
OVERVIEW AND RECOMMENDATIONS

INTRODUCTION

Due to the convergence of a range of influences, the Australian red meat industry, and in particular the beef industry, is experiencing a very damaging and serious downturn. This is reflected in the historically depressed prices and levels of profitability in both on-farm and off-farm enterprises.

The reasons for these depressed conditions are well documented. In broad terms they reflect a combination of cyclical and short-term global factors, and long standing structural problems specific to Australia. The latter are the subject of this report.

The importance of early progress on all industry fronts is seldom more obvious than now, when the meat industry is facing such major financial, economic and market pressures including:

- the current poor world beef market
- declining domestic red meat consumption and
- increased competition in the world markets.

External market influences are only a part of the current industry crisis. Domestic influences, including production and processing costs, transportation, industrial relations, workplace practices in the meat industry and the operations of the Australian Quarantine and Inspection Service, together with the structure of industry statutory bodies, all combine to affect the competitiveness and sustained profitability of the Australian meat industry.

With abundant grazing land, Australia produces livestock at a highly competitive cost relative to our major global competitors. More efficient processing and marketing is necessary, however, if we are to take full advantage of our comparative efficiency in livestock production.

The industry has significant scope for growth but, unless improvements are made in productivity and cost efficiency beyond the farm gate, Australia's competitiveness will not improve on a sustainable basis and both export opportunities and value adding potential will be lost.

top rated port, and 66% as efficient as Auckland (Booz, Allen & Hamilton study 1993).

While these observations are discouraging, both industry and government leaders recognise that the latent potential for recovery and market expansion is considerable. The industry is at a crossroads, where the correct decisions and actions can deliver a prosperous and expanding industry.

The fundamental goal of industry and government must be to improve international competitiveness. While the government is currently addressing its priorities to establish the most suitable economic and industry policy framework, the industry itself must tackle its commercial and marketing opportunities and management challenges.

As part of the process of change to meet the current challenges, this report addresses the scope for institutional reform and selected policy actions for early attention. The recommendations of this report, however, represent only a relatively small potential contribution to the major task of improved competitiveness. The overall solution is with the industry and its response to changing market forces.

BACKGROUND TO THE MEAT REFORM REPORT

In July 1995 the previous government established the *Meat and Livestock Industry Act 1995*, providing a new statutory institutional framework for the meat and livestock industry. The new arrangements comprised the Meat Industry Council (MIC), the Australian Meat and Livestock Corporation (AMLC) and the Meat Research Corporation (MRC).

The arrangements were designed to provide industry with greater responsibility for its own affairs and to move it towards a less government-regulated environment, with statutory structures that are appropriate to the future commercial and consumer challenges. The roles of each of the statutory bodies are described in the report.

Importantly, the legislation provided a sunset clause to the statutory structures at 30 June 1998. It was also the government's announced intention that there be a further review of structures by government and industry to commence no later than 1 July

1997. The principle behind the previous reforms, as explained in the second reading speech, was:

to phase the government out of the statutory arrangements, through a staged approach of transferring greater responsibility for statutory decision making to the industry itself, and eventually moving to a non-statutory environment.

Since the passage of the *Meat and Livestock Industry Act 1995* there has been an obvious decline in the short-term outlook of the meat industry. This has focused attention again on the issue of the industry statutory structures and the use of industry levies, as well as other areas of debate.

In May 1996 the present Minister for Primary Industries and Energy, Mr John Anderson, announced the establishment of a Joint Government and Non-government Operational Task Force to address the issues and to develop options and recommendations for a future institutional structure. The Task Force was also requested to address the operational and overhead financial management and effectiveness of present statutory bodies, and to further pinpoint key industry policy and program issues for early action by government and/or industry.

To ensure the review process was inclusive and compatible with current legislation, the Minister appointed a Steering Committee to oversee the exercise and to ensure that established industry and government partnerships in the exercise were retained.

The Steering Committee comprised:

- Mr Robin Bligh, MIC Chairman
- Mr George Gilbertson, MIC member, President AMC
- Mr Paul Barratt, MIC member, Secretary DPIE
- Mr Patrick Musgrave, AMLC Board member
- Dr Jennifer Wythes, MRC Board member, Chairman QLMA and
- Mr John Wyld, MIC member, President CCA.

The Task Force comprised:

- Dr Simon Hearn, First Assistant Secretary DPIE

- (1) Identify options for meat and livestock industry organisations that deliver collectively funded meat and livestock industry programs more effectively and provide a recommendation.
- (2) Assess and document the costs and delivery efficiency of the services provided by the AMLC, MRC and MIC to provide a cost baseline for the longer term industry organisational structure.
- (3) Propose key government, or joint industry/government, policy and program actions, including those that extend beyond the functions of industry organisations, to facilitate a more internationally competitive red meat industry in Australia.

The report is broadly presented in three segments to address the above three purposes.

The approach adopted for Purpose (1) involved the development of guiding principles by which the Task Force assessed and judged proposals for future collective functions and institutional options. This was combined with extensive discussions with key industry parties in the meat chain as well as State and Federal statutory authorities. Industry and government agencies also responded to an issues questionnaire, as did a range of individual industry participants.

As a result of these exchanges, a list of possible future collective functions and 14 guiding principles was developed, against which six broad options for future meat industry organisational structures were defined and assessed in terms of overall strengths and weaknesses of each option. These were discussed with industry and government agency representatives.

The six options were subsequently more closely defined into a short list of three options. This short list was closely scrutinised and further discussed with industry parties. Each option was regarded as a viable alternative and a preferred option is presented in the recommendations on the basis of a majority opinion of the Steering Committee and the Task Force.

In the case of Purpose (2), an external consultant was engaged to undertake the operations review against Terms of Reference agreed between the Steering Committee and the Task Force.

