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Date: 12 December

Attention: Agricultural Competitiveness Taskforce

**RE: Agricultural Competitiveness Green Paper**

I am writing to provide Sheepmeat Council of Australia's (SCA) submission to the above consultation currently being conducted by the Department of Prime Minister and Cabinet.

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

SCA strongly supports the Government in its consideration of the long-term agricultural policy requirements to ensure agriculture remains a pillar of the Australian economy.

SCA welcomes the opportunity to contribute to the consultation of this important initiative. SCA has recently contributed to a range of other Government policy processes that are also addressing agricultural competitiveness issues including the Senate Inquiry into agricultural marketing and R&D levies and the Co-operative Research Centres (CRC) Programme Review.

SCA hopes the Agricultural Competitiveness White Paper process can help promote greater collaboration and co-investment between multiple industry stakeholders, service providers (RDCs, etc.) and Government, including the facilitation of cross-departmental co-ordination and co-investment. SCA wishes to thank the Government's Agricultural Competitiveness Taskforce for their willingness to engage directly with stakeholders, including the opportunity to meet with the Taskforce to fully discuss some of the issues raised in our submission. We welcome any opportunity to continue to work with the Taskforce over the coming year.

Please do not hesitate to contact the SCA Office if you have any questions or would like more information about issues raised in this submission.

Yours sincerely,

Jeff Murray

A handwritten signature in black ink, appearing to read 'Jeff Murray', is written over a light blue horizontal line.

President  
Sheepmeat Council of Australia

This submission focuses on the consultation for the Agricultural Competitiveness Green Paper.

## **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;

- to represent and promote the interests of Australian sheepmeat producers
- to carry out activities necessary for the advancement of the sheepmeat and live sheep export industries;
- to collect and disseminate information concerning the sheepmeat and live sheep export industries;
- to co-operate with industry stakeholders and organisations at the state, national and international levels;
- to maintain interaction and co-operation with its Members, relevant Government departments and authorities at Federal, State, and local government levels, and with other relevant industry organisations;
- to promote the development and resourcing of the agricultural and pastoral industries of Australia;
- to act as the Prescribed Body for the sheepmeat industry in Australia within the Red Meat Industry Memorandum of Understanding (MoU) under the Australian Meat and Livestock Act 1997 (the Act).

SCA represents sheepmeat producers in Australia and provides a 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 within their jurisdictions.

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 & Livestock Australia (MLA), Animal Health Australia (AHA), and the National Residue Survey (NRS), examining and approving their programs and budgets. We are involved in priority setting for industry R&D and marketing activities both domestically and internationally as set out in the Red Meat MoU. Under the MoU SCA assesses the performance of services delivered by expenditure of lamb and mutton levies.

### **The sheepmeat industry**

Australia is one of the world's leading producers of lamb and mutton. Australian's are among the biggest consumers of lamb in the world. In 2012-2013 there were 42,012 properties with sheep and lambs nationwide. In 2013-14 Australian lamb production totalled 474,267 tonnes cwt and mutton production totalled 227,891 tonnes cwt. The gross value of Australian sheep, lamb and live sheep production is approximately \$2.3b (ABARES 2012-13), contributing 5 per cent of the country's total farm value of \$47.89b in 2012-13.

Australia produces approximately 6 per cent of the world's lamb and mutton and in 2012-13. The value of total lamb exports in 2013-14 was approximately \$1.5b and mutton exports \$772m. Live sheep exports during the same period were valued at \$185m.

### **Building the Australian Prime Lamb Industry**

The success of the Australian prime lamb industry over the last 30 years is a direct result of a co-ordinated supply chain approach.

In the 1980's lamb attracted low auction prices, with fluctuating quality, and was an inferior product to other protein sources. In the 1990's the industry was worth approximately \$1.1 billion dollars and 85% was consumed domestically.

Today Australia is one of the world's leading producers of lamb and mutton, the largest exporter of mutton and live sheep, and the second largest exporter of lamb. Australia exports 51% of its lamb and approximately 96% of its mutton. The off-farm meat value of the Australian sheepmeat industry is approximately \$3.9 billion.

The industry continues to strive through industry strategic planning and collaboration to be the leading supplier of lamb and sheepmeat to a world with growing demand for our premium product. The continued success of the sheepmeat industry is dependent on the structures and systems currently in place in the industry, and underpinned by marketing and research by MLA, AHA, and the NRS. There are a number of existing and emerging challenges that must be addressed to ensure the industry's continued competitiveness.

