

# Australian Agricultural Competitiveness

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This submission identifies issues and advocates changes important to the whole Australian red meat processing sector now and forward particularly to lift the competitiveness of Australian processed red meat and value-added products and exports to expanding markets.

Productivity and financial benefits from these changes will flow along the meat supply chain including as higher returns to cattle and sheep producers, as well as benefiting the economy overall and regional areas in all States of Australia.

## Gary Hardwick

**Hardwicks** is a family owned company started by the Hardwicks in 1973. Located in central Victoria at **Kyneton**, and with over 300 employees, the firm is one of the largest employers in the Macedon Ranges region. Hardwicks buys livestock and prepares beef and sheepmeat for Australian retailers and consumers and particular export markets.

## Frank Herd

**MC Herd Pty Ltd** commenced operations in **Geelong** as a family owned abattoir in 1951 and is now located in Corio, Geelong, employing over 300 people from local areas. The group includes Challenge Food Processors. MC Herd processes 600 head of cattle and 4,000 sheep and lambs a day, and is working to expand export markets and sales.

## Len Jones

**GM Scott Pty Ltd** at **Cootamundra** NSW processes 3,500 lambs and 200 cattle daily and markets beef, lamb, meal, by-products and skins in Australia and overseas under the Noble Farm brand name. GM Scott has Scott and Noble family-based history reaching back to 1866 and has grown through stages of investment in front-line technologies. GM Scott has expanded to a workforce of over 200 and is looking to widen exports.

## Linton Ryan

**Ryan Meat Company Pty Ltd** is located at **Nathalia**, 40km north of Shepparton Victoria, was established in 1948 by William Ryan. The company processes around 1,500 sheep and lambs a day and employs about 70, the largest private employer in the town. Ryan Meat commenced exporting sheepmeat in March 2013.

## Brian Oliver

**Tasmanian Quality Meats Pty Ltd** is a meat processing plant located just outside of **Cressy**. The business was started in 1997 by the Company's directors Brian Oliver and John Talbot, friends from school. TQM has 82 employees and 5 contractors and processes around 1,800 sheep, lambs and vealers a day for Australian and export markets.

## Robert Frew

**The Frew Group of Companies** was started in 1981 by Archie Frew and has been developed by the family now to operations at three locations – the main office in **Melton** Victoria, lamb and sheep processing at **Stawell**, and a wholesale trade centre at **Wingfield** South Australia. The group has grown to over 450 employees and is aiming to its widen export activity.

## Submission purpose

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We welcome this action to prepare an Agricultural Competitiveness White Paper as a 'blank slate' for development of 21st century policies to better returns to the farm gate and to inspire reinvestment in the sector. There have been many reviews of Australia's rural production and supply systems as a whole and of specific industries. Advances have resulted, but there has been rather less progress on regulatory issues and practices that impact on the competitiveness of Australian exports.

Government commitment to ensuring Australian agriculture "realises its full potential through innovation, productivity, investment and trade" is vital. Australia, a long-time net exporter, is in theory, well-positioned to expand production and value adding to serve rising demand in developing economies, especially for meat and dairy.

As established red meat processors and exporters, we work in an industry where cattle and sheep farmers have significantly improved animal production and supply systems by applying research in breeding, feeding, and disease and environmental management. This provides the first-stage platform for expansion of red meat output and exports.

Lifting productivity and competitiveness in the processing/manufacturing sectors of our agricultural industries will also be key to export expansion and by extension is important to the viability of farm businesses and regional towns and communities.

Over 20 years, all Australian meat processors have substantially advanced their live-stock buying and handling systems, plant operational and hygiene systems, and their packaging, delivery and quality assurance. However, although there have been multiple reviews, regulatory practices are not moving ahead to facilitate exporting by more plants to a wider range of countries. This is holding back export expansion and productivity increases and flow of associated benefits to farmers and the supply chain.

This submission is focussed on the red meat processing sector and Issues 4, 7 and 8. In the context also of policy directions in terms of reference for the National Commission of Audit, for Cutting Red Tape, and the Review of Competition Laws, we provide an analysis for consideration by the Taskforce with references to assist. In outline:

• **Issue 4. Increasing competitiveness of the agriculture sector and its value chains.**

Under this heading, we discuss red meat markets, prior regulation reviews and issues with implementation of decided reforms. To maintain meat export levels, to harness rising markets and to increase overall returns, a new culture on regulation is needed.

• **Issue 7: Reducing ineffective regulations; Issue 8. Enhancing Agricultural Exports.**

On these Issues, we advocate a set changes with important potential to improve the current regulatory regime and so to contain costs, lift productivity and facilitate red meat exports. The five linked areas of change we put forward on pages 14-18 are:

1. Australian Export Registered Establishments and Australian Certified Meat
2. Australian Standards as the core of Australia's food safety performance for all markets
3. Remove the Export Control Meat Orders as another Australian meat preparation system
4. Government and industry officials promoting the Australian Standard food safety platform
5. Priority action by Departments on formal access for all Australian Registered Export Establishments to a much wider range of countries.