The consultant worked in liaison with the Steering Committee and the Task Force in preparing reports on the MIC, AMLC and MRC respectively, with a coordinated report on strategic and structural issues. The consultant's review is taken up in this report as a synopsis of his findings and an assessment of implications for the Task Force report. The operations review report by the consultant is expected to be released separately and will stand alone as an audit report to the three statutory bodies and their industry stakeholders.

Under Purpose (3) of the Task Force's Terms of Reference, it was understood that the government is seeking recommendations on early action which can be taken to improve the policy and program settings. Particular attention was given to the respective roles and partnerships of industry and government.

The method adopted involved examining both the broader policy role of government in the future, and the more specific meat industry policy responsibilities of both government and industry. These assessments were examined against the six main imperatives of the Meat Industry Strategic Plan (MISP), given that the MISP has broad industry support as a strategic direction for industry development and achievement.

The recommendations for early action on policy and programs also recognised the overall budgetary policy of the government. The government has highlighted fiscal consolidation and a return to an underlying budget balance as soon as possible. The action list presented under Purpose (3) is deliberately limited to be within the present financial settings of government. It is designed to enable the meat sector to participate in the present program settings, allowing for a whole of government approach to take in programs within the Primary Industries and Energy portfolio and in other portfolios. Scope for improving the relevance of some current policies and programs is also included.

Throughout this exercise there was close and cooperative interaction between the Steering Committee and the Task Force and much unanimity. The Task Force undertook most of the analysis and preparation of material. The recommendations, however, are the joint product of Steering Committee and Task Force deliberations.

MAJOR CONSIDERATIONS AND FEATURES OF THE REPORT

This report is intended to provide the Minister with a package of reform proposals with specific recommendations, but with alternative structural options as a basis for government and industry discussions to establish an institutional and policy framework up to the year 2000 and beyond.

The key features covered in the report are:

- collective functions and structures for the future
- an assessment of present institutional performance and implications for the future and
- a realistic action list for government and industry to achieve greater international competitiveness and improved responsiveness to consumer requirements in domestic and overseas markets.

In short, the task is to suggest a pathway to a stronger future by contributing to the transition in the meat sector that is already under way.

The Task Force has been encouraged and assisted by many submissions from individuals, corporations and associations in both the public and the private sectors. Much energy is being applied by individuals and groups in the meat sector to analysing their industry's problems. Many of the ideas embodied in the options and recommendations will be recognised by industry and other contributors as conforming with their own suggestions.

This report suggests that significant organisational expenditure savings are achievable through a combination of changed structures, contestability in the provision of services, and scope for altering both the range and extent of collective levy funded functions in the future. A precise numeric measure of such changes has not been attempted since much will depend on the extent to which the levy paying industry partners and future board members seek to continue contributing to collective functions such as generic promotion as market circumstances change. The operational flexibilities proposed in this report allows for significant reductions in expenditures and a move away from fixed program outlays.

The main principles behind the recommendations in this report are that the meat industry in Australia is moving inextricably towards more self-regulation and free market operations. The role of government is moving to more clearly defined core functions, but with improved strategic alliances with industry in delivering these functions. Competition policy has changed the means by which government functions are performed and will continue to do so.

STATUTORY STRUCTURES

The present statutory structures are government organisations, even though the reforms introduced in the 1980s delivered a more commercial and industry-driven approach to the statutory structures.

Market and industry circumstances have changed and what might have been appropriate in the 1980s is judged to be less acceptable to the current commercial climate. The need for change to achieve greater commercial focus, operational flexibility, industry ownership and the involvement of levy-paying stakeholders was a dominant feature of industry responses to the Task Force.

This common theme was, however, contradicted by a less clear-cut position on the need for and range of collective functions which would be undertaken by future statutory or non-statutory levy-funded organisations. In general, producers were more markedly inclined towards collective levy-funded activities than were the processors and livestock exporters. There were however differing views within the processing sector.

It is the view of the Steering Committee and the Task Force that livestock exporters be given the opportunity of opting out of current compulsory charge arrangements providing they can convince their own industry and the government that they have a viable means of funding collective functions identified by that sector.

CORPORATE STRUCTURES

The most significant changes proposed under Purpose(1) of the report are the separation of regulatory from industry service functions, and the move from statutory organisations to a non-statutory structure, with corporations limited by guarantee under the Commonwealth's Corporations Law.

This feature will meet the industry's common requirement for greater ownership,

important is the need to ensure that both producers and processors are willing partners, and agree to jointly fund selected collective activities. It is envisaged that this will result in funding at different levels.

The merging of marketing services and R&D is also advocated to ensure that cohesion and stronger linkages are achieved. In recommending this approach, however, it is recognised that research and marketing are equal partners and one should not dominate the other at board or management levels. Also, the funds for R&D must be separately identified from other funds of the joint structures to ensure the integrity of the levy payments and for the purposes of matching funding.

Within this corporate framework, three options are short-listed in the report. These are:

- (a) Two corporations based on a split between beef and sheepmeat but with close voluntary operational linkages.
- (b) A single meat corporation with four separate beef marketing, sheepmeat marketing, R&D and quality systems operational units.
- (c) A single meat corporation with two separate beef and sheepmeat business units (with R&D & quality systems as components of the beef and sheepmeat units).

This short list was vigorously debated between the Steering Committee and Task Force members. Option (a) above is the preferred option of the majority of the members of the Steering Committee and the Task Force. A minority favoured option (b). All the above short-listed options are commended for consideration by government and industry, and discussion of these three options as well as a wider list of options is included in section seven of this report.

In the case of processors, there is some processor support for a proposal that processors establish and manage a separate fund account based on voluntary contributions, but underpinned by a statutory levy set at zero. This would be the vehicle to carry out willing partnership projects with producer owned and funded corporations on a contractual basis.