## SUMMARY

The White Paper identifies a range of potential *Policy Ideas* that should be fully investigated to increase the competitiveness of the Australian agricultural industry. This brief submission does not address all *Policy Ideas* identified in the White Paper. Rather, it seeks to cover five issues outlined in the White Paper that the sheepmeat industry sees as critical to its future competitiveness:

- 1) Improving market competition (*Policy Idea 7*) / Strengthening competition laws (*Policy Idea 8*)
- 2) Improving regulation (AgVet chemicals regulation) (*Policy Idea 9a*)
- 3) Strengthening the RD&E system (*Policy Idea 20*)
- 4) Improving the Rural RDCs (*Policy Idea 21*)
- 5) Enhancing agricultural exports (*Policy Ideas 24 & 25*)

A range of other issues affecting the competitiveness of the Australian sheepmeat industry were discussed in SCA's submission in response to the Agricultural Competitiveness Issues Paper. The following briefly summarises the key points from SCA's Issues Paper submission:

- As an export-orientated industry the competitiveness of the Australian sheepmeat industry has a global context.
- Strategic planning by industry and government is essential for identifying priorities for investments to address competitiveness issues.
- Collaboration and co-investment by industry and government underpin Australia's RD&E systems.
- Industry and government must continually seek to reduce ineffective and costly regulations.
- The Australian sheepmeat industry's competitive advantage is the ability to produce a high quality, safe product with high traceability standards from paddock to plate.
- Profitability is the key driver of competitiveness. A competitive sector is one that is growing, productive, innovative and cooperative across the supply chain.
- A competitive sheepmeat sector requires a collaborative approach from industry and all levels of government. The priority for government policy should be to facilitate, but also to actively drive investments both on-farm and across the supply chain to enable growth which will lead to improved competitiveness.
- Investment in infrastructure (including road, rail, port and air) that reduces the bottle necks and disruptions that add costs and inefficiencies across the supply chain are critical and must be a central component of agricultural competitiveness policy.
- A key source of improved competitiveness and growth in agriculture has, and will continue to be, the generation of new knowledge or technology. The co-operative government and industry approach to research and development must be continued and government policy should focus on achieving greater returns from the investment.
- Australian agribusiness faces high cost which our competitors do not. Government policy needs to focus on reducing un-necessary costs across the supply chain but also facilitates ongoing industry efficiencies. An example of costs borne by Australian producers not experienced by our trade competitors are the costs of funding government meat inspectors at meat processing facilities.
- The Australian red meat and livestock industry is one of the most highly regulated production, processing, retail and export chains in Australia. While some regulations are valuable, others are onerous, have little or no marginal benefit, are inconsistent, impose unnecessarily high compliance costs and can impair the productivity and competitiveness of enterprises, supply chains and the broader industry. When considering regulation it is essential that industry and government consider whether new regulation is the most efficient and effective way to address the issue at hand, and, if so, how can that regulation deliver the desired result with least impact for industry and government.

SCA supports the submission made by the National Farmers' Federation (NFF). SCA is a member of the NFF, working closely on a range of cross-sectoral issues including trade negotiations, drought policy, and environmental legislation.

### **1. Improving market competition (*Policy Idea 7*) / Strengthening competition laws (*Policy Idea 8*)**

Robust competition and transparent information throughout the supply chain is essential to ensuring producers receive the highest returns at the farm-gate. Any action or activity that reduces competition in the marketplace is of detriment to the sheep industry.

SCA supports the Government's commitment to review Australia's competition policy including the Competition and Consumer Act 2010 (CCA).

SCA supports the further investigation of *Policy Idea 7 - Improving market competition*, particularly; '*7a. Introduce options to increase price transparency throughout the domestic supply chain*' and '*7b. Introduce new marketing mechanisms which might restore balance of power to the producer*'.

SCA has concerns about the trend for consolidation of major meat processing plants in Australia. The recent acquisition of Primo Group by JBS is an example of the increasing rationalisation of the meat processing sector in Australia. SCA has concerns that the concentration of market power by a small number of processors could reduce competition for livestock in the marketplace. In addition, this concentration of power necessarily implies increased exposure to risk should a major processor or its parent company experience financial difficulty.

