

**Submission to the Australian Government on Issues to be Addressed in the
White Paper on the Competitiveness of the Agriculture Sector**

Submitted by: Red Meat Advisory Council

on behalf of: Cattle Council of Australia
Australian Lot Feeders Association
Sheepmeat Council of Australia

Submission prepared by:
Meat and Livestock Australia

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Acronyms

ABARE – Australian Bureau of Agricultural and Resource Economics
ABRI – Agricultural Business Research Institute
ABS – Australian Bureau of Statistics
AGBU – Animal Genetics and Breeding Unit
AGM – annual general meeting
ALFA – Australian Lot Feeders’ Association
AMLC – Australian Meat & Live-Stock Corporation
AMPC – Australian Meat Processor Corporation
AOP – annual operating plan
AWI – Australian Wool Innovation
BSE – bovine spongiform encephalopathy
CCA – Cattle Council of Australia
CIE – Centre for International Economics
CRC – Cooperative Research Centre
CRRDC – Council of Rural Research and Development Corporations
CSIRO – Commonwealth Scientific and Industrial Research Organisation
DA – Dairy Australia
DAFF – Department of Agriculture, Fisheries and Forestry (now Department of Agriculture)
DFAT – Department of Foreign Affairs and Trade
EU – European Union
FAO – Food and Agriculture Organization
FMD – foot and mouth disease
GMI model – Global Meat Industries model
GRDC – Grains Research and Development Corporation
GVP – gross value of production
HGP – hormone growth promotant
IOC – industry-owned corporation
IPR – intellectual property rights
KPI – key performance indicator
LPA – Livestock Production Assurance
MDC – MLA Donor Company
MISP – Meat Industry Strategic Plan
MLA – Meat & Livestock Australia
MoU – memorandum of understanding
MRC – Meat Research Corporation
MSA – Meat Standards Australia
NABRC – North Australia Beef Research Council
NLIS – National Livestock Identification System
NZ – New Zealand
OHS – occupational health and safety
PC – Productivity Commission
R&D – research and development

RDCs – Research and Development Corporations

RD&E – research, development and extension

RMAC – Red Meat Advisory Council

SABRC – Southern Australia Beef Research Council (now Southern Australia Meat Research Council - SAMRC)

SCA – Sheepmeat Council of Australia

SFA – Statutory Funding Agreement

UNE – University of New England

US – United States

WTO – World Trade Organization

EXECUTIVE SUMMARY

This submission has been prepared on behalf of the beef and sheepmeat production sectors of Australia's red meat and livestock industry, and is provided in response to the Australian Government's call for contributions to its development of a White Paper on the Competitiveness of the Agriculture Sector.

The beef and sheepmeat production sectors welcome the opportunity presented by the white paper to consider ways that industry and Government can work to improve the competitiveness of agricultural industries. This submission outlines some of the ways that industry currently invests in improving its competitiveness, and where those investments are likely to head in the future; it is the intention of this approach to highlight those areas of investment which have, and will continue to, generate greater competitiveness in the production sectors.

Much of the collective industry effort to improve the competitiveness of the sector relies on collaboration with and support of government.

Research and development (R&D) funding in equal partnership with Government is often done in collaboration with government research programs, infrastructure and resources. Maintaining research capability is key to the industry's future competitiveness, however limited industry RD&E funds must be invested where they deliver maximum benefit to producers, and cannot fill all the gaps left by declining government resourcing.

Extending the outcomes of research to drive improved productivity and industry competitiveness is an increasingly complex challenge in a changing extension environment. Here, Government has a key role in supporting and promoting private sector development to replace declining government resources through providing a consistent, long term approach to planning and funding extension activity that recognises and encourages the role of the private sector providers and establish a culture of the need and willingness to pay for private benefit services.

The industry has developed food safety and traceability systems to protect and grow the markets available for meat and livestock products. Use of these systems has been leveraged to deliver productivity and market information benefits to producers. To support these systems, it is critical for the industry's future competitiveness that Government:

- develop and maintain harmonised regulatory standards for traceability, food safety and biosecurity;
- recognise the role of industry programs in meeting regulatory requirements; and,
- provide regulatory enforcement where necessary to address non-compliance and manage risks posed by those that operate outside of the recognised industry programs.

In response to the needs identified by producers (and the broader supply chain), the industry collects and provides market information to inform producer decision making. This service complements the information provided from a range of industry and government sources. Critical sources of market information provided by government, in production, exports and farm performance will continue to be important in tactical decision making and farm business planning. It is acknowledged that greater efficiencies in the collation and analysis of data can be achieved

through better collaboration across private, industry and government bodies, especially as agribusiness takes a greater role in managing this information.

Market access is of overwhelming importance to the competitiveness of an export-focused sector such as meat and livestock production, and the results clearly translate to farm gate prices. Industry works collectively to support government efforts in improving market access outcomes. These efforts have delivered positive gains at recent times in improved access and tariff reduction; however a greater focus is needed to resolve increasingly complex technical barriers to trade.

To grow and diversify export markets, industry is renewing the branding of products in export markets and placing increasing effort in the development of emerging markets. Here too, Government can support these efforts through utilising the resources of AUSTRADE to enhance the positioning of Australian brands and “Australia Inc.” globally.

The red meat and livestock industry, through its Peak Industry Council and service company structure welcome any further opportunities to expand on the issues raised in this submission or to provide input and advice on options being considered by Government as part of the white paper development process.

1. BACKGROUND

1.1 About this submission

This submission has been prepared on behalf of Australia’s beef and sheepmeat production sectors, in response to the Australian Government’s call for contributions to its development of a White Paper on the Competitiveness of the Agriculture Sector.

The red meat and livestock industry invests livestock producer, processor and exporter levies in a range of marketing, market access, research, development and extension activities, a primary aim of which is to improve the competitiveness of the sector. This submission outlines the breadth of those investments with the purpose of informing Government of the current and planned strategies to secure and improve the competitiveness of the red meat production sector.

Quite deliberately, this submission does *not* address every issue and question raised in the Agricultural Competitiveness Issues Paper released by the Government in February 2014; rather it addresses three issues that, collectively, the red meat and livestock industry believes are critical to future competitiveness of the sector:

- Improving farm gate returns
- Improving post farm gate productivity
- Enhancing red meat exports

The submission outlines current industry efforts to address these three issues and outlines opportunities to improve the efficiency and effectiveness of the combined industry and Government effort to improve the competitiveness of the sector.

1.2 Significance and structure of Australia's red meat and livestock industry

Australia's red meat and livestock industry is a major player in a domestic and international context. Its combined value exceeds \$16b; a figure that represents more than 1/5th of Australia's total agricultural GVP. Red meat and livestock production casts the largest geographical footprint of all primary industries, and supports the industry's position as the world's second largest exporter of beef and sheepmeat, and largest exporter of goatmeat. The industry is one of the largest employers in rural and regional Australia, directly employing some 200,000 people, while indirectly underpinning significant employment in various products and services sectors. On this basis, Australia's red meat and livestock industry is major contributor and major stakeholder in agricultural competitiveness.

Red Meat Advisory Council Ltd

Red Meat Advisory Council Ltd (RMAC) is the red meat and livestock industry's peak body for the development and provision of policies for, and advice to, the industry and government respectively. RMAC's charter is to oversee the effective function of the industry's policy and service delivery arms within the framework of the Memorandum of Understanding (MoU) between the industry and the Commonwealth Government. These arrangements are depicted in the diagram overleaf.

RMAC's members comprise the five national prescribed Peak Industry Councils (PICs):

- Cattle Council of Australia (CCA), representing Australia's grass-fed beef production sector;
- Sheepmeat Council of Australia (SCA), representing the sheepmeat production sector;
- Australian Lot Feeders' Association (ALFA), representing the grain-fed beef sector;
- Australian Meat Industry Council (AMIC), representing Australia's red meat processors, retailers, wholesalers and smallgoods operators; and,
- The Australian Livestock Exporters' Council (ALEC), representing the livestock export sector.

In addition, the Goat Industry Council of Australia (GICA) holds an observer status with RMAC.