On a similar basis, the live exporters have proposed that they fund their collective activities through voluntary contributions. Through this private vehicle, live exporters would also be able to carry out willing partnership projects as required with the corporations.

The overall preference for non-statutory rather than statutory structures is not only on the basis of industry legal ownership and flexibility. It also allows for a transition under the 'corporate rather than statutory culture' towards full free market operations in the future without levies if industry and government so determine. The assumption that collective functions will become less dependent on levy funds in the future is included in this appraisal, with the exception of on-farm R&D due to market failure.

DUAL ACCOUNTABILITY

It is of paramount importance, however, that a level of accountability to Parliament for the use of levies and taxes cannot be bypassed under a non-statutory system. This essential feature of the levy-based system has existed since meat statutory levies were imposed in the 1930s. It is a fundamental parliamentary requirement.

It is proposed in this report that under the corporate model, answerability for the levies and taxes will shift from specific statutory provisions to a combination of the provisions in the appropriation Act, Corporations Law, a deed of agreement between the Commonwealth and the relevant corporation, and the provisions of the Memorandum of Association and Articles of Association. The extent of accountability will be a policy matter for consideration by government and industry.

The 'institutional paradox' of industry ownership and control, but with accountability to Parliament, can only be finally resolved by resorting to private operations in a free market. If the free rider problems necessitate a compulsory levy, then dual accountability is the inevitable consequence, with either a statutory or non-statutory model. Competition policy principles with contestability in service provisions and requirements for competition neutrality will give an added impetus in the direction of a free market.

OPERATIONS REVIEW

The operations review is seen as an input rather than an output of the reform exercise. As non-profit organisations, statutory authorities must periodically be

separately by the respective boards, managers and stakeholders of the present statutory authorities.

INDUSTRY REGULATION

In this context, the separation of meat industry regulation from service delivery is addressed in the report.

The report proposes that a new national agreement be established between the Commonwealth and the States to coordinate regulatory policy, harmonise standards, and determine the level and structure of fees and charges for all non-contestable regulatory activities.

The provision of this agreement would be ratified by the existing Commonwealth/State fora under the Agriculture and Resource Management Council of Australia and New Zealand and the Australian Health Ministers Council, and implemented by existing regulatory agencies supported by a small secretariat. Regulation scope could include environmental standards and monitoring systems.

Other regulatory issues including quotas and export licensing would be made a matter for the consideration of the levy funded agency (or voluntary funded sector) in consultation with the government regulatory authority.

The industry commercial standards, integrity insurance, and service delivery functions performed by AUS-MEAT should ideally continue as collaborative activities between the proposed species specific corporations and the regulatory agencies as required. Service delivery functions should be divested as soon as practicable.

POLICIES FOR THE FUTURE

While much attention is given to industry institutional structures in the report, it must not be forgotten that these are of much less long term economic and commercial significance than the returns to the industry from establishing the best possible policies and programs for the future.

The industry organisational structures can only facilitate certain actions. The industry itself must take the leadership role on the major commercial issues and be responsible

for the outcomes. There should be no direct commercial role for government in future arrangements.

The role of government is seen as providing the most suitable economic, social and industry policy settings and minimising government and non-government charges and costs. Within these settings the industry itself must tackle its commercial and marketing opportunities and management challenges to the fullest extent possible.

In terms of industry policy, however, there remain some core regulatory and market failure-related roles for government. These primarily relate to safety and hygiene, industry adjustment, R&D, training and education, market access and competition policy.

This report addresses a range of specific actions which might be taken in partnership with industry, Commonwealth and State Governments to improve the application of present and prospective programs in these areas. In many areas, concerted action is already under way and the recommendations are designed to add impetus to the reform process.

IMPLEMENTATION PROCESS

Suggested stages of action are provided in the recommendations of this report. The stages obviously depend on the final decisions and directions selected for the meat industry.

If substantial change is implemented as a result of this report, it is important to recognise that there is a significant workload ahead to achieve any of the three short-listed options under Purpose (1) regarding structures. These will necessitate input from the government for legislative change and policy implementation. As stakeholders, the industry parties must be prepared to manage their part of the process of implementation. This is more necessary than ever if corporatisation is adopted with industry ownership.

The Task Force cannot second-guess the outcomes of this process of reform. Details of prospective legislative changes are, however, identified alongside the recommendations in the report and indicate the potential magnitude of the operation. Consultation and legislative changes take time. Current parliamentary sittings would indicate March or June 1997 as the earliest dates for legislative changes to be completed.

RECOMMENDATIONS AND FINDINGS UNDER THE TERMS OF REFERENCE

Purpose 1

Identify options for meat and livestock industry organisations that deliver collectively funded meat and livestock industry programs more effectively and provide a recommendation.

It is noted that the following core and non-core functions are undertaken by MIC, AMLC and MRC.

Present Core Functions

- Industry Strategic Planning
- Market Access
- Market promotion, advertising, market development, consumer education
- Research and development: management and funding
- Corporate and operational planning, expenditure determination and allocation
- Quality system development, language/description/grading, systems planning
- Export licensing
- Quota administration
- Data collection, holding and market reporting.

Present Non-Core Functions

- Image of industry and its product
- Major issue response and crisis management
- Foreign government lobbying
- Overseas buyer linkages and technical information
- Data interpretation.