Similarly the acquisition of abattoirs by livestock export companies in Western Australia could reduce competition in the livestock marketplace.

### **2. Improving regulation (AgVet chemicals regulation) (*Policy Idea 9a*)**

The competitiveness of Australia's sheepmeat industry is currently constrained by inefficient regulation for agricultural and veterinary chemicals (AgVet Chems). Improving regulation will allow Australia to better compete our main trade competitor, New Zealand, who currently enjoys a significant competitive advantage in terms of access to sheep health products.

SCA is committed to working with government and industry stakeholders to increase access to animal health products to improve welfare and production outcomes. Reform of the Australian Pesticides and Veterinary Medicines (APVMA) is needed to ensure the most effective and safest sheepmeat health products available to the world are also provided access to the Australian market. Changes required include; better regulation of AgVet Chems to ensure that regulatory effort is aligned to risk, and; greater harmonisation of Australia's pre-market technical requirements with the standards developed and agreed through international bodies convened under the auspices of the World Organisation for Animal Health (OIE).

### **3. Strengthening the RD&E system (*Policy Idea 20*)**

The Australian Government has demonstrated its commitment to the development of the Australian agriculture sector as one of the pillars of the national economy. However, whilst increased funding has been provided in some areas, such as the \$100 million recently made available to RDCs over four years to encourage innovation and collaboration, cuts to departments, such as the CSIRO and a reduction of the state departments has placed significant pressure on industry to fill the gap.

As the overseer of the levy across three service companies, MLA, AHA and the NRS, SCA recognises that the competing pressures for finite R&D funds is having on the agricultural sector's capacity and capability. The withdrawal of State Governments from extension has now been partially offset by a newly established Livestock Biosecurity Network, to provide R&D outcomes to producers. This network of officers is funded through the sheep, lamb and grass fed cattle transaction levies.

Over the past decades there has been a progressive reduction in resources provided by governments, particularly State Governments, to agricultural R&D and adoption. As a consequence of this decline in public funding, the contribution from farmer levies makes up a significant proportion of the total pool of funds available for agricultural R&D investment in Australia.

For certain fields of research once funded by public resources, such as invasive animals, there is now a greater reliance on collaborative investment mechanisms such as Co-operative Research Centres (CRC), e.g. Invasive Animals CRC. SCA is a great supporter of CRCs. This collaborative model allows for researchers, service providers and industry to work together, with the support of government, to achieve specific industry outcomes directed to production and sustainability goals. The CRC Program is an example that many other countries seek to emulate as it is internationally recognised as being one of the most successful models in achieving collaborative research and delivering impact for industry.

CRCs have delivered valuable tools that have benefitted sheep producers through the support of long-term research in areas that can be developed through to commercialisation and adoption. Over its previous term the Sheep CRC delivered major breakthroughs for the sheepmeat sector in the area of genomics, with DNA tests now available and in use by leading breeders who are selecting rams for their meat eating quality to ensure they meet consumer demand.

The Sheep CRC and Invasive Animals CRC have a proven record of improving the connectivity between science and industry and more importantly, delivering on agreed industry goals. The benefit cost analysis for work conducted by the Sheep CRC between 2002 and 2012 has been estimated at 5.8, which is a return of \$5.8 for every \$1 invested.

The CRC model, which supports collaborative and targeted research, development and extension, must be retained to ensure the competitiveness of important Australian agricultural industries such as the sheepmeat industry.

For further discussion of agricultural R&D issues please see the submission made by the Across Agriculture Group on behalf of a range of agricultural organisations representing levy paying producers and processors<sup>1</sup>. For discussion regarding the importance of CRCs please see SCA's submission to the CRC Programme Review currently being conducted by the Department of Industry<sup>2</sup>.

