

Background to the Call for Red Meat Organisational Reform

The red meat industry and the Australian and global economy has changed significantly since the current organisational structures were put into place in the 1990s:

Concentration of Abattoir Power

- in 1998 there were 215 abattoirs in Australia - currently Australia has about 150 abattoirs;
- in early 1996 the five largest processing companies in Australia processed 28% of the national cattle killed and the five largest sheep processors saw 38% of the national sheep kill;
- the five largest red meat processing companies in Australia now account for about 54% of the national sheep and cattle killed, despite the fact that the sheep kill has declined by almost 60% since the mid 1990's.

Concentration of Foreign Abattoir Ownership

- in 1996 the following abattoirs that are now wholly or partly owned by foreign companies were all Australian owned:
 - >The Tasman Group who owned 3 abattoirs in Victoria and 3 abattoirs in Tasmania with a capacity to kill 600,000 cattle, 3 million smallstock and 80,000 pigs annually before they were taken over by JBS Swifts ,
 - >Tey's who owned abattoirs at Beenleigh, Biloela and Rockhampton in Queensland and an abattoir at Naracoorte, South Australia before they merged with the US based Cargill
 - > Greens WA,
 - >Kilcoy Qld,
 - >Primo NSW and
 - >Tabro SA
- the foreign owned abattoirs all have the infrastructure and resources necessary to implement their own overseas marketing, with many of them principally acting as vertically integrated suppliers to their home countries.

Concentration of Supermarket Power

- in the five year period between 1987 and 1992 the percentage of beef sold on the domestic market through supermarkets rose from 20% to 35%;
- according to the latest Nielsen Homescan survey published by Beef Central, Coles and Woolworths now sell about 57% of the beef eaten in Australia and IGA, Aldi and the other minor supermarkets another 21.6%, taking the supermarket share of Australia's domestic beef sales to about 78.6% or 2.24 times the supermarket share of Australian beef sales in the early 1990's.

Decline in Australia's Sheep Population

The 1996 Task Force Report, that was the precursor to the establishment of the current red meat structure, included a recommendation for separate sheep and cattle levy funded corporations, but that option was not adopted in the final implementation of the 1990's restructure.

- In the 1990's Australia's sheep population was in excess of 170 million and as of 3 June 2012 Australia's sheep population had declined to 74.7 million.

Increased Feed lot Capacity

In 1998 cattle feed lot capacity in Australia was 885,000 head and by September 2013 Australia's feed lot capacity had reached 1,162,204.

Separate Producer and Processor Levy Paying Corporations

- When the current red meat industry organisational structures were put into place in 1998 MLA was to be the producer corporation and the AMPC the processor corporation. However 18 % of all MLA levies are now paid by abattoirs and at least half of the top 14 MLA levy payers are abattoirs. JBS Swifts, Australia's, and the world's largest meat processor, is MLA's largest levy payer.

The Rise and Fluctuations in the Value of the Australian Dollar

- In 1996 the value of the Australian dollar averaged 75 US cents, whilst from the beginning of 2011 until the middle of 2013 the value of the Australian dollar fluctuated between parity and \$1.10 US and is currently trading at around 86 to 90 US cents.

Falling Cattle Price

One of the drivers behind the 1990's red meat industry organisational structural reforms was the major (33%) decline in cattle prices that occurred between 1993/94 and 1996. The last major change to the Eastern Young Cattle Indicator (EYCI) data composition was the inclusion of feeder cattle in November 2004, consequently only post 2004 EYCI figures can meaningfully be used for comparative purposes. The published EYCI figures are not adjusted for inflation.

- On 17 January 2005 the EYCI was 384 cents and by 29 July 2005 the EYCI reached 415 cents. The EYCI averaged 376 cents throughout the whole of 2005;
- on 11 February 2013 the EYCI was 332, the average EYCI for the whole of 2013 was 316 cents;
- On 16 January 2014 the EYCI was 291 cents.

The ABS Consumer Price Index Inflation Calculator converts:

- 384 cents in January 2005 to 490 cents in September 2013;
- 415 cents in July 2005 to 522 cents in September 2013; and
- the 2005 average EYCI of 376 cents to 466 cents in September 2013.

In real terms:

- the 16 January 2014 EYCI of 291 cents is 40.6% below the inflation adjusted 17 January 2005 figure of 490 cents; and
- 44% below the inflation adjusted 29 July 2005 EYCI figure of 522 cents; and
- 36.5% below the inflation adjusted average EYCI figure for the whole of 2005; and
- the average EYCI figure for the whole of 2013 of 316 cents was 32 % below the inflation adjusted average EYCI figure for 2005 of 466 cents

This analysis is confirmed by an article by Ian Maclean and David Counsell of Bush AgriBusiness Pty Ltd published by Beef central on 11 February of 2013 which concluded that Queensland cattle prices had declined by 40% in real terms since 2001.

Blow Out in Levy Funded Corporation Budgets and Failure to Achieve Key Performance Benchmarks

In the 1990's one of key drivers of replacement of the previous corporations, AMLC and MRC, was the blow out in their combined annual budgets from \$14 million in the early 1980's to \$138 million, whilst during the same period:

- real cattle prices had declined by 20%; and
- ABARE figures showed that domestic per capita beef consumption had declined at a rate of about 1.3% a year from 1979 until 1996;

Meat and Livestock Australia Ltd started off with a budget of \$96 million which has now blown out to \$170 million. During the same period:

- real cattle prices have continued to decline, falling by 32% between 2005 and 2013 based on published EYCI figures;
- real cattle prices in Queensland fell by 40% between 2001 and the beginning of 2013;
- based on the Mclean and Counsel published figures, per capita domestic beef consumption fell at a rate of 1.49% a year for the first 15 years after MLA's inception (from 41.5kgs per person in 1997 to 32.2 kgs per person in 2012); and
- MLA itself predicts that Australian per capita beef consumption will fall a further 10.6% in 2014, which based on 2012 consumption figures, will result in an Australian 2014 per capita

beef consumption figure of about 28.8kg/s per person; this represents a massive per capita beef consumption drop of 12.7 kg's or 1.8% per year, over the 17 years that will have passed since 1997.