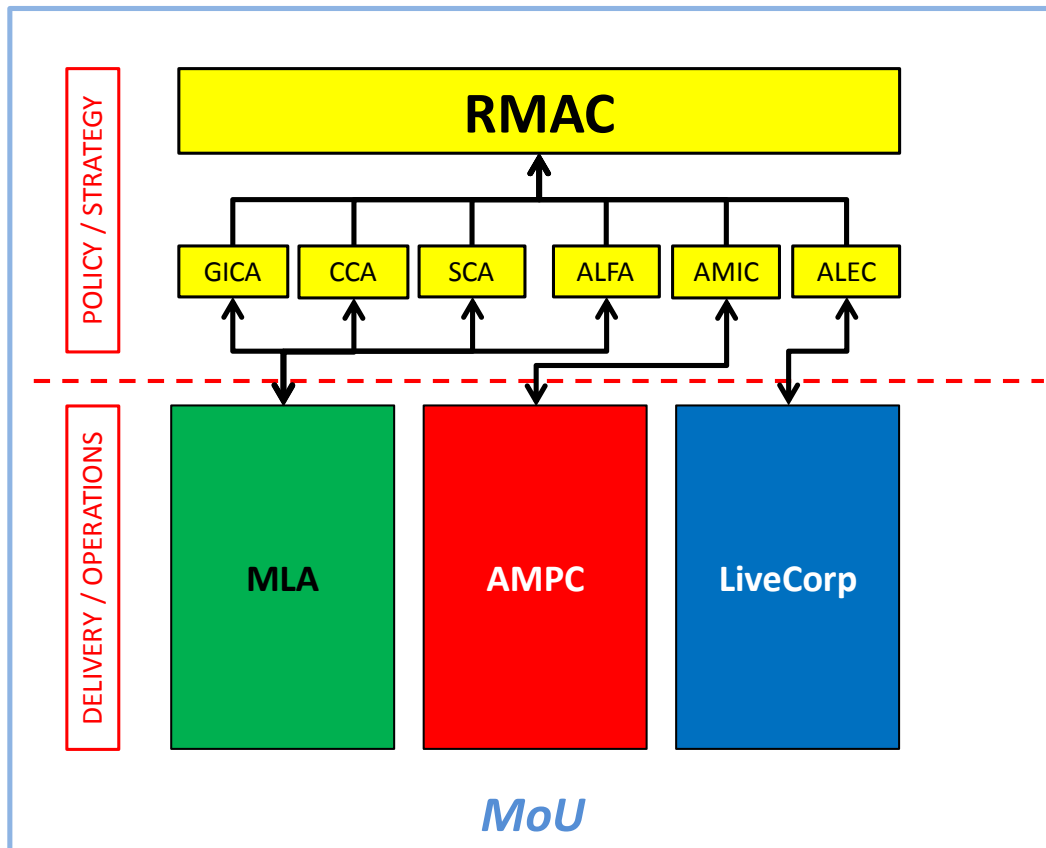
Meat & Livestock Australia

MLA is a producer-owned company, and one of three Industry Service Companies providing service and delivery solutions to the Australian beef, sheepmeat and goat meat industries. MLA's investment activities focus on the following four core strategic priorities:

- Improving market access;
- Building demand via targeted marketing programs;
- Enhancing competitiveness and sustainability via strategic research & development (R&D); and,
- Increasing industry capability

MLA's funding base is primarily provided by transaction levies paid on cattle, sheep and goat sales, with additional funding provided via Federal Government dollar-for-dollar funds for (R&D investment only) and collaborative contributions from service bodies and individual organisations within the meat processor, wholesaler, food service and retailer sectors and live export industry.

Diagram 1. Core membership linkages and policy and service delivery functions in Australia’s red meat and livestock industry under the Memorandum of Understanding (MoU)



1.2 Strategic imperatives and planning activities

The Australian red meat and livestock industry is a vital contributor to Australia’s domestic and global food supply, and provides critical financial, social and environmental value to rural and regional communities, and the Australian economy more broadly. Such contributions cannot be maintained by standing still, and the industry must – and does – continually seek to improve efficiencies, resource stewardship and overall performance through the supply chain. Those components of common interest to the industry as a whole are captured through the red meat and livestock industry’s pre-eminent strategic framework, the *Meat Industry Strategic Plan (MISP)*.

Now nearing the end of its third iteration (MISP3), and with planning underway for the fourth, MISP represents a single view of, and roadmap for delivering, the industry’s priorities, through the framework of the MoU. It is the overarching planning and collaboration framework for all advocacy and service delivery entities of Australia’s red meat and livestock industry.

At its highest tier, MISP4 has identified three key pillars around which the red meat and livestock industry’s collective investment priorities will be focussed in the period 2016-20. These are:

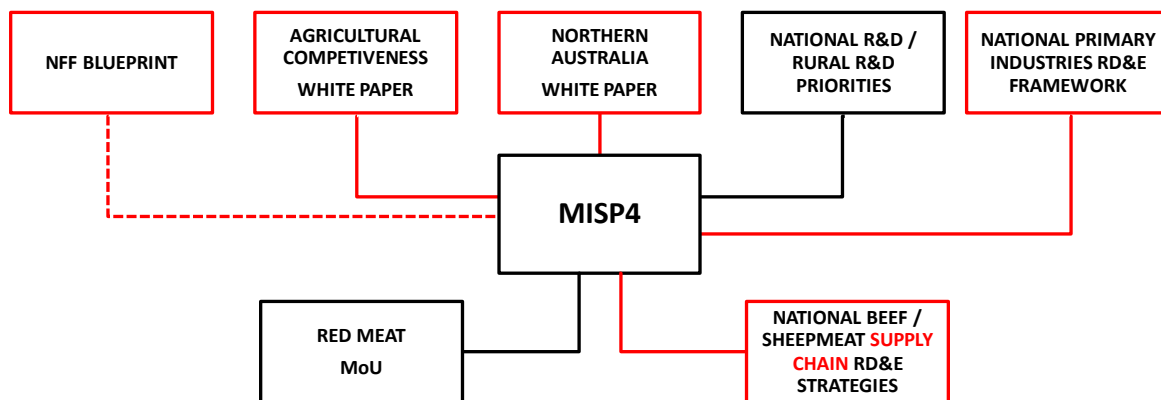
1. *Efficiency and profitability of the supply chain*
2. *Consumer and community support for the industry*
3. *Market growth, diversification and value*

While the identification and development of investment imperatives that contribute to these areas is in its infancy, “competitiveness” is clearly a common denominator for success across these pillars.

In addition to the MISP development process, local, regional and global meat industry trends, macro and micro economic drivers, and the outcomes of regular industry and sector-based consultation are all considered when planning industry programs.

Details of the (existing and proposed) strategic positioning of MISP4, including with respect to the Agricultural Competitiveness White/Green Paper, are outlined in Diagram 2. The strategic imperatives of MLA and their links to Australian Government Research Priorities and MISP3 are set out - as an example - in a table at Appendix 1.

Diagram 2. Existing (and *proposed*) linkages and relationships between MISP4 and various strategic frameworks, including the Agricultural Competitiveness White Paper.



1.3 The Rural RDC model

Australia’s rural RD&E corporation model has a number of strengths that have been acknowledged to deliver benefits to industry and the wider community (Productivity Commission, 2011). The model, where industry levy investments in RD&E are matched by government funds, provides a mechanism for the Government to harness collective investment across the agriculture sector to drive improvements in the sectors competitiveness.

Australian Government RD&E funding matched to industry levies has supported the development and delivery of productivity-enhancing RD&E ranging from genetic tools and evaluation through to consumer-driven supply chain product quality systems such as MSA. This RD&E has created opportunities for producers to increase the productivity and profitability of their enterprises where they have chosen to implement them effectively in their businesses. These investments have contributed to industry maintaining the long-term average productivity growth of approximately 0.9 per cent per year in beef cattle enterprises and 0.5 per cent per year in sheep enterprises.

The RDC model has a competitiveness function beyond productivity improvements to reduce cost. Following changes introduced through the Rural Research and Development Legislation Amendment Bill 2013, all RDCs can carry out collective marketing efforts if requested by industry. An example of the importance of marketing and market access to maintaining competitiveness was apparent when the Korea–United States Free Trade Agreement (FTA) came into force in March 2012. The FTA gave

US product a tariff advantage over Australia that in the absence of the now negotiated Australia–Korea FTA could have cost Australian industry as much as \$1.4 billion over 15 years. The marketing function within the RDC model supports government efforts to reduce barriers to trade, and then invests in promotion and marketing to seize those opportunities created by improved access.

Failure to make effective advances in marketing and innovative RD&E leads to the Australian industry falling behind its international competitors and, with industry so export-dependent, the result would be dire.