## Issue 4. Increasing the competitiveness of the agriculture sector and its value chains.

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**On Markets and Competition.** As the Issues Paper identifies, "in order to grow and prosper, the agriculture sector needs to be competitive at three levels: within its supply (or value) chain, in competing for resources with other sectors of the economy and in competing with overseas producers".

The red meat supply chain multiplies the worth of a producer's cattle or sheep at the farm gate by transforming the product in specialised stages and maintaining quality while transporting to markets.<sup>1</sup> Value-adding steps in Australian meat processing plants include slaughter methods, storage, preparing cuts, offal and by-products, packaging, quality assurance, and marketing through to delivery arrangements.

In Australia, red meat processing is a mature industry, with low margins, requiring tight management and careful investment in capital, technologies, processes, products and markets. Competition, innovation and addressing regulatory issues impacting on the productivity of processing will enhance returns along the chain, including by enabling plants of differing size, specialisation and location to widen their offer of value-adding services to livestock producers and to meat customers in Australia and overseas.

Financial returns from innovation and cost efficiencies in processing plants will flow through to farmers and their communities when the supply chain is an open economic system involving multiple producers, buyers, processors and distributors [IP p18].

In 2014, it is important that a mix of large and medium meat processing firms provides services and options to a widespread and variable Australian livestock production industry and potentially, to a diversity of export markets and customers. Some plants export almost all their processing output, while others deliver to local customers only including supermarkets, butchers and the food service sector.

A number of active enterprises, including our groups, want to foster a business model that balances processing for both domestic and overseas customers. Higher income from exports, including to emerging and special markets such as offal, will assist our viability and so support competition in services for farmers and regional employment.

Australian food processors generally [IP p19], including meat plants, face pressures from rising input costs such as energy and labour, and from competition in export markets including those traditionally protected by Australia's disease-free status.<sup>2</sup> As the Issues Paper makes clear, 'in order to compete internationally, the agricultural sector must supply at or below the price of foreign suppliers or differentiate their products (for example, through quality or safety) to justify a higher price' [p20].

In the meat processing sector, the first ARMCANZ Australian Standards in 1995 saw development of HACCP food safety QA systems in all meat plants across Australia. Technological, process and quality advances have continued over two decades, backing the general observation that 'Australian meat product is the best in the world'.

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<sup>1</sup> "The cost of livestock is only one component of the total cost ... in providing fresh meat to consumers and it represents a relatively small proportion of the final price of packaged meat." Australian Competition and Consumer Commission, 2007, *Examination of the prices paid to farmers for livestock and the prices paid by Australian consumers for red meat*.

<sup>2</sup> ABARE Agricultural Commodities series: 2011.v1.1 Beef - "total share of exports to the three largest destinations – Japan, the United States and the Republic of Korea – is expected to be close to 68 per cent in 2011–12, compared with the high of 92 per cent in 2004–05". AC 2014.v4.1: In 2012-13, 65% of beef exports went to these three countries.

This quality assurance (QA) revolution in the red meat processing sector has been marked by companies taking responsibility for their QA programs and product outputs. Australia's high food safety performance – as expected and supported by Australian consumers and known in overseas markets – is delivered consistently in all meat processing plants through application of the Australian Meat Standard AS 4696 and on-plant quality assurance.

However, while there has been some adjustment to government systems since 1995, regulatory practices and costs for meat inspection have not advanced in line with company investment, risk minimisation and output performance, as considered below.

The low-margin meat processing sector must critically and continually examine all costs and barriers including direct and indirect costs of regulation. A cost reduction of a few cents per kilo can make a real difference in selling a mix of carcass parts into world markets. Benefits of higher returns will flow on to cattle and sheep producers.<sup>3</sup>

It has been suggested Australia could concentrate on high-value, high margin markets for export growth.<sup>4</sup> This is not realistic. Some select products may fit premium niches, but the Australian climate produces a range of livestock qualities needing, and suited to, a range of export customers with different needs and price-points. For example, markets for meat protein in developing countries will become increasingly important to Australia as “aggressive inroads being made by Australia's competitor suppliers to our large north Asian markets continue to present challenges” [MLA 2014].<sup>5</sup>

Price competitiveness combined with reliable Australian meat safety will be key to holding and opening export markets. Selling prices realistic for buyers/consumers and viable for the Australian supply chain will position Australia against strong competition.

**On existing laws and regulations – balance, costs and competitiveness.** Since the early 1990s, Australian and State governments, backed by OECD analysis, have been acknowledging that regulatory regimes (government rules and industry codes) all add to costs because rules steer business decisions onto less efficient pathways. In theory, such costs should spread along the supply chain and be paid in part by chain firms, by producers and by consumers. However, unless premiums can be reliably secured from consumers, chain firms and livestock producers will carry more of the costs.