It is recommended that the following approach to future functions be adopted:

- Regulatory functions currently performed by AMLC should be exercised through the proposed National Meat Regulatory arrangement and regulation authority should reside with DPIE, AQIS or the proposed regulation secretariat. Consultation must take place with the proposed levy funded corporate agencies or approved voluntary self-funded sectors
- Service functions including marketing and R&D should be made contestable as much as possible to ensure early compliance with competition policy principles.
- Market access should be more clearly defined with government undertaking government to government negotiations and industry associations (or other commercial parties) providing industry and commercial input as required. Duplication should be avoided.
- Future market access functions should be limited to technical and operational issues in overseas markets working closely with industry parties and limited to functions that commercial operators cannot undertake. Industry associations should be more closely involved in the provision of commercial input to government deliberations on trade matters.
- Market promotion should be performed on a project by project basis, rather than ongoing program management. Delivery should be outsourced with planning, monitoring and administration remaining 'in house.'
- Generic promotion should be kept under review with an increased emphasis on facilitating grading and branding depending on individual market requirements. This should include the charging of fees for promotion where feasible. There should be rigorous target setting in the planning stage, and performance evaluation against targets in the monitoring of activities.
- Primary data collection and market analysis should be retained for in house decision making support. Market interpretation should be made contestable with alternative providers.
- A user pays approach should be adopted to achieve early cost recovery, and divestment should be examined on efficiency grounds.
- Research and development should continue to be on a competitive basis including outsourcing of project management where feasible.

- The establishment and maintenance of commercial standards, maintenance of language and descriptions, and integrity assurance by AUS-MEAT should be undertaken by the levy funded agencies, in collaboration with the regulatory agency eg. AQIS or secretariat, with services made contestable as soon as possible leading to divestment.
- The levy funded agency should participate actively in developing commercial HACCP QA systems and related programs with other industry bodies.
- Industry strategic planning should be initiated by the Board of a future levy funded agency drawing in a broad range of industry input to ensure industry drive as opposed to agency drive.
- Corporate and operational plans should be undertaken in house by the service agency.
- Policy issues on licensing and quota administration are matters for the joint consideration of the levy funded agency and government.
- Export licensing powers should be maintained at a minimum level by AQIS or the regulation secretariat. Current criteria should be reviewed to achieve the minimum regulation necessary to ensure industry integrity.
- Major crisis management and issues management should be facilitated by the industry agencies. Responsibility should be relocated to industry associations, individual enterprises or government departments as appropriate.
- Broad industry policy issues should be the domain of industry associations and the proposed corporate boards should consult closely with appropriate industry bodies. A non-statutory forum for industry leaders for consultative purposes is proposed as an important component of these proposed arrangements.

Options for future organisational arrangements (see section 7 for further detail)

- Option (i) - Status quo with amendments (with or without MIC)
- Option (ii) - Single corporation for red meat industries with either (a) four separated operational units with accountability for beef marketing, sheepmeat marketing, R&D and quality systems or (b) two separate business units for sheepmeat and beef each incorporating marketing, R&D and quality systems but with R&D accounted for separately.

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- Option (iii) - Two product specific corporations, beef/sheepmeat species split
 - Option (iv) - Sector specific corporation(s) based on producer levies only (with or without species and/or sectoral split)
 - Option (v) - Privatisation without levies of non-regulatory functions (other than R&D)
 - Option (vi) - Establishment of a separate national statutory meat regulatory organisation

NOTE: Option (vi) could be taken in conjunction with any of the options (i) to (v).

It should also be assumed that goats are included with sheep in all the various options.

Proposed Preferred Organisational Option.

Regulatory Structures

- Establish a national statutory regulatory cooperation agreement to achieve uniformity and consistency of regulatory legislation, administration and implementation supported by a small secretariat to facilitate coordination.
- The National Meat Regulatory Agreement should be an immediate subject of Commonwealth and State Government consideration.
- The Commonwealth and State Governments jointly consider various models to achieve uniformity in regulatory legislation and administration across Australia including:
 - mirror legislation
 - the cooperative model
 - the national model.
- The cooperative model is proposed and would be answerable to the relevant Ministerial Councils (ARMCANZ/Australian Health Ministers Council).
- Apart from State meat and health authorities the following Commonwealth authorities would need to be directly involved in applying the National Meat Regulatory Agreement:

Industry Structures

- Abolish MIC, AMLC and MRC as statutory structures, and replace with two non statutory boards that draw on separate industry contributor trust accounts. The boards consult closely with appropriate industry bodies in allocating expenditure from each account.
- Separately to the proposed regulatory arrangement two non-statutory corporations should be established under separate Boards to undertake both market services, quality systems services and research and development functions for beef and sheepmeat respectively.
- The non-statutory corporations should be non-profit companies limited by guarantee and incorporated under the Commonwealth's Corporations Law registered with the Australian Securities Commission. The companies would be accountable to the Australian Securities Commission for compliance with Corporations Law.
- The corporations should establish separate marketing and research producer trust accounts for beef and sheepmeat to safeguard the integrity of levy payments designated for beef and sheepmeat marketing and research respectively and to satisfy Commonwealth Government R&D funding criteria.
- Any processor or livestock exporter contributions (levy or voluntary) should also be separately identified.
- The corporation boards' responsibilities for allocating trust account funds should be in accordance with an approved corporate plan and an annual operational plan. Provision should be made to ensure suitable performance evaluation on an annual basis.
- Each corporation executive could comprise a managing director with a manager marketing, a manager R&D and a quality systems manager who would be responsible for the undertaking of projects in accordance with conditions stipulated by the board including general application of contestability for the provision of services.
- Close consultative arrangements between the two corporations must occur to avoid duplication and to ensure joint projects especially for R&D and quality

systems in areas of common interest. This should be considered for inclusion in the relevant Memorandum of Association for each corporation.

- The sharper focussing, reduced cost of delivery and removal of regulatory obligations enables significant reduction in operational size.