2. Improving Farm Gate Returns

Industry investments to improve farm gate returns are made through the producer service delivery company MLA. MLA programs aim to improve farm gate returns through three key areas of investment:

- 1) RD&E to improve on-farm productivity
- 2) Industry systems to support product differentiation
- 3) Market information to inform producer decision making

2.1 RD&E to improve on-farm productivity

Livestock producers have for decades faced steadily increasing costs of production, and there is little likelihood that this will change in future. One of the most important ways by which producers have remained viable is by maintaining productivity growth – as mentioned above, 0.9% per annum for beef enterprises and 0.5% per annum for sheep enterprises over the long term. There is strong evidence that these gains have not been sufficient to maintain profitability in the face of declining terms of trade.

For example, the 2013 Northern Beef Situation Analysis Report, which comprehensively details the performance of the northern beef industry over the first 12 years of this century found that, on average, the profits achieved over that time frame have been low, but not trending down. However the profitability of the top performers across the industry has been trending down over the period analysed. Profit after interest is decreasing, and is mostly negative, as a result of increasing debt with no increase in returns. The majority of Northern Beef producers are not economically sustainable as they are not able to fund present and future liabilities. The report clearly identifies productivity improvements as the key to increased profitability, particularly improvements in herd reproductive and mortality rates, and in sale weights.

These productivity improvements can only continue through innovations to sustainably increase output through better performance and reproduction of animals and pastures, and the efficient running of enterprises to reduce costs of production.

The industry, together with matching government funds, invested \$19.4 million in programs to improve on-farm productivity in 2012-13. These investments included implementation of the feedbase investment plan, lamb and weaner survival programs, priority projects in northern Australia targeting reproductive efficiency, as well as supporting investments in Future Farm Industries CRC, and Sheep CRC.

An independent evaluation of the returns from on-farm beef R&D found that over the period 2000 to 2007, a total of \$90 million (including a \$45 million matching contribution from the Australian Government) was invested generating a total of \$307 million additional industry value over 15 years – a benefit: cost ratio of 3.4:1.

On-farm RD&E is often most effective in delivering increased returns to the farm gate when it is closely co-ordinated with marketing. This is well illustrated in the case of the Australian prime lamb industry, the subject of the following case study.

Case study: Building the Australian prime lamb industry

Co-ordinated RD&E, export and domestic marketing transform an industry

In the late 1980s lamb production was largely a marginal, highly seasonal by-product of the wool industry, dependent on a domestic market, where per capita consumption was declining rapidly. Consumer surveys revealed that Australian consumers – especially younger consumers – perceived lamb as fatty, with high wastage, difficult to cook, and lacking versatility as a meal. In 1990 the lamb industry was valued at \$1.1 billion and 85% of annual production was consumed domestically. Market research also revealed that consumers preferred lamb from a larger, leaner carcass, and that supermarkets would only treat the product seriously if it was supplied all year round.

A Lamb Industry Strategic Plan, a subset of the then Meat Industry Strategic Plan released in 1995, set an over-arching target of reaching an industry value of \$2 billion by the year 2000. The Plan also set out a three pronged strategy to achieve this target:

- On-farm RD&E to develop production practices that would produce heavier, leaner lambs all year round, and a communications strategy to convince lamb producers to adopt these practices;
- A major increase in promotion of lamb in export markets, commencing with the Fresh Australian Range Lamb (FARL) program in the USA; &
- Trim Lamb – aggressive domestic promotion that aimed to reinvent lamb as a modern meat, with the development of 22 new cuts and collaboration with butchers to improve merchandising.

Although the \$2 billion target was not reached until 2003 (a subsequent target of \$2.8 billion by 2005 was surpassed in 2007 when the industry was valued at \$2.9 billion), the lamb industry was successfully transformed. A large proportion of lambs are now produced by specialist prime lamb producers. Lamb carcass weights have increased from 17 kg per head in the early-90s to 22 kg per head in the current decade. Export markets now account for over 50% of lamb production and the USA is now Australia's most valuable export market for lamb, accounting for 39,180 tonnes valued at \$349 million in 2013.

An independent evaluation of this program conservatively estimated that as a result of the \$639 million investment by AMLC, MRC, and MLA over the period 1991 to 2007 an additional \$1.39 billion to \$2.39 billion of added value had been generated at the farm gate.

The future

The meat and livestock industry faces two significant challenges in its effort to improve on-farm productivity:

- complex RD&E funding and program delivery relationships
- a rapidly changing extension landscape in Australia

Funding and program delivery

Industry investments in RD&E are, necessarily, being applied to a wider range of issues as traditional funding arrangements are wound back or withdrawn. Funding and program delivery relationships for on-farm RD&E are complex and include working in partnership with governments, industry organisations, universities, CRCs, other RDCs, and private companies. State Governments are changing the resources allocated to rural research, development and extension, and CRCs are formed and disband as priorities change. The industry must constantly adapt to changing circumstances to ensure it most effectively delivers on-farm productivity improvements.

The National Primary Industries RD&E Strategies provide a framework for managing this complexity and improving the allocation and alignment of increasingly scarce resources and research capability. While livestock industries require RD&E capability within research organisations to be maintained, industry does not have the funds to perform this function alone. Investment decisions must be driven by the business case for how the RD&E will contribute to fulfilling the RD&E priorities identified in industry strategic plans and ensuring only the best “ideas” are supported.

Changing extension landscape

The second and perhaps biggest challenge that all rural RDCs face is the rapidly changing extension landscape in Australia. State Governments are significantly reducing resources allocated to extension – since 2009 there has been a further 25% decline in their extension services (Hogan *et al.*, 2013). While private farm advisory services are expanding in some regions and rural industries, there is little to no strategy to systematically manage the transition from a public/industry to industry/private delivery model. Given the known challenges associated with the effective adoption of R&D outputs, the concern for the future competitiveness of all primary industries is that prolonged changes to the extension environment will significantly slow rates of adoption, and hence slow the rate of on-farm productivity growth. This situation is arguably exacerbated for the red meat and livestock industry due to the extensive and/or decentralised nature of our production systems.

From the perspective of on-farm RD&E for the livestock industries, industry’s role in extension, through MLA, has traditionally been maintained as a wholesaler of R&D information and tools. In essence this role is about building producer capability through effective engagement with industry-funded information and tools, which provides receptive producers with a return on their investment in the R&D. “*Effective engagement*” means providing multiple opportunities for producers to access and engage with various information, tools and learning activities that provide knowledge and skills to benefit their business – either directly with MLA, or in collaboration with delivery partners.

Case study: More Beef from Pastures

Engaging producers with practice change and returning \$4.40 per dollar invested

More Beef from Pastures (MBfP) is a communication and extension program developed by MLA in 2004 to provide all southern beef producers with opportunities to build skills and capability that will reduce their costs of production, improve pasture utilisation and maximise enterprise profit.

MLA's investment of \$2.4 million over the past three years (2010-13) has enabled over 500 activities to be delivered to nearly 12,000 beef producers. A survey of participants indicates 76 per cent of southern beef producers who participated in the MBfP program implemented management practice changes, predominantly in pasture and grazing management. Estimated benefits per head of cattle are presented in the table below, highlighting improvements in pasture management providing the highest return. An ex-poste evaluation of MBfP conducted in 2013 estimated the investment benefit: cost ratio at 4.4 to 1 with a net present value to industry of \$21.5 million (Beattie, 2013).

Estimated per head benefits for MBfP practice change categories

Practice Change Category	\$ per Head Benefit**
General/Business Management	\$9.88
Animal Health	\$9.65
Marketing	\$9.39
Genetics	\$8.71
Animal Production	\$12.03
Pastures	\$12.30
Animal Handling	\$7.21

***Five-year average beef prices provided by MLA for a range of livestock categories were used to quantify the income impacts of practice change productivity changes and actual or expected costs of implementing the change were based on farmer inputs provided.*

The program is delivered by a national network of state coordinators – usually government extension officers or private agricultural consultants.

Activities are based on large part on the MBfP producer manual which is available online where it has on average 1,270 unique visitors per month. The manual has modules on pasture growth, pasture utilisation, cattle genetics, weaner throughput, herd health and welfare, and meeting market specifications. Other online initiatives support the program including decision-making tools such as the popular beef cost of production calculator, stocking rate calculator, and the feed demand tool. The program also delivers a quarterly MBfP e-newsletter which has over 2500 subscribers.