The red meat industry is likely the most highly regulated production to export chain in Australia. The industry itself, frustrated by costs and inefficiencies has commissioned reviews of regulation issues over two decades. A number of reviews have focussed on post-farm meat industry regulations, particularly costs, inefficiencies, anti-competitive restrictions including in export regulatory practices, and who should pay various charges. From these reviews, the industry and sectors within it, have made substantial submissions to ministers, governments and to a series of inquiries.

<sup>3</sup> For instance, lungs and stomach tripe can be sold at \$1.20-1.40/kg in some overseas markets, or receive 10c-20c/kg if they have to go to rendering in Australia.

<sup>4</sup> “Asia values Australia's food safety standards highly, meaning that some markets will pay a premium to have their food processed and packaged here in Australia.” ... “even after feeding ourselves, Australia can meet less than 1% of Asia's current food demand ... That suggests ...our opportunity isn't so much to be the supermarket to Asia as it is to be the delicatessen, offering high-value, high-margin products.” Deloitte Australia. Positioning for prosperity? March 2014.

<sup>5</sup> MLA website 21.3.14: “Emerging or developing export destinations ... include South Africa, Myanmar, Eastern Europe (Kazakhstan, Uzbekistan Tajikistan, Turkmenistan), as well as pockets in newly established markets, Chile and India.”

Red meat processing, export and trade regulation reviews and reports include:

- 1994. Industry Commission Meat Processing inquiry and report (public).
- 1997. NMA/National Domestic Processor's Council, Export of Meat Products from Non-export Registered Establishments, submission to the Food Regulation Review (public).
- 1998. Welsman, Rules Impacting on the Red Meat Industry and Principles for Reform (industry).
- 1999. National Competition Policy reviews including of the Export Control Act 1982 (public).
- 1999. Victorian Quality Assured Meats submission to NCP Export Control Act review (public).
- 2000. Export Assurance, report of the NCP Review of the Export Control Act 1982 (public)
- 2000. RMAC submission to PC Inquiry into Cost Recovery by Government Agencies (public) including reference to Heilbron, 2000, Study on the impact of Government on Industry Competitiveness (Industry). The Productivity Commission report was released in March 2002.
- 2003. Government Response to the National Competition Policy Review of the Export Control Act 1982, with elaborations by AQIS February 2003. [www.daff.gov.au](http://www.daff.gov.au) (public).
- 2005. MLA submission to the Agriculture and Food Policy Reference Group, Review into ensuring a Profitable and Sustainable Agriculture and Food Sector in Australia (public).
- 2007. Welsman, Rules Impacting on the Red Meat Industry: processing-retail-export (industry).
- 2008. Red Meat Industry, submission to the second Productivity Commission Review of Regulatory Burdens on Business - manufacturing and distributive trades (public).<sup>6</sup>
- 2012. Australian Meat Industry Council (AMIC) submission to the Victorian Parliament Inquiry into the Impact of Food Safety Regulation (public).

In our experience, Australian Coalition government decisions on meat processing and export regulation made in 2003 after key inquiries have not been implemented as intended. Concerted action is now sought from this Agricultural Competitiveness review. We express this need strongly, having experienced the weakening of important reform resolutions in practice.

As background, inflexible industrial and employment rules had long been the major regulatory problem for meat processors looking to lift productivity. By the late 1990s, changed industrial laws were offering plants a new opportunity to tailor relations with employees and to introduce new technologies and practices.

National implementation of the 1995 ARMCANZ *Australian Standard for the Hygienic Production and Transportation of Meat and Meat Products for Human Consumption* by regulators and companies, including HACCP-based QA systems, was also steering structural change.<sup>7</sup> There was a promise of potential for innovative plants utilising the Australian Standard platform to tailor their operations toward new markets.

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<sup>6</sup> The Red Meat Industry July 2007 submission to the first PC Annual Review on production sectors, focussed on key issues of Road Transport rules; Animal Welfare rule systems; Environmental reporting and Live Export regulation costs.

<sup>7</sup> In NSW for example, 34 licences were cancelled in 1997 mainly of small operating premises. *MIA Annual Report 1997*.

However, in 1998, a comprehensive industry commissioned report, *Rules Impacting on the Meat Industry and Principles for Reform*, based on interviews and research, found substantial concerns about practices. Key processing regulation issues included:

- need to establish the Australian Standard as the national food safety brand for all meat produced for sale to Australians or for export and to engender buyer confidence
- although the Australian Standard applied in all plants, different basic rules were being applied by the Australian Quarantine Inspection Service (AQIS) for exporting plants<sup>8</sup>
- AQIS rules were preventing export market access for Australian meat processed to the Australian Standard including Codex Alimentarius Commission (CAC) principles even where processors had worked to open markets keen to buy Australian meat.<sup>9</sup>

This review identified that Commonwealth regulations on processing meat for export had tangled technical essentials (to prepare Australian meat fit for human consumption) with commercial calls (particular wants of a country or buyer). To address this major issue, and anti-competitive effects, a new two-stage certification model was derived:

*"Stage 1 Technical Certification – of Australian meat for human consumption.* All Australian meat products must be prepared under the Australian Standard that sets core technical expectations for all meat processing. All processing plants and boning rooms must operate to the Australian Standard to be registered or licensed to prepare meat for Australian or overseas consumption. The Australian Standard efficiently achieves safe and edible meat for local consumption or export (the Australian Standard includes the CAC core technical principles), and should be actively promoted internationally by agencies.