Funding and Ownership

- Each company should be funded by specific industry sector levy contributions to separate trust accounts by meat industry funding partners.
- Following industry consultation, the respective boards for beef and sheepmeat (which would embrace the goat industry) corporations should make clear in their corporate and annual plans which functions the levy paying partner groups wish to fund, and recommend AGM approval for these contributors. Once established such levy payments should be drawn from trust accounts and maintained for a reasonable time period.
- The Minister must be fully consulted on this process given the government's responsibility for levy collection and appropriation with answerability to the Parliament.
- In the case of beef the current transaction levy mechanism should be retained.
- In the case of sheepmeat the slaughter levy or any export levy should be transparently passed back to the producers at agreed levels to ensure clarity of levy imposts on producers, processors and others as determined between the parties.
- The new company(s) should examine scope for early reductions in levy rates.
- The non-profit company(s) should be owned by two classes of members comprising both industry associations with 50% of the voting rights (Class A members) and all registered levy payers who opt to take out membership of the company (Class B members) with 50% of the voting rights.

Accountability to Industry and Parliament

- The board appointments should be based on a selection committee approach. Selection committee membership should constitute nominees from industry peak associations representing the levy paying sectors of the meat chain. Selection Committee composition should reflect funding contributions, and be agreed with

although there should be a predominance of people with those qualifications drawn from the industry.

- Any registered member of the company should be able to nominate board membership candidates for selection committee consideration, supported by specified skills required on the board. For a candidate to be considered he/she must be nominated by a minimum of 20 registered levy payers.
- Board membership should be no more than nine (including chair) with categories broadly reflecting each sector's interests. Appointments should be confirmed at the AGM.
- The board itself should select the chair from its own membership. Board membership should be limited to a maximum of two terms.
- Board members should be appointed for three years with a minimum change of four members to ensure a suitable mix of continuity and new members.
- AGM of the corporations should be strengthened to allow stakeholders greater scope to assess performance and to set levies for recommendation to the government.
- There should be an annual independent evaluation of corporate performance by an independent performance auditor commissioned by the selection committee, with results presented two months in advance of AGM with suitable indicators and delivery benchmarks.
- AGM levy alteration capacity should be enhanced to allow stakeholder motions for increases or decreases. Four months notice would be required for levy motions to enable industry debate. The motion would be binding if passed at AGM.
- No confidence motions should be allowed to be considered on the chair and the board, but with dismissal being dependent on an 80% vote of registered levy payers (subject to corporate law requirements). Successful passage of such a motion would result in termination of chairperson and/or board.
- No confidence motions should be allowed on individual programs and projects and the successful passage of such a motion should compel a review of the program or project.

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- The board(s) must provide the corporate and annual operational plans to the relevant peak councils and to the Minister for approval of levy fund releases to the board.
 - The corporate and annual operational plans must include a separate R&D component to ensure the integrity of the R&D levies. The R&D component must also be sufficiently detailed to allow government assessment under the dollar for dollar research arrangements.
 - Any projects subsequently considered outside the business plan must be notified to the Minister in advance for his consideration.
 - An annual report should be provided to the Minister, peak councils and registered stakeholders.
 - The government appropriation act should stipulate purposes for provision of levy funding to the proposed companies. The Memorandum of Association will identify operational requirements including board appointment processes.
 - A deed of agreement between the Commonwealth and the new companies will set out the terms and conditions for the granting of levy funds.
 - The deed of agreement will specify accountability requirements for both levy and general tax (R&D) allocations.

Suggested Stages of Action

- Discussion of recommendations to be implemented as necessary with key industry representatives.
- Arrangements should be made to release the report for public comment. Selected Steering Committee/Task Force members may answer details when requested by industry or public.
- Proposed new regulatory provisions, if accepted should be discussed with State Governments through ARMCANZ.
- Following announcement of decisions, DPIE should examine immediate drafting of legislation changes.
- Consideration should be given by relevant industry parties and government to addressing industry and government issues in the change process such as board selection and nominations, asset consolidation and allocation, and funding for

- Principal legislation:
 - Meat and Live-stock Industry Act 1995*
 - Australian Meat and Live-stock (Quotas) Act 1990.*
- Principal Regulations:
 - Meat and Live-stock Industry Regulations*
 - Meat and Live-stock Industry (Conditions of Export) Regulations*
 - also AMLC Orders under MLI Act 1995 Sections 68-69 covering:
 - .. *Licensing and*
 - .. *Conditions of export.*
- Levy Related Legislation (Note: each with associated Regulations)
 - Cattle Transaction Levy Act 1995*
 - Cattle Export Charges Act 1990*
 - NRS (Cattle Transactions) Levy Act 1995*
 - NRS (Cattle Export) Act 1995*
 - NRS (Live-stock Slaughter) Levy Act 1992*
 - Cattle Transaction Levy Act 1995*
 - Cattle Export Charges Act 1990*
 - Beef Production Levy Act 1990*
 - Live-stock Slaughter Levy Act 1964 (Sheep, Lambs, Buffalos & Goats)*
 - Live-stock Export Charge Act 1977 (Sheep, Lambs, Buffalos & Goats).*
- Related Legislation (Note: each may have associated Regulations, and amendment(*) may be required)
 - Exotic Animal Disease Control Act 1989 (*)*
 - National Residue Survey Administration Act 1992(*)*
 - National Cattle Disease Eradication Trust Account Act 1991(*)*

Primary Industries and Energy Research and Development Act 1989

Primary Industries Levies and Charges Collection Act 1991 ()*

Australian Animal Health Council (Live-stock Industries) Funding Bill 1996

- Relevant Legislation, Regulations and Orders (Note: these may have impact or be useful as models, and each may have associated Regulations. Some may also be in process of amendment.)

National Food Authority Act 1991

Agricultural And Veterinary Chemical (Administration) Act 1992

Agricultural And Veterinary Chemical Act 1994

Agricultural And Veterinary Chemical Code Act 1994

Quarantine (Validation Of Fees) Act 1985

Quarantine Act 1908

Export Control Act 1982

Export Meat Orders

Meat Inspection Act 1983

Meat Inspection Arrangements Act 1964

Export Inspection (Establishment Registration Charges) Act 1985

Export Inspection (Quantity Charge) Act 1985

Export Inspection (Service Charge) Act 1985

Export Inspection and Meat Charges Collection Act 1985

Export Inspection Charges Collection Act 1985 .