While the current industry approach to extension investment has shown merit, there is a clear need for review and research to either validate the current role of collective industry investment in extension or inform a change in approach. The key research questions include:

- How well is the supply chain (especially producers) adapting to the changing extension delivery landscape? This includes the barriers to producers engaging in activities under a user-pays or a user-part pays system.
- How to build demand for innovation and segment members to more effectively identify their needs and have a more targeted approach to extension investment? Previous attempts to segment producers have had a focus on geography and industry attributes, however this research would identify key attributes of producer in terms of their business goals and approach to capacity building.

The primary consideration for industry investment in extension activities the delivery of industry funded R&D outputs to producers. However, given the significance of changes in the extension landscape, there is need is a need to look at the effectiveness of the extension system more broadly.

A more co-ordinated effort by industry and Government is required to ensure that the very significant joint investment in R&D to improve productivity is more effectively extended into on-farm practice. The future extension system must also accommodate the delivery of private good services that are not the primary focus of Government or the RDCs but are critical to the future competitiveness of the sector. To do this, there are a number of issues that must be addressed.

- a) Improving our understanding of industry performance, with more accurate and detailed data and reporting (utilising ABARES and ABS data) is necessary to more accurately direct RD&E investment. This would assist in recognising different industry and regional needs, demographic and production trends and opportunities for targeting specific markets with the required extension services.
- b) Systems and arrangements are needed to encourage larger, longer term (5-10 years) collaborative extension programs and leverage public, industry and private funding – recognising that there is a multitude organisations working/investing in the area of extension. As an example, the New Zealand Ministry for Agriculture has initiated a \$60m, 6-year program for their red meat industry, based specifically and a more co-ordinated approach to medium- and long-term extension investment.
- c) The development of a standardised extension planning and investment model for use across all Government-supported rural RD&E, (e.g. RDCs, CRCs and ARC grants for universities). The model should ensure RD&E proposals demonstrate a clear delivery pipeline supported by a consistent monitoring, evaluation and reporting (MER) system.
- d) A more consistent approach by Government (of all jurisdictions) to the funding of extension across rural RD&E investments should be defined. This approach needs to align private and public sector funding contribution with the private and public good nature of the technology or practice. For example, the extension of biosecurity and NRM practices (with high public good benefits and/or market failure risk) should reflect a higher public sector contribution than business skills training and education (with tangible private good benefits).

This approach to extension funding also applies to the role of Government agencies as deliverers of extension services. A clear definition of the role of government in the extension of productivity, profitability and public good/regulatory services will allow the private sector

to plan, grow and adapt accordingly. Indeed, a formal and consistent approach to this issue is required if sustainable private sector extension investment and capacity is to be developed and maintained.

- e) Incentives need to be created and reinforced through development of a user-pays culture for private benefit skills and training (e.g. business planning, budgeting, cash flows, gross margins, cost of production, business structures, strategy and people management). These skills are fundamental to the industry's ability to identify, prioritise and address those areas of an enterprise that are limiting or underpinning competitiveness. Importantly, this is not an area for public investment, and a consistent approach – by industry and government – is essential if we are to establish a culture that recognises, and is willing to pay for, skills to enhance business acumen and competitiveness.

2.2 Industry Systems to support product differentiation

Because Australia is not the world's lowest cost producer of red meat and livestock, the industry has invested in systems to demonstrate high standards of food safety, traceability and product quality to access as many markets as possible and to differentiate product in the global marketplace.

Traceability and food safety

Australia is in a very strong position in terms of access to global markets when compared to other red meat exporting countries. Systems such as the National Livestock Identification System (NLIS) and Livestock Production Assurance (LPA) and the data and innovation provided by food safety research and development create a point of difference for Australian product in the international marketplace. They are the 'insurance programs' which help to prevent or more swiftly respond to biosecurity or food safety threats.

National Livestock Identification System

The NLIS database is the technology platform that underpins the national traceability system from property of birth to slaughter.

This system ensures that any disease or contamination issues detected at slaughter can be quickly traced back to the livestock's property of origin so that the issue can be quickly contained and the impact on the broader industry minimised.

Livestock Production Assurance (LPA)

LPA is the red meat industry's on-farm food safety program established to manage food safety and market access risks.

There are over 200,000 LPA accredited properties representing the overwhelming majority of cattle, sheep and goat production. Producers must provide a vendor declaration that required standards have been met whenever they sell their livestock.

Government plays a key role in supporting traceability and food safety programs, from the initial investment in establishing NLIS, through to ongoing biosecurity surveillance and the monitoring and enforcement of compliance with food safety and traceability standards.

These programs help maintain Australia's relatively unimpeded access to global markets, a comparative advantage over many of our competitors. The rest of the world is, however, catching up and Australia must continue to improve its food safety, traceability and biosecurity systems.

The future

The red meat industry through the SAFEMEAT partnership is improving the food safety and traceability system supported by NLIS and LPA by upgrading the database infrastructure to enable electronic capture, storage and transfer of food safety, biosecurity and traceability information along the supply chain. The changes will improve the accuracy and efficiency of data collection and deliver time and cost savings over paper forms. The electronic platform will provide the flexibility to adjust quickly to changing and expanding market requirements.

The red meat industry will continue to invest in improvements to industry systems on the basis of the risk management, preparedness and market advantages they deliver. However, the effectiveness and integrity of these systems will continue to rely on Government to provide regulatory support, reflecting the shared responsibility between industry and government to deliver public good food safety and biosecurity outcomes.

It is critical for the industry's future competitiveness that Government

- develop and maintain harmonised regulatory standards for traceability, food safety and biosecurity
- recognise the role of industry programs in meeting regulatory requirements
- provide regulatory enforcement where necessary to address non-compliance
- manage risks posed by those that operate outside of the recognised industry programs such as LPA.

Product Quality

Systems such as Meat Standards Australia (MSA) have been developed to drive improvements in product quality and allow the red meat industry to target higher value domestic and international markets. The higher value achieved in the marketplace for this product has been demonstrated to flow back to farm gate returns as price premiums paid to producers for livestock that meet MSA requirements (see MSA case study below).

In addition to eating quality, customers also seek products of consistent specification. There is an opportunity to capture more value at farm gate when customer requirements are satisfied more consistently. An emerging program, Livestock Data Link, will assist producers to more consistently meet product specifications and avoid price penalties that impact on farm gate returns.

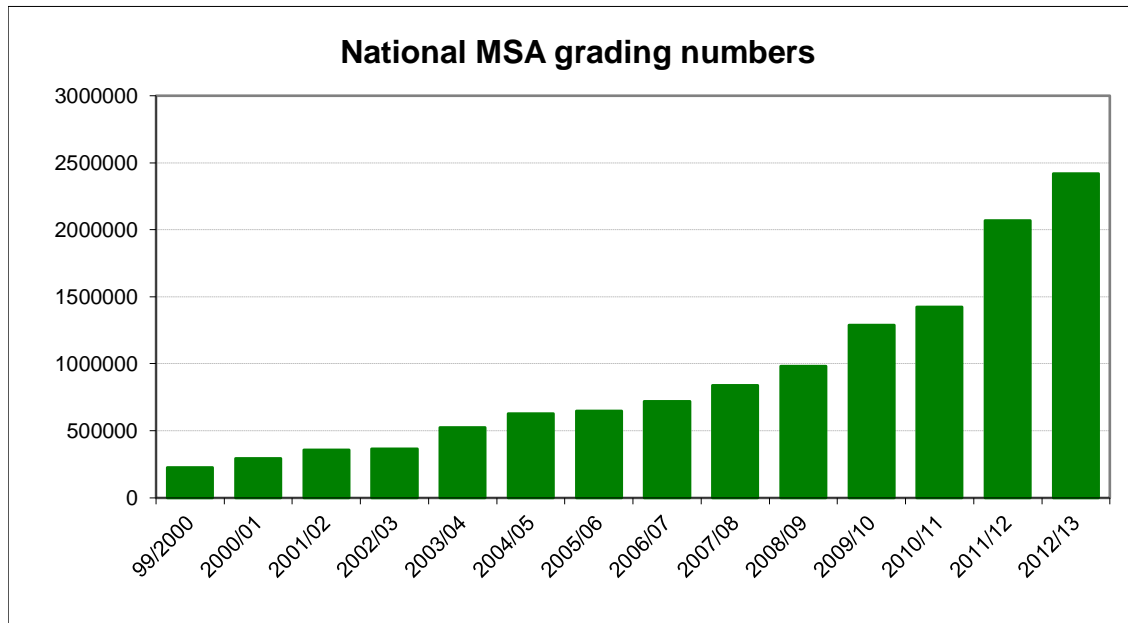
Case Study Meat Standards Australia

Meat Standards Australia is industry's eating quality grading standard designed to give consumers a consistent eating quality experience of beef. Launched 15 years ago, MSA was developed to scientifically assess the impact that genetics, livestock management practices, processing systems, cuts, ageing periods and cooking methods have on eating quality as assessed by consumer preferences gauged through more than 683,000 beef taste tests.