*"Stage 2 Commercial Certification – product meets specific country/customer requirements.* In the national trade and commercial interest, exporters must meet any importing country conditions on food preparation, plant design, packaging, storage, labelling etc. For some markets or customers (in Australian or overseas), government or third-party verification of such commercial requirements could be needed (so one or more Stage 2 certificates). Australian regulation is needed for food safety requiring Australian Standard preparation. Commercial calls should not be in the law-of-the-land through statutes, regulations or orders."

Of course, any customer or overseas country can add specifications in relation to product, its presentation and its delivery. In meat trade, such requirements can seem to be 'technical' (for food safety) but in reality, are commercial add-ons to the strong Australian Standard that consistently produces highly safe meat for all consumers.

In an open supply marketplace, commercial firms efficiently calculate the cost and return of supplying to those specifications and some may decide against the added costs.

When instituted by an importing country these extras can be a form of trade barrier.

<sup>8</sup> AQIS used the meat inspection requirements of the United States as the minimum standard for virtually all meat and meat product exports. Noted in the 1998 review and the Industry Commission, *Meat Processing Report*, 1994, p94.

<sup>9</sup> Some meat processing firms classified as 'domestic' had been trying to negotiate a system to enable them to export meat and meat products prepared for consumption by Australians to markets that recognised this standard and were not adding requirements. On 2 December 1996, then Primary Industries Minister Anderson announced that some State inspected domestic abattoirs could be approved for restricted exports. "We are acknowledging that there are export niche markets for domestic abattoirs which Australia should not ignore. Australia, after all, has extremely high domestic inspection standards." A prior case-by-case AQIS approval process had allowed only a few shipments and did not enable market development by firms. Similar difficulties were experienced with achieving exports under the 1996 method. In the dairy industry however, a system of State endorsed export certification was operating. See the NMA/NDMC 1997 submission, Export of Meat Products from Non-export Registered Establishments.

Even in the early 1990s, while AQIS Export Meat Orders embedded extra USA demands (making these into hurdles for all Australian exports), it was recognised that mandating even more detailed EU requirements would make most processing plants unviable.<sup>10</sup>

The following three more recent extracts reinforce the importance of promoting the core Australian Standard Meat Certification as the platform. Then if a processor/seller makes a commercial decision to supply a particular local or export customer, they may need one or more second stage certificate (eg. Halal, EU, USA, on-plant veterinarian, customer audit etc).

*2005. MLA submission to the Agriculture & Food Policy Reference Group.* "Apart from economic barriers to trade, the Australian meat and livestock industries face a plethora of technical barriers. ... there would be very few countries ... that do not impose at least some unreasonable or unnecessary regulations on meat imports. Significant regulations now exist in areas such as labelling, plant inspection, traceability, animal health and animal welfare. The increased use of technical barriers will necessitate additional government focus ... Significant competitive threats confront ... red meat and livestock industries. ... ."

*2007. AMIC submission to DFAT on a Free Trade Agreement with Indonesia.* "With 90% of Australia's beef exports tied to just 4 countries, the US, Japan, Korea and Taiwan, the opportunity to diversify sales into newly emerging markets like Indonesia must be promoted. ... Indonesian authorities advise they have developed ... new regulations to control the import and distribution of meat and offals in Indonesia however the commercial impact of their implementation in their current form will be to limit trade. ... There is no scientific, trade or religious basis for their introduction and we have sought Government intervention in effecting change to a number of elements in the new regulation. There are 5 main areas for consideration:- a) The restricted offal list b) Non-commercial labelling requirements c) Storage temperatures d) Expiry Dates e) Halal requirements."

*2012. AMIC submission to the Victorian Inquiry on Impact of Food Safety Regulation.* "In addition to the legislative and standards requirements ... there are ... commercial food safety requirements required for export market access (60% of Australian meat production is exported) and specific domestic market customers (Coles and Woolworths retail approximately 50% of domestic meat sales). As a result ... there is a multiplicity of commercial audits of meat establishments. The solution therefore, lies with the commercial sector. ..."

The landmark National Competition Policy (NCP) reform program provided the next stage of meat industry regulation review over 1999-2000. Key NCP reform principles include that competitive markets will generally best serve the interests of the economy and consumers and, recognising regulations divert businesses from more efficient pathways, that the onus is on groups advocating rules to prove benefits will outweigh costs – or those rules should be removed.