Purpose 2

Assess and document costs and delivery efficiency of services provided by AMLC, MRC and MIC to provide a cost baseline for the longer term industry organisational structure.

Key findings of Operations Review (AMLC)

- Advertising and media campaigns generally represent value for money but

Program options should be developed into specific projects with a long term planning and resource commitment

- Species responsibilities should be driven from the strategic planning and development responsibility through to implementation in terms of directing and where necessary undertaking service delivery
- While the AMLC is successful at market access and industry development issues, there are concerns over efficiency and cost effectiveness of program implementation
- AMLC should be more strategically focused with its projects and programs
- AMLC should be repositioned as a professional marketing, promotion and trade access organisation providing high value-added services to the meat and livestock industry on the equivalent of a fee for service basis
- AMLC should have fewer organisational units, fewer senior managers and should rely on more cross organisational teams to address market and product development (ie less divisionalisation and specialisation)
- Current levels of support services are in excess of that required for efficient and effective delivery of existing products and services
- There is considerable scope for staff savings and efficiency gains in the support services and market support program implementation areas in Australia
- Other savings could be made by reducing divisionalisation, specialisation and by contract and/or outsourcing responsibility for marketing and promotion implementation.

Key Findings of Operations Review (MRC)

- MRC is a lean organisation where the staffing profile is consistent with organisational objectives
- MRC has in place systems to promote and measure R&D uptake by industry. The corporation exhibits a high degree of effectiveness in performing against the research plan, which has been separately assessed as capable of delivering significant benefits across the meat supply chain

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- MRC has developed a high level of capability in the application of R&D contracting and contestability
 - MRC should devolve more R&D to corporate participants particularly in the post farm gate areas
 - MRC should direct levy-based and government funds only towards lines of business where collective funding of R&D is appropriate, or as directed by industry
 - Direction by industry could be delivered separately for beef and for sheepmeat, together with requisite funding. Under such a scenario, the MRC should play the role of joint R&D service provider in assisting these industries to derive efficiencies from joint projects
 - MRC should become more closely aligned with market signals relating to (meat) consumer demands. In particular, there should be structural revisions to ensure greater alignment with market-related activities of the AMLC
 - MRC should retain a strong focus on on-farm technological R&D
 - MRC should limit expenditure on developmental lines of business (co-products, training unless otherwise directed by industry)
 - There should be a review of non-core MRC business activity, in particular research stations and AMT
 - MRC should continue to develop an advisory role and, where appropriate, play a facilitation role in the down-stream understanding and development of R&D outputs. They should not fund downstream areas that could compete with private enterprise

Key Findings of Operations Review (MIC)

- MIC makes an important contribution in providing industry focus to industry problems and issues
- One of the most significant contributions has been promotion and support for development of the MISP, and has had the catalytic role in issues such as food safety and beef grading.
- MIC has the capacity to advocate change and improvement in agency performance based on findings of audits and reviews.

There has been some blurring of accountability for the boards of AMRC and MRC by having a third statutory body with both strategic direction responsibilities and executive functions over policies and programs

- The MIC has taken responsibility for implementing, or pressuring the corporations to implement, quite specific marketing and research projects which has raised concerns in relation to cutting across the responsibilities and accountabilities of the MRC and AMLC.
- MIC is a small organisation (3 staff) with strong emphasis on outsourcing.
- There is concern in some circles about the MIC executive role which has the capacity to duplicate work and effort undertaken by the two corporations.

Major Implications of Operations Review: Task Force Assessment

- Within the requirements of legislation both MIC, AMLC and MRC have achieved varied degrees of success but there needs to be improved clarity of both focus and purpose in future levy funded bodies.
- As non profit statutory bodies with broadly defined functions it is difficult to benchmark performance against single focus, profit driven corporations. The lack of a 'bottom line' imperative, ongoing non contestable access to levy funds and broadly defined charters create a non commercial operating environment, in which even a well managed, statutory body can depart from rigorous management processes in carrying out its business
- There is a need for clearer definition of operational functions and priorities in future industry structures to avoid unwarranted expansion in functions, particularly those functions which can be undertaken by market operations rather than through collective levy funded organisations. The AMLC review, for example, drew attention to the problems of attempting to achieve a large number of goals instead of a small number of strategically important ones
- More frequent independent performance audits are necessary to improve accountability to stakeholders. It follows that clear performance measures for major objectives should be included in plans, and management benchmarks developed to offset the lack of a bottom line

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- Stakeholder groups and representatives need to be more cohesive and definitive in the functions they require from levy funded organisations
 - In line with changing market circumstances and the increasingly competitive environment, future levy funded organisations must adopt an operational and management culture that is more strategically focused, service driven and transparently accountable to stakeholders
 - Market access functions need to be primarily focussed on commercial issues
 - Contestability on the implementation of services is essential to ensure improved cost effectiveness and to meet national competition policy principles
 - Through re-organisation, rationalisation, streamlining and a move towards service contestability there is considerable scope for financial savings and reduced levies for industry
 - The need for MRC to become more closely aligned with market related activities of the AMLC can be best achieved by a merger of R&D with market services, but with R&D functions given adequate weight in the structure. R&D also needs to be more clearly defined
 - The integrated organisation could facilitate a focus on the development and growth of the meat and livestock industry as a major export performer
 - A future structure must be less program oriented and more project oriented with a more consolidated range of projects, and a limited number of realistic goals
 - An agreed equitable allocation to cover programs (direct, support and reserves) between levy paying stakeholder groups should be established
 - There is a lack of clarity in the legislation on the division of authority and roles between MIC, AMLC and MRC which has added to confusion between the three statutory Boards.