The model grades 136 cuts by cooking combinations for beef, and as a result provides assurance that the eating quality of MSA beef requires that standards are maintained from paddock to plate. Cattle are graded by an MSA accredited grader at a licensed processor according to a range of carcass data with an eating quality grade assigned for each individual cut by cooking combination.

MLA manages MSA on behalf of industry. MLA aims to increase the volume of MSA-graded product by encouraging more producers to register, generating more MSA-graded product percentage per carcass, and reducing eating quality variability within brands. R&D to strengthen the predictive model that underpins the program is on-going.

MSA has been taken up strongly by producers, processors, food service outlets and retailers. More than 2.4 million head of cattle were MSA-graded in 2012-13 and more than 31,500 producers and lot feeders are currently registered with the program to supply cattle. This translates through the supply chain with 41 licensed processors and more than 1,590 end user licenses representing more than 2,300 retail outlets including major supermarkets and 650 independent butchers. According to MLA market research, more than 51 per cent of consumers are aware of the MSA-graded symbol.



MSA is generating significant returns back through the supply chain and ultimately back to the farm gate. In 2012-13, MSA-graded yearling cattle generated an average premium of \$0.28 per kg across all weights translating to an estimated total return to the farm gate of \$170.1 million last financial year alone.

A CIE report into recent program performance estimated that MSA had delivered net benefit to producers of \$440.9 million by the end of 2010-11 with a benefit: cost of 5.3 to 1 over this period. The total industry-wide net benefit of MSA was estimated at between \$967.1 million and \$1,043.4 billion with a benefit: cost ratio of between 3.7 and 4.7 to 1 (CIE 2012).

Recently MLA released the MSA index, a tool designed to allow producers and lot feeders to benchmark the eating quality potential of cattle they produce. The tool will allow effective decision making on the value of investments in genetics and on farm management practices.

2.3 Market information

The need for timely, accurate and relevant information is raised in the Agricultural Competitiveness Issues Paper - and has been a significant area of long term activity within the Australian meat and livestock industry. The collection and provision of market information has been a key function of the industry service provider, MLA. Others also play a substantial role in collecting and disseminating market information, including saleyards, agents, media and Government.

The objective of the market information service is to inform business management decisions in the red meat and livestock industry by ensuring any 'information gaps' are identified, and appropriate information is collected, analysed and communicated. Producers and lot feeders have sought a range of independently-sourced livestock information and tools, including: saleyard prices; over-the-hooks (OTH) prices; national indicators; market analyses and forecasts; and risk management tools.

Regular analysis, and appraisal of industry stakeholder needs, continually informs the market Information service and allows the service to evolve with changing needs of stakeholders and identified information gaps.

With the support of industry, MLA integrated the National Livestock Reporting Service (NLRS) into its operations in 2002-03 to ensure the continued operation of the service and that livestock producers had ready access to independently sourced national livestock pricing and supply data. NLRS, in consultation with producers, processors and lot feeders, has since refined saleyard and over-the-hooks reporting to ensure specifications and indicators accurately reflect the market, helping producers and lot feeders make informed procurement and other business decisions.

An independent assessment by CIE of MLA's market Information service confirms that it is valued by industry and the Government, with benefits conservatively valued at \$255 million for the period 1998/99 to 2009/10, outweighing costs at a rate of 5.6 to 1. Regular surveys and consultation also provides evidence that the program's outputs are highly valued by all industry sectors in business decision making.

The program's value is in part due to the adaptive and evolving strategy which continually seeks to understand, and respond to, stakeholder needs by refining, expanding or ceasing outputs and services as appropriate. The industry's market Information service has:

- used the latest technology to provide timely access to independent market information;
- provided a reliable resource for effective industry planning, market access negotiations, marketing, research and industry policy formulation;
- gathered and disseminated intelligence to inform long-term commercial modelling, planning and benchmarking; and
- encouraged the commercial supply, and industry adoption, of risk management tools.

The flagship market information publication, *Meat & Livestock Weekly*, features national indicators and analysis on the week's cattle and sheep markets, and is rated highly by producers. For medium to longer term analysis, MLA formulate, consult and publish *Annual Cattle and Sheep Industry Projections*, which focus on the period five years ahead, from both a supply and demand dynamics.

These projections are a culmination of constant industry feedback, scrutiny and validation, with matching workshops, which are very highly regarded and utilised by the industry.

In an attempt to assist cattle producers and lot feeders manage their exposure to the risk of fluctuating cattle prices, a price risk management program was launched in 2002, when the MLA/Sydney Futures Exchange (SFE) Cattle Futures Contract commenced trading. In response, a number of risk management tools were designed and offered by private business entities, including forward pricing instruments. Awareness of the MLA/SFE Cattle Futures Contract subsequently increased, however liquidity in the MLA/SFE Cattle Futures market was low, with trading peaking at 276 contracts in 2006. Due to lack of industry participation, the contract was delisted in January 2010.

While withdrawing from the direct participation in developing and funding risk management tools for the Australian livestock industry, there remains a desire within industry to support a risk management culture. As outlined in the Market Information Strategic Plan, MLA will foster the commercially-led development of relevant price and supply management products, through the provision of market information, expertise and logistical support appropriate. Currently this includes support for the Australian Cattle Trade Rules (ACTR), which provides terms and conditions to assist cattle market participants to manage risk using forward contracts.

It should be noted that commercially driven initiatives for price risk management continue to be offered, primarily for the cattle sector, the most recent by major players in the financial sector. The readiness, or ability, of the Australian industry to utilise these offerings has been limited. Compared to the other major beef exporting nations, namely the US and Brazil, the lack of risk management tools will continue to constrain the ability for the Australian producer to manage price volatility.

The future

Industry funded market information services must continue to adapt in response to stakeholder feedback to ensure these services remain relevant and valued. Extensive stakeholder consultation has identified several key issues that need to be addressed, including:

- Improvement in the accuracy of lamb forecasts to provide more reliable estimates of lamb turnoff as each season progresses
- Enhanced data collection and analysis for the lot feeding sector
- As a greater proportion of cattle is being sold direct to works, the coverage of over-the-hooks price reporting must be increased
- Greater collection of information from cattle markets in northern Australia
- Closer coverage of competitor's, including India and South America.
- Investigation and documentation of on-farm costs for livestock production

In addition to the above, a key facet for the future is to continually refine tools and information to ensure the most efficient production of livestock within required specifications and minimisation of "market penalties" or "wastage". In addressing this issue an important industry program, currently under development, is Livestock Data Link (LDL).

LDL is a new initiative that aims to enhance the exchange and utilisation of carcass performance information by businesses within the red meat industry. LDL is a web-based application that links slaughter data from the National Livestock Identification System (NLIS) database with analytical tools, benchmarking reports and Solutions to Feedback.

LDL enables supply chain participants to analyse carcass performance in terms of compliance with market specifications. Performance outcomes are then linked to a library of solutions on how to address issues on farm so that more animals meet specification and attract the maximum farm gate price.

A number of LDL pilots are now underway, involving the daily upload of carcass data; regular assessment of the systems functionality; and identification of opportunities to enhance the tools available.

During 2011/12, a number of research projects were undertaken to identify the potential benefits of the LDL program at a national level. At the processor level, research conducted across four significant markets indicated that the Australian beef industry loses an estimated \$127 - \$163 million per annum by producing cattle that do not meet customer requirements.

This includes value lost due to the following factors:

- Carcass downgrades (discounts) for out of specification cattle (\$51 million per annum). This includes an estimated \$14 million non-compliance cost for the domestic supermarket grade and \$14.4 million for the domestic retail butcher trade;
- Carcass condemnments (\$64 million per annum); and
- Loss of meat and offal value due to animal health and disease (\$12 – 49 million per annum).

This research estimated that carcass non-compliance for the domestic retail butcher trade is around \$50 per head (including factors such as fat depth and meat colour). Qualitative feedback also suggests that there are significant potential benefits if improvements can be achieved by reducing the loss of meat and offal value due to animal health and disease issues.

The LDL pilots will provide information to accurately measure this cost, and provide links to address any compliance problems in cattle supplied.