The Commonwealth food export regulation regime for all industries including red meat was reviewed by an independent panel. Reporting in 2000,<sup>11</sup> the Committee found that overall, the benefits of the Export Control Act 1982 well exceeded its costs to industries, but that "policies and procedures ... in place under the Act and its subordinate legislation could lead to major competitive distortions".

<sup>10</sup> Industry Commission Meat Processing report 1994 quoting AQIS: "European legislation... is very precise about the sorts of things that are required to be done in Australian abattoirs, for example, down to what handles of the inspectors' knives will be made of; how much roofing there should be over the yards; what the posts and rails of the yards should be made of; what the water temperature should be; that lockers in the inspectors rooms should have sloping tops on them; that they should have separate lockers for their street clothes and for their work clothes and so on and so forth."

<sup>11</sup> *Export Assurance*, 2000, NCP Review of the Export Control Act 1982. Committee Frawley, Makin, Neiper, Wilson. Submissions included the 1998 MIC report, *Rules Impacting on the Red Meat Industry and Principles for Reform*.

The NCP Committee identified that "this potential for distortion would ... be lessened by addressing the shortcomings of the present system and changing the emphasis of some functions managed by AQIS". Issues for addressing included: "a pervasive culture of control in the export community, dual systems (domestic and export) for managing food safety [and] complexity and cost incurred in meeting export systems".

The Committee identified the meat industry as the most highly regulated under the Act, and the Export Meat Orders as "the most detailed and prescriptive of the specific commodity Orders" [p19], with cost and anti-competitive impacts within Australia and overseas.<sup>12</sup> In contrast, "Dairy, which is subject to risks similar to those that apply to meat, is characterised by a sophisticated manufacturing system which has moved on to setting its own technical standards for product safety and quality" [p22].

**Export Assurance Report** [extract p96]. "The Committee's vision has seven elements:

1. the adoption of Australian standards, rather than the most stringent foreign requirements, as the baseline for all export destinations,
2. freedom for individual producers to invest to meet additional standards that may be required by individual overseas governments,
3. cultural change by industry so that Australian food companies produce for a global market (that is a significant shift from the current focus on the domestic market with exports given lower priority),
4. securing the benefits from a partnership arrangement between industry and government,
5. a single provider of certification for human, animal and plant health requirements of product exported from Australia,
6. availability of a comprehensive system for the electronic processing of export documentation and for facilitating access to information necessary to meet regulatory requirements, and
7. promotion of contestability for service delivery through the Act.

p3. The Committee's impetus for change is found in the recommendations, which advocate retention of the *Export Control Act*, but with amendments to more closely reflect NCP principles and the partnership process with stakeholders. These include:

- adoption of an integrated export assurance system based on 3 tiers:

Tier 1: Australian Standards harmonised with International Standards/Agreements (Codex, OIE, IPPC)

Tier 2: Importing country conditions not covered by Australian Standards

Tier 3: Emergency or special requirements by industry or government,

- setting of appropriate objectives for the Act to promote clarity of purpose and measurability, harmonisation of domestic and export standards for the production of food and agricultural products; export certification by a single government based agency; contestability of monitoring, auditing and inspection, extending the focus of the Act through the entire food chain, and government and industry co-responsibility for strategy and program priorities. ... "

The Committee used Tier 1 and 2 terminology, rather than, say, Certification stages. Unfortunately, the 'tier' terminology implies levels and this has been twisted in usage to describe meat plants with some Australians meeting officials and buyers in overseas markets categorising Tier 2 as 'better' than Tier 1, rather than the intended usage.

<sup>12</sup> p71 "...standards required by the Export Meat Orders (EMOs) are largely those needed for access to the United States market. Where the US standard is over and above what is required by other countries, to have that standard as a benchmark for granting export registration makes Australian meat products less price competitive in these other markets."

This dangerous undermining of Australia's food safety credentials will be costly to all. It is important to record the Committee's usage of 'tier'. Their Tier 1 is the technical criteria in the Australian standard platform and the core food safety system for all plants in Australia. Tier 2 is any further requirements of various customer countries. The tiers were not intended to categorise processing or manufacturing plants.

**Tier 1.** "All Australian food and agriculture product manufacturers would be required to comply with established Australian standards. These standards would cover the essential health and hygiene issues and would be based on and incorporate the accepted international standards. This would ensure Australian standards would meet the nominated requirements of most importing countries. Any producer/processor meeting the Australian food safety and hygiene standards would have automatic right, subject to certification, to export to countries which did not have requirements additional to Australia's Tier I standard. Adoption of Standards under Tier 1 would be uniform throughout the States and Territories within Australia. Systems would be established to verify that Standards are applied consistently.

"**Tier 2** requirements would be market specific. They would be negotiated between the Australian government and the government of the importing country. The instruction would be to keep requirements as close to Tier 1 requirements as possible. The agreed entry conditions would be established by AQIS in an industry export program with provision for certification by AQIS that all requirements would be met. This suitability for a particular market would be noted on the export certification for the goods.