#### **4. Improving the Rural RDCs (*Policy Idea 21*)**

SCA supports the current structures and systems governing the imposition of and disbursement of the sheep and lamb marketing and R&D levies. The red meat RDC and service providers played a major role in the successful transformation of the sheepmeat industry. SCA works closely with the red meat RDC,

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<sup>1</sup> Senate Standing Committees on Rural and Regional Affairs and Transport. Senate Inquiry into 'Industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector'  
[http://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Rural\\_and\\_Regional\\_Affairs\\_and\\_Transport/Agriculture\\_levies/Submissions](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport/Agriculture_levies/Submissions)

<sup>2</sup> Department of Industry. CRC Programme Review  
<http://www.business.gov.au/grants-and-assistance/Collaboration/CRC/CRC-Programme-Review/Pages/default.aspx>

MLA, and service providers AHA, and the NRS to ensure producer levies invested in marketing and R&D activities that deliver higher farm gate returns to producers. SCA is always looking for ways to improve the efficiency and effectiveness of these RDCs. Further information on these matters is provided in SCA's submission to the Senate Inquiry 'Industry structures and systems governing the imposition and disbursement of marketing and R&D levies in the agricultural sector', currently being conducted by the Senate Rural and Regional Affairs and Transport References Committee <sup>1</sup>.

Australia's RDC model allows industry levy investments in R&D to be matched by government funds, providing a mechanism for the Government to harness collective investment across the agriculture sector and ensure investment is directed in-line with the National RD&E Research priorities. These investments have assisted in building the competitiveness of Australian industry in the face of advances by our global competitors. Failure to make effective advances in marketing and R&D may lead to the Australian industry falling behind its international competitors. Given the sheepmeat industry is so export-dependent, this may result in significantly negative outcomes for producers.

The sheepmeat industry continues to strive through strategic planning and collaboration to be the leading supplier of lamb and sheepmeat globally. The continued success of the sheepmeat industry is dependent on a sound levy system.

#### *Improving the flexibility of levy arrangements (Policy Idea 21b)*

There is a great need to improve the legislative flexibility of the agricultural levy system. This includes making it easier to adjust the levy allocations between AHA, NRS and MLA (R&D and Marketing). Unfortunately, the current legislative framework makes it extremely difficult to adjust and transfer levies between one or more of the four levy streams in the sheepmeat industry. This is because each levy is enshrined in several pieces of regulation and hence any adjustment or transfer requires regulatory change. For any regulatory amendment process to be successful, peak industry councils must embark on an arduous, exhaustive and expensive consultation process as set out in the Levies Revenue Service's Levy Principles and Guidelines document. This lack of flexibility is readily demonstrated when one levy stream has imprudently high reserves whilst another has dangerously low levy reserve levels, yet funds cannot be readily transferred between them (even when the 'purpose' or use of funds is similar or identical).

There are programs which are critical to underpinning our food safety systems, namely the National Livestock Identification System (NLIS) and the Livestock Production Assurance (LPA) program, which would benefit from more flexible levy arrangements to provide a more sustainable funding model. For further discussion of these issues please see SCA's submission to the 'Industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector' <sup>1</sup>.

#### *Administrative changes to increase transparency and reduce costs (Policy Idea 21a)*

In certain agricultural industries, levy payers vote every three years on the quantum and distribution of levies for their industry. This model has been suggested by some politicians as a potential option for increasing the flexibility of levy arrangements and increasing the transparency and accountability of RDCs. However, SCA has concerns that such a system could create a level of uncertainty over levy arrangements that weakens Australia's RD&E system and undermines the ability to fund strategic and longer-term R&D and marketing projects. As a pillar of the Australian agricultural sector's competitiveness, the RDC model must be protected and strengthened. Any activities to increase the transparency and flexibility of the agricultural levy system must avoid creating a funding environment that leads to short-term research, subject to industry political cycles.

## **5. Enhancing agricultural exports (*Policy Ideas 24-25*)**

International markets are critical to the future of the export-oriented Australian sheepmeat industry. Government policy must be focussed on working more closely with industry on a clear and co-operative strategy for increasing growth in exports that deliver improved returns on-farm.

Through bilateral and multilateral trade agreements, Government must continue to reduce the impacts of trade-distorting policies and to improve access in key global markets. Comprehensive FTAs, particularly with emerging markets like India or more established markets like the European Union, are essential to the long-term profitability of Australia's sheepmeat producers and processors.

The recent signing of the China-Australia FTA will help to underpin the long-term future of Australia's trade of lamb, mutton, skins, and co-products (offal, tallow, meat and bone meat and pet food exports) to China. When fully realized, this deal could lift the baseline price of lamb and mutton and significantly increase the farm gate returns of producers.

Throughout the complex trade negotiation process the sheepmeat industry was confident that Government officials understood what was required to achieve an outcome that ensured the Australian sheep industry remains competitive with New Zealand. Industry-Government partnerships like this are essential to achieving further significant gains into the future.