3. Improving Post Farm Gate Productivity

The Australian red meat industry is affected by post farm gate cost disadvantages when compared to major international competitors such as the US that have lower labour, energy and transport costs and efficiencies of scale driven by a more concentrated livestock population. This cost environment is further complicated by the seasonal variability of the Australian climate which drives periods of surplus or insufficient processing capacity to handle a fluctuating livestock supply.

Productivity improvements beyond the farm gate are critical to improve the competitiveness of red meat production and maximise farm gate returns in the long run. In 2012 CIE completed, for CSIRO,

an analysis of the payoffs from R&D along the Australian food value chain. The analysis concluded, *inter alia*:

- Productivity gains anywhere along the value chain are invariably good for the whole economy. It means fewer resources are needed to produce the same amount of food. This either means more food can be produced or additional labour, capital and other inputs can be made available to other sectors where they can be productively and profitably employed. It typically also means consumers will enjoy lower prices as downward pressure on prices is required to induce consumers to consume more.
- The farming sector almost invariably is likely to benefit from successful R&D that either expands demand or increases the productivity of processing and marketing as this will increase the derived demand for their products, and, for processors to profit from their successful R&D they will need to pay farmers more to induce increased levels of supply.
- The only area where farmers are likely to be disadvantaged by successful R&D in the processing sector is if the R&D leads to more efficient use of the agricultural product as an input to processing, as may occur if wastage is reduced. This is likely to reduce the derived demand for the product at the farm gate and lead to lower prices and production. On the other hand consumers receive substantial benefits from waste reduction.

3.1 Processing sector efficiency

The red meat industry invests in a portfolio of R&D projects aimed at increasing the productivity and capability of the post farm gate red meat supply chain. The Australian Meat Processor Corporation (AMPC) works in partnership with MLA, individual processors, and technology providers to implement the following strategies:

- Develop new technologies and systems that improve productivity and processing efficiencies
- Assist the processing sector to improve worker health and safety
- Develop new systems to support processing decision making
- Improve industry capability, knowledge and adoption of new technologies to increase productivity

Funding of post farm-gate R&D does not come from livestock producer levies. A proportion of the funding comes from the processing sector through AMPC, a designated RDC that is funded by a levy on meat processors and exporters. However, the bulk of the funding is provided by individual processors, and other enterprises in the red meat supply chain, via the MLA Donor Company (MDC). The Australian Government matches RDC expenditure on R&D on a dollar-for-dollar basis up to a maximum of 0.5% of industry gross value of production (GVP). A three year rolling average is used to determine the value of industry production. On this basis, for the Australian red meat and livestock industry, compulsory R&D levy funds utilise around two thirds of the matching funds that the Government is prepared to offer. The MDC provides a means of matching Australian Government R&D funding with private voluntary enterprise funding, ensuring greater utilisation of available R&D dollars.

Through this, the MLA Donor Company:

- Enables R&D investment by companies and collaborating groups along the supply chain in areas where compulsory producer levies are not available or are not appropriate for such investment.
- Facilitates access to important strategic opportunities to bring in research investment from outside the red meat sector.
- Provides a mechanism to support the development of SME “start-up” companies to add to the spread of innovation relating to the red meat sector.

The MDC model helps ensure that R&D priorities are strongly commercially driven, and that there is rapid commercial take-up of the R&D outcomes. Most importantly it ensures that R&D outcomes are more quickly available throughout industry than would be the case if the R&D was undertaken in-house by a private enterprise. A condition of MDC collaboration is that the R&D outcome is almost always made public shortly after project completion. The private enterprise collaborator is only able to get a first adopter head start on its competition before the R&D outcome is able to be more broadly adopted. This maximises the industry-wide productivity improvements resulting from the R&D investment.

Currently the only other RDC to utilise an MDC type arrangement for partnering with commercial companies to fund R&D is Horticulture Australia. The Government is in the process of enabling other RDCs to utilise the MDC model.

Following are two examples of successful R&D funded through the MDC:

- A manual-assist technology, the beef loin saw was developed with investment via MDC and implemented in one processing plant in 2012-13. The saw improves worker safety by keeping the operator’s hands away from blades by using trigger-activated handles that ‘drive’ the loin through the bandsaw on a moving table. The saw also significantly increases product yields with an estimated cost/benefit for the technology of \$3.99 per head over chain boning or \$2.09 per head over table-boning methods.
- The bandsaw brake mechanism BladeStop™, developed by Machinery Automation and Robotics in collaboration with MDC. The mechanism can stop a blade within 15 milliseconds of sensing contact with an operator’s hand, significantly reducing the extent of injury.

The future

Fitting with the need for Australian red meat to target niche and higher value market segments, the industry will be piloting a new global value-adding innovation approach with the aim of delivering greater collaboration in the identification, development and commercialisation of innovative, value added red meat products, packaging technologies and value chain design innovations.

The global innovation approach will facilitate sharing of knowledge, skills, technology and market intelligence between private and public organisations who wish to collaborate and leverage resources across different fields of expertise in product development, processing and packaging technology and market segmentation.

A much greater degree of collaboration both along the supply chain and across the agri-food industry will be required in order to derive maximum value for the food processing industry, which then flows through to farm gate returns. No single enterprise could undertake this coordination role in isolation, or capture all the benefits of such a system, hence the need for the MLA Donor Company to facilitate collective investment.

3.2 Research into off-farm issues affecting competitiveness

The Issues Paper covers several off farm factors affecting competitiveness such as infrastructure, input costs and regulation. Transport costs, for example, can represent between 13.1% and 29.7% of farm gate value for beef cattle enterprises, depending on the nature of the supply chain (Australian Farm Institute 2011).

While the management of these issues are outside the control of the red meat industry, the industry does invests in research into regulatory, policy and off farm issues affecting the current and future competitiveness of the industry. The issues are identified by Peak Industry Councils and projects are commissioned by MLA. The outputs of the research inform industry and Government policy on issues of key importance to industry competitiveness. Examples of past projects include measuring the effect of different carbon pricing models and quantifying regulatory costs to industry.

The future

Given the prominence of transport, its impact on farm gate returns and supply chain competitiveness, the industry issues program is investing in a tool to allow accurate estimates of the cost of regulatory and infrastructure constraints on cattle movements across Australia.

The project will expand the TRANSIT livestock logistics tool developed by CSIRO for the northern cattle industry. The project that will allow the modelling of all livestock freight movements in Australia by overlaying livestock movement information from the NLIS database with road network information, freight costs and vehicle access restrictions.

The resulting model will provide industry and Government with a tool to plan and prioritise infrastructure investments and the regulatory reforms that can deliver the greatest potential value to the cattle industry. For example, the model could optimise the location of rest stops to meet animal welfare and driver fatigue requirements as well as explore the potential freight savings from new infrastructure investments or dedicated routes for higher productivity vehicles.

Outputs such as this from the industry issues research program can be used to inform Government thinking on some of the off-farm competitiveness issues raised in the Issues Paper.

4. Enhancing Red Meat Exports

The red meat and livestock industry currently invests in two strategies to enhance red meat exports:

- Maintaining and improving market access
- Growing demand

4.1 Maintaining and improving market access

Ready access to a diverse range of international markets is vital to the prosperity and growth of Australia's red meat industries. Over the past decade, the value of red meat and livestock exports has expanded by over \$3 billion or 50%, yet some markets remain un-serviceable or their potential constrained due to access restrictions.

Unfortunately, agricultural protectionism still reigns in most major meat importing regions, with almost all Australia's major overseas markets for meat subject to some form of import barrier. A number of countries also actively pursue self-sufficiency goals.

Trade restrictive barriers can be viewed as subsets of economic, social and administrative regulations:

Economic Regulations	Social / Technical Regulations	Administrative Regulations
Measures that affect market entry, competition, pricing	Measures that purport to protect the public interest such as safety, health, environment	Paperwork and other administrative formalities ('red tape')
<i>Examples:</i> tariffs, quotas, domestic content requirements	<i>Examples:</i> food safety measures, quality standards	<i>Examples:</i> customs classifications, clearance procedures, licensing

Australian red meat exports are impacted to varying degrees by components in each of these regulatory pillars - depending on market.

The advancement of red meat industry trade interests requires a whole of Government / industry partnership. The Government (Department of Foreign Affairs and Trade – DFAT - supported by the Department of Agriculture - DA) leads economic negotiations and similarly Government (DA) has the prime role in seeking removal of technical trade barriers.

Industry assists Government in prioritising and prosecuting market access issues by investing in research, engaging in consultation, and assisting in advocacy activities overseas. This investment is co-funded and jointly implemented by all sectors of the Australian red meat industry.