"Independent monitoring mechanisms will be in place to verify that conditions in the various Tiers are in place and are working. These may involve inspection of product and /or audit of assurance systems by AQIS or third parties including regulators in the importing country. The decision about investing to comply with the additional standards would be made by the individual producer/processors. Tier I conditions would have to be met as well as requirements set in Tier II." [Export Assurance report p99]

In February 2003, the Federal Government released its response to the 2000 NCP review of the Export Control Act.<sup>13</sup> The Export Assurance vision and model was agreed by the Coalition Government.

An AQIS Notice was issued in November 2003 to allow for 'Export Registered Australian Standard Meat Establishments'. DAFF-AQIS used the phrase 'Tier one exports' (not 'Tier 1 plants') in their 2003 notice, and the strength and primacy of Australian Standards for food products was relegated to '[if] accepted':<sup>14</sup>

"The recent National Competition Policy Review into the Export Control Act found that the current regulations were too restrictive and recommended a three-tiered approach to export of food commodities. Tier one exports covered those destinations that accepted the relevant Australian Standard. Tier two exports are to those destinations where additional inspection requirements are imposed by the importing country.

"Policy: Establishments that meet the Australian Standard (AS) will in the future be able to export to those markets that accept the AS and the Australian Government will provide the appropriate certification. AQIS will actively promote the Australian Standard to export markets where the opportunity arises. Where importing countries have additional requirements and/or endorsements these will be notified in the Australian Export Meat Manual Volume 2 (ELMER)."

<sup>13</sup> The Government Response to the National Competition Policy Review of the Export Control Act 1982, Feb 2003.

<sup>14</sup> AQIS Notice Number Meat 2003/12, Export Registered Australian Standard Meat Establishments.

Under the AQIS 2003 system, AQIS would continue to be the single provider of export certification. This certification would be based on AQIS registration of an Australian Standard Meat Establishment under the *Export Control Act* that had an Australian Standard HACCP Approved Arrangement supervised by a State Controlling Authority, without AQIS inspectors on site. The AQIS Verification Unit would initially audit each plant seeking registration against the Australian Standard and that plant's State approved QA system. AQIS would also annually audit each State authority's system including a selection of plants. Once a plant was registered, that plant's exports to agreed countries would receive Australian Government export certification.

By 2007-2008, while there was a general consensus on huge advances in Australian meat processing systems, food safety and integrity,<sup>15</sup> there was also concern within the industry that the associated regulatory reform was slow and limited.<sup>16</sup>

On export rules, for instance, a range of meat processors, and also industries such as Dairy, were expressing disquiet about commitment of Federal officials to implementing the policy for the export system to be based on the Australian Standards.

Views did and do vary, including among direct competitors in the red meat industry, as illustrated by these extracts of comments and submissions over those years.

"Australian industries are concerned Australia's highly safe food standards be recognised and accepted worldwide for food exports. The Australian Standards should be promoted as the platform for export of highly safe Australian food internationally." *Australian Dairy Industry Council and Dairy Australia submission quoted in Quarantine and Biosecurity report 2008.*

"There have been significant changes with introduction of HACCP – QA systems are good, can manage regulations and client needs. But the regulatory systems have camped themselves into the industry quality assurance systems – all still pretty regulatory." *Industry member 2007*

"In NSW, in 2007, 19 State registered abattoirs could readily move to Tier 1 or Tier 2 if they wanted to [develop markets and] export eg. offal. For Tier 1 there needs to be a joint NSW/AQIS inspection, 'then AQIS says what needs to be done' [to the plant], also need Ausmeat accreditation with their audits, and pay State registration fee – the State accepts the AQIS annual audit reports." *NSW Food Authority 2007*<sup>17</sup>

"Non recognition of the domestic system has resulted in Australian food businesses having to comply with stringent export requirements which are generally the EU or US importing standards. This standard even applies to businesses wishing to export to countries that have food safety standards below the Australian domestic system. More effort is required by AQIS to promote and support the Australian domestic regulatory system to export customers with a need to shift the regulatory focus from the 'product' to the overall system." *NSW Food Authority submission, quoted in Quarantine and Biosecurity report 2008.*

"We have the cleanest, best meat product globally yet Australian representatives (government and industry) don't seem to be able to argue for the for the Australian Standard as a country system – Australia does not try hard enough." *Industry participant 2007*

<sup>15</sup> "The tail of plants now are 'better' than the best were ten years ago – primarily through their own quality assurance systems and initiatives and investment." Industry participant 2007. "Quality assurance is implemented through nationally uniform documented systems, which are designed to achieve consistent standards of meat safety ...", Butler, Murray, Tidswell of AQIS, 2003, Quality assurance and meat inspection in Australia, Rev sci tech Off int Epiz, 22 (2) 697.

<sup>16</sup> Red Meat Industry, submission to the second Productivity Commission Review of Regulatory Burdens on Business - manufacturing and distributive trades, 2008.

