Newco were to receive all the grass fed cattle transaction levies rather than none or some as the Government's response suggests.

It is also hard to understand the rationale for the argument that grass fed cattle producers should support the current MLA structure for the sake of other red meat industry sectors who are not contributing the same amount of levy funds to MLA as do grass fed cattle producers.

Finally, for the reasons outlined in yesterday's Hunt Blog Newsletter, the financial realities are that unless Newco receives some of the grass fed cattle transaction levies, Newco will be unable to fund its representative activities and obligations under the current red meat organisational structure and the MLA bureaucracy will be effectively left with the administrative responsibility to oversee and direct the expenditure of grass fed cattle levies rather than the grass fed cattle levy payers being able to accept and carry out that responsibility themselves.

Further material on the RRAT Senate References Committee Inquiry into Industry Structures and Systems Governing Levies on Grass Fed Cattle submissions, hearings and report can be found at www.HuntBlog.com.au and on www.cattlelevysenateinquiryinformation.com.