Purpose 3

Propose key meat and livestock industry policy and program actions.

The following actions are recommended for early attention by government and industry:

- strengthening cooperative arrangements with states and territories to develop a whole of government approach, consequently ensuring an integrated and consistent basis for meat safety and other regulations
- providing a suitable regulatory underpinning for industry driven quality assurance and self-regulation schemes
- addressing with State Governments and industry the means by which a uniform and national HACCP approach can be implemented. This will effectively put in place the food safety initiatives currently being progressed by industry and government. Suitable timetables and enforcement measures should be agreed. Further assessment of overseas initiatives and their applicability to Australian circumstances is necessary
- establishing joint regulatory agreement with states to ensure application of the 'one stop shop' principle.

Research and Development

The combined government and industry funding arrangements have made an important contribution to the growth and application of agricultural R&D in Australia. In the light of structural reforms advocated in this report the government and industry should combine to:

- assess the suitability of present mix between short and long-term funding of R&D by the levy funded R&D corporation(s)
- examine the scope and mechanisms for funding longer term and basic research within the present funding system
- examine the scope for closer interaction between present rural R&D authorities to achieve maximum benefits.

Adjustment to Facilitate Market Process

Action by government to facilitate market driven adjustments by acting to enhance resource mobility and provide for reasonable social cover for industry participants experiencing serious economic downturn is considered to be an important contribution to economic growth and well being. The government is currently

commencing a review of the Rural Adjustment Scheme and it would be timely to consider:

- the application of the Rural Adjustment Scheme to address current farm sector problems including regional and meat producer issues
- an assessment of the scope for non-farm adjustment programs for application in the meat processing sector to enhance labour and capital mobility
- the scope for State Governments to avoid subsidising processing operators and working with industry to facilitate an accelerated and early adjustment process.

Training and Education

Current partnerships between government and industry to ensure that training and education in Australia provides suitable qualifications for industry at all levels is an essential component of reducing unemployment. Suitable training and education is also an essential element in ensuring that agriculture and other industries remain efficient and adjustable to changing market circumstances. It is important therefore that government and industry work together to:

- implement employment and education programs to address both training and re-training facilities for meat industry requirements by accessing both State and Commonwealth Government program and industry funds for joint action plans
- ensure applicability of training programs to achieve practical outcomes and facilitate regional employment including quality assurance, management training, labour adjustment etc
- achieve contestability in provision of training with industry participation in both on the job and off the job training.

Market Access

Both multilateral and bilateral market access issues will remain high on the agenda for agriculture exporting countries such as Australia. Apart from attention to tariff and non-tariff barriers there are a number of technical and commercial impediments to trade which need to be addressed through joint action. This should include:

- the provision of clearer definitions of respective roles of government agencies and establishment of improved integration of government agencies
- clarification of functions of industry agencies and removal of duplication with

- closer analysis of domestic and export assistance by competitor countries
- development of a joint Task Force including the Australian Taxation Office, Foreign Investment Review Board and Australian Competition and Consumer Commission to address in detail the extent of claimed transfer pricing and market manipulation by overseas investors in the meat industry. Improved systems for identification and prevention should be developed with suitable involvement of the Australian Securities Commission if needed.

Competition Policy

Competition policy and competitive neutrality are important aspects of the government's economic reform agenda. This agenda should continue to provide an improved competition framework in both the private and public sectors. The application of this policy framework to the meat sector should be applied by:

- facilitating contestability in provision of both regulatory and non-regulatory functions
- working with industry associations to examine scope for participation in service delivery to industry
- broad policies providing for levy based functions being compatible with competition principles and public/industry benefit
- considering the recommendations of the Australian Competition and Consumer Commission on further deregulation of rural industry marketing arrangements.

Industry Associations

Industry associations in the meat sector are currently severely under resourced for the increasing range of functions that they are required to undertake. While this is an industry problem it would be helpful if the government with industry could undertake the following actions:

- examine the scope for service provision by industry associations in a competitive environment
- examine with industry alternative industry association structures to meet industry and government challenges for the future and to maximise partnerships.

Industrial Relations

Industrial relations legislation and workplace reform are of particular importance to the improvement of productivity and efficiency in the meat processing sector. Any improvements in this area will substantially enhance the export performance of the Australian meat industries. It is recommended therefore that:

- the government and industry continue to press for the successful outcome of workplace reform legislation in terms of its application to meat industry enterprises and productivity improvement.

Implementation of the meat and livestock industry initiatives should separate the key roles of government and industry.

- Joint action should be facilitated on a case by case basis but an industry consultative body of national Council leaders should be considered by industry associations as a means of achieving suitable industry partnerships with government.
- ARMCANZ should remain as the main mechanism for Commonwealth and State Government coordination and liaison.
- The role of government in the meat sector should be concentrated in the following areas
 - food safety and hygiene
 - R&D - market failure and public good
 - facilitate rate of industry adjustment
 - training and education
 - market access
 - competition and contestability
 - workplace reform
 - infrastructure costs (railways, waterfront etc.)
- In each of these areas it is important that government identifies its core functions which will be largely undertaken through partnerships and strategic alliances with relevant industry parties.
- Public good services and market facilitation measures should be the core areas for

apart from the exigencies of the international and domestic market there are a number of influences external to the meat and livestock industry which will influence application and success of new meat industry initiatives.