<sup>17</sup> In 2006, the NSW Food Authority checked/confirmed Australian Standard operation by closely evaluating sixteen NSW non-export meat plants. They assessed 'company based meat inspection and mandatory HACCP compliance and to prioritise future regulatory effort; benchmark industry food safety practices'. *Foodwise NSW FA Vol 7 2007.*

The Dairy Industry expressed concern to the 2008 Productivity Commission Review of Regulatory Burdens that more effort was needed to ensure a single standard for domestic and export product manufacturing – rather than the Australian Standard and Export Control Orders.<sup>18</sup> The Commission seemed to take DAFF advice that findings of the Export Assurance report were being implemented and did not pursue the issue.

AQIS (now Department of Agriculture, Biosecurity) can list its steps to implement the 2003 policy, however, in reality, only a handful of plants have entered meat exporting by becoming an 'Export Registered Australian Standard Meat Establishment' under the AQIS 2003 scheme. In 2014, in Victoria four such processing plants are registered plus one in each of NSW, Tasmania and Western Australia.

All Australian meat processing plants have established and audited Australian Standard operations and a plant-specific approved QA system. Proactive firms are optimising plant and workforce operations and lifting productivity, as needed to increase competitiveness in global markets. To achieve Australia's export development policy objectives, the regulatory regime should assist more meat processing plants located across Australia to register for potential export.

Current regulatory issues include that AQIS criteria for export registration have been adding to Australian plant costs, although this was not the policy intention. Access to markets is also a deterrent to seeking registration. AQIS Export Registered Australian Standard Establishments ('Tier 1') are allowed by AQIS to export to only 23 countries of more than 100 potential markets.<sup>19</sup> We believe a number could be quickly opened by our government approaching those nations, as discussed under Issue 8.

With changing dynamics in world meat markets and sharp competition, Australia cannot rely on its traditional large prime markets of USA, Japan, Korea and the EU. To maintain and lift exports of beef and sheepmeat, our product must compete on price and on quality. We believe that to maximise returns to farmers, more Australian plants not burdened with USA-led costs need to be encouraged to be active in world markets, widely exporting meat products they prepare for Australians to eat. The answer for the future is not that 'all export plants should go to Tier 2', as some assert.

In this context, it is greatly disappointing, and an issue that should concern to the meat industry as a whole including farmers and regulators, that some companies or officials undermine our meat hygiene system and widening of Australian meat export capacity by asserting that Export Registered Australian Standard Establishments ('Tier 1') and meat products somehow could be 'unsafe'.

Particular examples follow:

"Some 8 years ago it became government policy to permit meat exports from 'domestic' plants where a market was willing to accept this standard. The standard is the Australian Standard which relies on company controlled meat inspectors without the presence of a government veterinarian. On the face of it, it is an unsatisfactory system which has resulted in market failure." *Fletcher International submission to Quarantine and Biosecurity Review 2008* [www.quarantinebiosecurityreview.gov.au](http://www.quarantinebiosecurityreview.gov.au)

<sup>18</sup> The red meat industry provided a submission to the PC review. This raised the issue of progress on implementation of the 2003 procedures for registration of Australian Standard Meat Establishments ('Tier 1') and AQIS listing of markets to which these would be allowed to export. As industry views were mixed, the red meat submission was not clear-cut.

<sup>19</sup> Current access is to only 23 countries including: Albania, Algeria, Bahrain, Croatia, Cuba, East Timor, Egypt, Ghana, Indonesia, Israel, Jordan, Kuwait, NZ, Oman, PNG, Qatar.

"I know from personal discussions with AQIS senior veterinarians that they are not comfortable with this dual standard and that the standard of hygiene at those plants is not as good as the standard at full export registered plants." *Fletcher International submission 2008*

"One sheep processor ... says that with \$2 in every \$12 that he spends on wages paying for government inspectors, he can't compete with the tier 1 processors who serve the Middle East. 'We're supposed to be a level playing field ... They can undercut me. But if there is an outbreak of some disease from tier 1 production that hits headlines, all exports will be tarnished with the same brush'." *BRW article 13 March 2013.*

Advances in Australian 'domestic' plants have paralleled those in 'export' plants.<sup>20</sup> Key QA innovations in Export Registered Australian Standard processing plants ('Tier 1') notably provided models for a sizeable 2011 Federal program to improve the AQIS inspection system.<sup>21</sup>

Yet some still imply there is potential for short-cuts in Australian Standard processing plants. In reality, food safety problems rarely arise in Australian abattoirs or boning rooms.<sup>22 23</sup> The very few old matters are raised rather too often:<sup>24</sup>

- A meat substitution scandal in 1981 that led into today's regulatory system is still highlighted as 'what can go wrong'. This occurred at an export plant with government inspectors.
- The 1987-1994 chemical residue problems from feeding cattle cotton-trash. While not processor related, the product passed through the export system before discovery overseas.
- A shipment of lamb rejected by Mexico for embedded grass seeds. However, only plants with USA Tier 2 certification and AQIS inspection have been allowed to export to Mexico.