In implementing the market access program, the Australian red meat and livestock industry adopts the following general approach:

Component	Elements
Research / quantify issue	<ul style="list-style-type: none"> ▪ Identify impost; offensive, defensive, strategic rationale
Co-ordinate / formulate potential industry positions	<ul style="list-style-type: none"> ▪ Discuss options and agree on industry approach. For high priority issues a committee is established of all relevant Peak Councils, MLA, RMAC which interacts with Government
Representations made to Government on priorities	<ul style="list-style-type: none"> ▪ RMAC, Peak Councils at political level; MLA at department level
Develop advocacy strategy	<ul style="list-style-type: none"> ▪ MLA in conjunction with relevant Peak Councils
Build coalition of support	<ul style="list-style-type: none"> ▪ Australia and international stakeholders - inform and educate; industry delegations; leverage overseas alliances; communication campaigns
Formulate negotiating strategy	<ul style="list-style-type: none"> ▪ Highlight commercial implications / flexibility
Analyse benefits / costs from potential outcome offer	<ul style="list-style-type: none"> ▪ Through research, ascertain acceptability / new trade opportunities / trade flows
Implementation of agreement	<ul style="list-style-type: none"> ▪ Participation in Government working groups
Measurement	<ul style="list-style-type: none"> ▪ Satisfaction with the outcome achieved

The approach outlined above, jointly adopted by the Government and the red meat industry, has yielded dividends for the Australian industry. Despite significant market access barriers remaining, there has been a discernable easing of these barriers over time. For Australia's three largest beef export markets, since the early 1990s progress has included:

- Beef quotas in Korea being replaced by tariffs, with the existing 40% tariff due to be eliminated in equal stages over the next 15 years under the Korea / Australia FTA (KAFTA).
- Beef quotas in Japan being replaced by tariffs, with the existing 38.5% tariff due to be reduced to 19.5% over 18 years for frozen beef and 23.5% over 15 years for chilled beef under the negotiated terms of the Japan / Australia Economic Partnership Agreement (JAEPA).
- The US Meat Import Law, which provided access for 301,600 tonnes of Australian beef in 1994, was replaced by a 378,000 tonne tariff rate quota under the WTO Uruguay Round Agreement. Under the terms of the Australia / US FTA (AUSFTA) this TRQ will be expanded and ultimately eliminated (in 2023). Also under AUSFTA the US0.7c/kg in quota tariff on Australian lamb, the US2.8c/kg tariff on mutton and US4.4c/kg tariff on beef were eliminated.

In addition to this notable progress other advancements have included:

- Under the Thailand-Australia FTA ultimate elimination of the 50% beef and 32% sheepmeat tariffs
- Under the Australia / Chile FTA, elimination of the 6% beef and sheepmeat tariff and recognition of the equivalency of the Australian meat grading and specification systems to those used domestically in Chile.
- Under the AANZFTA, the binding of existing zero tariffs at zero and, across the ten ASEAN countries, the ultimate elimination of the majority beef, sheepmeat and goat meat related tariffs.
- Elimination of the 22.5% tariff on Australian sheepmeat and goat meat into Korea over 10 years under the terms of KAFTA.
- Access to a new 48,200 tonne grainfed beef quota into the European Union.

An independent evaluation of the industry's market access program estimated that the \$30.3 million invested in beef market access over the period 1998 to 2006 will result in \$359 million in added value accruing to the beef industry over the period 1998 to 2020, a benefit cost ratio of 12:1. For the sheepmeat industry, a \$20.2 million investment will result in \$57.0 million accruing to that industry over the same period, a benefit cost ratio of 3:1.

The future

As noted above, over time significant progress has been made in addressing economic barriers to trade. However, impediments remain. Current market access priorities for the Australian red meat and livestock industries include:

- Assisting in securing the ratification and entry into force of the KAFTA during 2014.
- Assisting in securing the ratification and entry into force of the JAEPA. Also, ultimately securing elimination of beef tariffs into Japan.
- Assisting in securing an Australia / China FTA, thereby eliminating the tariff disadvantages currently being suffered by Australian beef and sheepmeat entering China, compared to New Zealand product.
- Assisting with securing an agreement under the Trans Pacific Partnership (TPP) under which existing impediments to trade in meat amongst member countries are removed.
- Assisting in promoting and ultimately securing an FTA between Australia and the European Union.

Despite the improvements evident via addressing economic barriers to trade, technical barriers to trade have escalated over time. Hundreds of technical market access restrictions impact Australian beef, lamb, mutton, goat meat and offal.

Research recently undertaken by the meat industry uncovered a total of 261 technical barriers to trade (TBT) in 40 key markets, 136 of which had significant trade distorting impacts. TBTs identified included limits on expiry dates, lengthy accreditation processes and in-country distribution restrictions.

TBTs increase product preparation and delivery costs, and require compliance to conditions often exceeding commonly accepted standards. They raise the cost, increase the difficulty in supplying a particular market and often restrict export sales opportunities. The total value of the identified TBTs has been estimated at \$1.25 billion per annum (see table below).

Breakdown of TBTs

TBT	No. affected markets	Estimated cost
Market listing and accreditation	9	\$259m
TQ admin (at destination) / import permit issues	10	\$164m
Product certification / protocol	10	\$35m
Product entry restriction (specification / bans)	16	\$216m
Packaging / labelling	30	\$94m
Product age and entry restrictions	43	\$421m
Other	18	\$61m
Total	136	\$1.25b

Given the rising impact of TBTs, it is evident that the same degree of Government / industry cooperation and consultation that has been applied to addressing economic barriers to trade must now also be applied to TBTs. The industry supports the assignment of DA Agricultural Counsellors to key regions to help address technical impediments, but significant whole of industry input is required to the work priorities and approach taken by these Counsellors.

A requirement is for industry and Government to jointly develop Action Plans for each key TBT. These Action Plans should define the proposed strategy and assign resources to the issue (both in Australia and in our overseas markets).

4.2 Growing demand in export markets

While the domestic market is the single biggest market for Australian red meat, the industry is heavily reliant on exports – two thirds of beef production, almost half of lamb production and almost all mutton production is exported. The industry therefore invests a significant proportion of levy funds in the aggressive promotion of beef and sheep meat in export markets - \$20.914 million in beef promotion and \$6.964 million in sheepmeat promotion in 2012-13.

The export marketing strategy aims to build loyalty and help create new business opportunities for Australian beef and sheepmeat in global markets. MLA's key roles are to support industry, including:

- Monitor and report on consumer trends, channel trends and requirements, and competitive positioning – involving the collation and dissemination of information on behalf of industry, including reporting in-market, volume and cuts analysis, trade research and consumer insights
- Develop new business opportunities for Australian beef and sheepmeat – including research and identification of networks, sales lead generation, trade show facilitation, introductions and

account management to ensure ongoing commitment to Australian product, provision of solutions for prospective companies that may need multiple suppliers, and continuing to build the capability of commercial organisations to effectively manage business development activities

- Clearly position Australian beef and sheepmeat as safe, consistent, versatile and nutritious via trade and consumer educational activities through generic promotional activity in order to overcome natural preference for domestic product, or product from another supplier country
- Assist in the creation and promotion of strong private brand identities through implementation of individual company cooperative activities under the industry collaborative agreement (ICA) program.

Case study: Marketing in Japan and Korea

Securing majority market share returns more than \$4.70 per dollar invested

Positioning Australian beef as clean and safe has been a major pillar of MLA's marketing strategy in North Asia, where aggressive promotion of beef has built and maintained a strong market position despite considerable challenges in this region. Japan continues to be Australia's largest beef export destination with more than \$1.47 billion worth of beef exported in 2012-13, and beef export values to Korea grew to reach \$704 million.

The focus of industry's marketing investments in Japan and Korea has shifted over time in response to changes in the relative importance of key drivers of demand for beef. In the early stages, marketing expenditure was oriented around expectations of market potential and the macro drivers of beef consumption in the two countries.

In the 1980s and 1990s, Australian beef was largely perceived as a low quality, low priced product in Japan and Korea. In the early 2000s, MLA's marketing activities in Japan and Korea focussed on raising awareness of Australian beef among Japanese and Korean consumers, and improving quality and safety perceptions. Following bans in 2003 on US imports due to BSE, MLA further strengthened the food safety focus of the marketing strategy to respond to heightened Japanese and Korean consumer concerns. Australia's market share in Japan and Korea increased as a result of greater awareness of, and loyalty to, Australian beef brands and confidence in Australia's meat safety credentials. This brand positioning helped to maintain customer loyalty and ensure a strong market position once the US product returned to these markets.