- In terms of government policy responsibilities the following broad policy categories are of particular relevance to meat industry initiatives
 - macro/micro economic reform with particular attention to transportation and waterfront inefficiencies is considered vital to the whole of government approach to achieving improved meat industry competitiveness
 - industrial relations and enterprise bargaining with flexibility to apply new workplace practices to improve labour productivity, facilitate technology investments and improve capital utilisation
 - budgetary policy to reduce public sector deficits thereby improving the prospects of lower interest rates leading to lower exchange rates for the \$A. This joint impact is critical to both domestic investment in the processing sector and improved export returns. Lower interest charges are also necessary to relieve pressure on farm indebtedness for livestock producers.
- The shift in budget policy away from subsidisation towards adjustment and market facilitation is highly relevant to the current challenges for the Australian meat sector.
- Taxation policy is directly relevant to industry profitability and investment levels. Taxation covers both present community wide direct and indirect taxes including capital tax requirements as well as levies and other government charges at Federal and State levels. As such they are a direct addition to overall industry cost structures. The most important consideration for future tax policy deliberations is to minimise overall charges, simplify administration and avoid tax imposts which penalise incentive or distort production costs.

TERMS OF REFERENCE

Task Force

Purpose 1: Identify options for a meat and livestock industry organisation structure and provide a recommendation

1. Define the current core and non-core functions and services of the MIC, AMLC and MRC.
2. Evaluate the collectively funded functions that need to be carried out by industry organisations, taking account of experience from the current structure and future industry requirements.
3. Analyse options for future organisational arrangements for the provision of collectively funded industry programs and services, taking account of collectively funded functions likely to be required, and industry and government requirements for transparency and accountability.
4. Propose preferred options that best fit requirements for:
 - delivery of suitable strategic imperatives and goals
 - strategically focused program design and prioritisation
 - management efficiency in program delivery
 - productive interaction with industry and government
 - sustainable industry funding
 - reduced involvement of government in industry organisations and
 - genuine accountability that meets industry and government requirements.
5. Document how the preferred options would be implemented by government and industry. This includes addressing issues of transition as regards people and legislation.

Purpose 2: Review current organisational cost structure and define the baseline to assess the value added of the above

6. Provide a clear assessment of how costs incurred by the AMLC, MRC and

8. Highlight opportunities for doing better now and for a more cost-effective post sunset structure.

Purpose 3: Propose key meat and livestock industry policy and program actions

9. Identify initiatives that should be taken by government, or by government interacting with industry, to bring about a more competitive sustainable meat and livestock industry.
10. Recommend a strategy for implementing the identified meat and livestock industry initiatives.
11. Identify factors external to the meat and livestock industry which will influence the application and success of new meat industry initiatives.

Operations Review of the Three Statutory Organisations

Purpose

Review current organisational cost structure and define the baseline to assess the value added of structure options

1. Provide a clear assessment of how costs incurred by the Australian Meat and Livestock Corporation (AMLC), the Meat Research Corporation (MRC) and the Meat Industry Council (MIC) are incurred and reported across functions and activities.
2. Assess the cost-efficiency of the operations of the AMLC, MRC and MIC and assess the effectiveness of the bodies individually and collectively in the allocation and use of levy funds. Close attention will be paid to 'front end delivery' versus 'overheads,' having regard to the particular circumstances of each organisation.
3. Highlight opportunities for doing better now and for a more cost-effective future structure.

Background

With the exception of the MIC (established in 1995), current operating structures were set up over 10 years ago and were relevant to the needs of the time. The AMLC and MRC have made a major contribution to the understanding and development of domestic and overseas markets for meats, the quality and diversity of products relative to those markets, and the development and extension of knowledge and technologies to improve the productive capacity of meat industry enterprises.

The MIC (representing the enterprises which pay levies) is required to ensure efficient and effective delivery of appropriate programs through its corporate plan approval and program evaluation functions. Further, it is required to continue leading the reform process and to propose structures that succeed the *Meat and Livestock Industry Act 1995* (the Act).

The AMLC and MRC have been set up within a statutory framework and have developed structures, systems and processes within such a framework. Structural options within a less regulated environment need to be considered.

This operations review is a key component of the Terms of Reference of the Steering Committee and the Task Force announced by the Minister on 27 May 1996 (attached press release and Terms of Reference). Running parallel with this operations review is the development of options to the current three body structures, along with evaluation of performance against set goals. The options developed will be assessed with reference to the data and analysis provided by the operations review.

Objectives

- Determine the *level and source of costs incurred* by the three bodies and how they are funded according to industry segments and reported across functions and activities. A uniform basis should be used and these costs represent the baseline. Provide benchmark comparisons for cost levels.
- Identify costs attributable to legislative and related statutory requirements.
- Evaluate the quantitative and qualitative *systems and processes* used by each body, including the extent to which they are compatible.
- Identify *overhead costs* separately from *delivery costs* according to industry segments where possible, and evaluate the ratios and propose areas for improvements within current structures. Comment on opportunities for changed structures. Provide benchmark comparisons for delivery/overhead ratios.
- Identify the contractual commitments of the three bodies which may affect the timing and costs involved in any organisational change.
- Assess the *effectiveness of the bodies* individually and collectively with particular reference to, but not exclusive of:
 - performance, that is, actual delivered versus objectives of corporate plan and/or annual plan
 - staffing and salary levels
 - general staff profile, including skills and configuration
 - flexibility, that is, outsourcing work versus staffing.

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- To provide as required reasonable follow-up advice on the implications for alternative organisational structures based on outcomes of above objectives.

Method and funding

The consulting firm will work directly with the three statutory bodies and will report progress to the Steering Committee and the Task Force at a frequency determined by the Task Force.

The consulting firm will interact with the Task Force which will consider functions and accountabilities needed for the Meat Industry Strategic Plan as compared to those current. The Task Force will also develop options for new structures, that is, they will concentrate on the scope and shape of the options and the operations review data will assist in determining scale. The consulting firm will provide quantitative input to this activity through interpretation of the report and will help assess the value added of the options (ie. over the baseline defined in the operations review).

The maximum time allowed from authorisation to proceed to completion (as determined by Task Force) is two months.

The costs will be shared equally between the MIC, AMLC and MRC.