Australia's marketing efforts continue to be underpinned by strong generic branding of Australian beef – the 'Aussie Beef' brand in Japan and 'Hoju Chungjung Woo' (Australian Beef: Clean and Safe) in Korea. Near 100 per cent recognition of 'Aussie Beef' in Japan among the target 25 to 65-year-old audience meant the brand has become a springboard to position Australian beef's integrity and flavour. Consumer awareness of the 'Hoju Chungjung Woo' brand had reached 89 per cent in 2004 and has continued over the long term. Independent evaluation by the CIE found in net present value terms, the \$173 million invested by MLA between 2000 and 2009 has helped to increase recognition of the safety and quality of Australian beef within North Asia. This has seen Australian beef secure the majority market share in Japan and Korea, delivering industry-wide benefits conservatively valued between \$815 million and \$994 million with an estimated benefit-cost ratio ranging from between 4.7 and 5.8 to 1.

The effectiveness of MLA's marketing programs in Japan and Korea were recognised by a recent inquiry into trade relationships with Japan and Korea (Joint Standing Committee on Foreign Affairs, Defence and Trade, 2013) which endorsed a coordinated approach to marketing and:

“ . . . opportunities to use MLA's model of creating an 'umbrella' marketing campaign through the 'Aussie Beef' and 'Aussie Lamb' promotions as a mechanism that could be used effectively for other Australian products. The benefits of this approach could include a reduction in competition between individual Australian brands, improved customer awareness, and the opportunity to utilise Japanese perceptions of Australian food as safe, high quality products.”

The complementarity of generic and private brands

Over many years various Australian country of origin brands have been created by MLA and its predecessor company AMLC, in order to address individual market needs. The most prominent of these is the “Aussie Beef” brand in Japan, which has for over 20 years been the representative icon of Australian beef. Originally created as a mark of discernment and quality, the logo and associated marketing programs were refocused to promote the clean and safe reputation of Australian beef amongst Japanese trade and consumers, post the US suspension due to BSE in 2003.

Equally famous and successful, the “Hoju Chungjung Woo” (HCW) campaign for Korea was created as a trust mark to promote Australian beef as clean and safe. The HCW campaign has been highly successful, with on-pack stickers used in all major supermarkets and a number of foodservice chains, to reassure consumers that they are buying a clean and safe product. The strength of the HCW campaign is a contributing factor in Australia maintaining market share in Korea despite the existence of a 5% tariff differential between Australian and the US beef over the past two years.

The “Fresh Australian Range Lamb” (FARL) brand was used extensively in North America in the 1990's and early 2000's. It was an important part of a major national program that successfully transformed lamb production from what was largely a marginal, highly seasonal by-product of the wool industry, dependent on the domestic market, to a profitable stand-alone industry, producing market specific product all year round. Export markets now account for almost 50% of lamb production and the USA is now Australia's largest export market for lamb, accounting for 34,738 tonnes valued at \$304 million in 2011-12.

In addition to these campaigns, corporate “Australian Lamb” and “Australian Beef” logos are also used in other markets in trade shows, brochures, and other marketing material. The various logos are depicted overleaf.



Over the years as markets matured individual meat export companies began to support their own private brands all the way through the marketing chain to the point of sale. As this occurred, MLA developed the Industry Collaborative Agreement (ICA) program to match, dollar for dollar, exporter expenditure on agreed marketing activities supporting their private brands. This happened initially in Japan in the late 1990's then Korea and North America in the early 2000's. By 2012-13 ICAs were used globally and accounted for \$3.3 million of expenditure in beef export markets and \$3.6 million of expenditure in lamb export markets (over half total lamb export expenditure).

The future

It is likely that the proportion of export marketing expenditure allocated to supporting private brands will steadily increase. However, that generic brands will continue to play an important role in red meat export markets. Global brands for beef and lamb are being developed to replace the proliferation of brands currently in use in export markets.

The goal is to develop a consistent position, identity and added value reputation for Australian red meat that works across all export markets, providing a platform for the industry while providing an 'umbrella brand' for individual exporters to further build their own distinct offering.

The following benefits to industry are expected as result of the implementation of this program:

- (a) Increased opportunity for branded red meat offerings in international markets that are able to command premiums.
- (b) To the extent that the above occurs this will increase in the number of MSA premiums paid to producers supplying to exporter branded offerings
- (c) Enhanced positioning of Australian brands and "Australia Inc." globally built on solid and holistic pillars

Additionally the program:

- (a) Will improve the efficiency of industry marketing campaigns, through harmonised and more consistent programs and marketing material.
- (b) Supports marketing initiatives to maintain market share in established markets due to maintenance of high trade and consumer loyalty
- (c) Supports marketing initiatives to increase consumer awareness and trial in growing and developing markets of US, Middle East & North Africa, and China

MLA has maintained close contact with AUSTADE as it has developed a National Food Brand, and has a representative on the National Food Brand Advisory Working Group. Both parties agree that the National Food Brand will have a higher level (clean, green safe) positioning which complements the proposed red meat brand, which will have a richer more layered positioning.

Focus on emerging markets

As previously noted, the Australian meat and livestock industry is highly dependent on export markets. For beef in particular, exports have been concentrated on a small number of major markets – Japan, United States and South Korea. The loss of any one of these markets for any reason would very adversely affect the whole of the meat and livestock industry. To help mitigate this risk MLA has and will continue to invest an increasing proportion of its export marketing funds in emerging markets.

The success of marketing programs relies particularly on increasing market knowledge, sustaining business relationships and building brand position over the course of many years to grow trust, requiring a long-term strategic commitment to particular markets and stakeholders. An important element of the Australian meat and livestock industry's success in developing markets, particularly in Asia, has been a preparedness to invest, through AMLC/MLA, in a presence in these markets in the very early years of their emergence. At this stage the private sector companies have little presence in the market and cannot commercially justify the long term commitment required. A presence in the South East Asian markets of Indonesia, Malaysia, Philippines, Singapore, Hong Kong, and Taiwan since the late 1980s and in China since the early 1990s, when these markets were just emerging, has assisted industry to take advantage of these now important export markets. In many Asian markets the early presence of an industry representative has ensured that Australian meat has maintained a dominant and resilient position on supermarket shelves and restaurant menus, despite later attempts to compete by exporters from the United States and New Zealand.

Another reason for maintaining a presence in export markets is that many markets, particularly emerging markets, place a high value on the safety and integrity of any food imports. The semi-official presence of an industry representative can provide the reassurance required to facilitate and grow Australian exports of meat and livestock to such markets.

Case study: Marketing in China

Facilitating business relationships to build emerging market position

The emergence of China as one of Australia's largest export markets for beef has been one of the most significant developments for the cattle industry in recent years. Driven by tight local supplies, restrictions on US and Brazilian imports, growing interest in food safety and a rapidly growing fast food sector, Australian product is well situated in the rapidly growing marketplace.

MLA actively supported both exporters and importers by developing in-country supply chain relationships, training Chinese butchers and food service staff to improve their awareness of Australian beef and lamb, and equipping staff in MLA's China office to identify further business opportunities. MLA has had a long-term commitment to the Chinese market having had staff on the

Spearheading these business development efforts last year was MLA's facilitation of the SIAL tradeshow in May 2013, and Food Hotel China tradeshow in November 2013, supported by more than 40 exporters and resulting in more than 500 importer leads. MLA fortified its marketing efforts into the second tier cities of Shenzhen, Tianjin, Hangzhou and Sanya with a seminar road show and new retail sampling programs to raise interest in these key growth cities.

MLA has also keenly sought out foodservice support and fostered 'champions' of Australian beef and lamb via the Red Majesty Chef program. The program has trained 10 Beijing Chinese banqueting chefs in innovative product use and is capturing opportunities to jointly promote Australian product in the chef's restaurants.

Activities such as these have helped Australia into a market leading position in China, with beef exports in the 2013 calendar year reaching almost 155,000 tonnes shipped weight (up 467 per cent from 2012) and beef export values reaching \$725 million for the year. Australia has a 53 per cent market share of the imported beef market in China.

5. Further Information

For further enquiries on matters relating to industry policy please contact

Mr Angus Hobson
Chief Executive Officer
Red Meat Advisory Council Ltd

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██████████

For further information on industry programs please contact

Dr Peter Barnard
General Manager – Trade and Economic Services
Meat and Livestock Australia

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