Undermining the robust, tested Australian Standard for meat processing and transport will damage Australia's food export industries particularly for meat. In a recent article on Tier 2-Tier 1 contention, BRW journalist Michael Belby makes this quite clear.

While the tier 1 operators are small – supplying just 2 per cent of Australia's export volumes ... some of the tier 2 operators want to keep them out of their markets. The way they are going about it, however, risks the very damage they say they want to avoid. ... Picking a public fight about the safety of Australian meat exports is akin to throwing stones the size of Uluru in a national glasshouse. There will be no winners and only losers ... . Belby, *Safety first: Meat exporters play a dangerous game* BRW. 13 March 2013

<sup>20</sup> "Company HACCP and QA plans have evolved to be 'commercial in confidence' intellectual and industrial property of value... overseas companies and governments come just to see these systems in working plants." *Technical manager 2007*

<sup>21</sup> DAFF 2012, Export Certification Reform Package report. Outputs included a revised Australian Export Meat Inspection System for plants needing inspection by AQIS eg. for US/EU markets (not for export plants licensed by State agencies).

<sup>22</sup> Rejections can occur from all types of plants for reasons other than food safety including from overseas markets, and procedures are well-established for handling such rejections. AQIS Meat Notice 2003/04, *Protocol for sampling and the disposition of product returned by overseas authorities*, updated in a Department of Agriculture notice Nov 2013.

<sup>23</sup> A practical example via the 'Tier 2' export system: "Australia is eligible to export meat to the United States. Between 3/2010 and 3/20 11, Australia exported 530,732,352 pounds of meat products to the United States of which 37,118,132 pounds were re-inspected and a total of 2,204,869 pounds rejected at U.S. Ports of Entry (POE)." The rejections were not or food safety reasons. Food Safety and Inspection Service United States Department of Agriculture report 2011.

<sup>24</sup> Also, and differently, the Garibaldi smallgoods factory (post abattoir) food poisoning issues in 1995 and late 2005. Smallgoods plants use particular fermentation processes. A longstanding industry participant noted in 2007 that: "With big advances in animal quality and meat plants, investment in refrigeration to get output results. Australian abattoirs present nil or minimal risk – there is no food safety risk up to the cooking/ radiation/fermentation intervention steps."

## **Issue 7. Reducing Ineffective Regulations.**

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Reducing regulation and red tape has been on the action list of Australian and State governments for over 20 years. Except for parts of the National Competition Policy program, it is generally recognised there has been no lessening of regulatory load.

As reinforced in the Agricultural Competitiveness Issues Paper, a key policy objective of this Government is to reduce the burden of ineffective and inefficient regulation. The Minister for Agriculture has also stated it his aim to achieve "reductions in costs of red tape to help increase returns at the farmgate", with recognition that costs along supply chains directly affect returns to farmers and regional communities.<sup>25</sup>

The Coalition Government has instigated a series of reviews that provide clear policy context to submissions under Issue 7, Reducing Ineffective Regulations. These include:

- **National Commission of Audit.** Announced on 22 October 2013, the Commission's Terms of Reference cover assessing the split of roles and responsibilities between and within the Commonwealth government and State governments, including areas of duplication, and critical examination of Commonwealth involvement in all areas as well as the efficiency and effectiveness with which government services and policy advice are delivered. (This could include for instance, long-standing activities such as physical inspections duplicated at State or company level as distinct from formal export certification as part of the Federal trade role).
- **Cutting Red Tape.** Explaining the first repeal day on 19 March 2014, the Prime Minister confirmed to Parliament that: "Cutting red tape is at the heart of this Government's mission: to build a strong and prosperous economy for a safe and secure Australia. Red tape is what officials wrap people in when they think that government knows best".
- **Review of Competition Laws.** Terms of reference issued by the Prime Minister and Minister for Small Business in December 2013 include key principles that "no participant in the market should be able to engage in anti-competitive conduct within that market and its broader value", and that it is "fair, transparent and open competition that drives productivity".

An efficient nation-wide regulatory system for assuring food safety and for export certification is vital to the Australian economy and particularly for producers and supply chain operators in the red meat industry. However, even with policy decisions in 2003 and efforts to modernise, the current regulatory regime for red meat under the *Export Control Act* perpetuates historical features that are working against lifting productivity and harnessing market opportunities.

We see elements of duplication across governments, a culture of official control and regulatory bottlenecks, practices enabling anti-competitive behaviour, and rules that add costs above returns and deter innovation and export market development.

- ▶ Our overall aim here is to focus on issues in building and widening red meat export and to provide a practical contribution to development of a strong White Paper.
- ▶ In the context of this Government's policies, and the background provided under Issue 4 above, in the next pages we put forward a set of changes in five areas with important practical potential to improve the current regulatory regime.

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<sup>25</sup> Minister Barnaby Joyce, Cutting red tape for farmers and agribusiness, Media statement 1 Nov 2013.

Firstly, three specific changes sought to advance the current regulatory regime under the *Export Control Act 1982* for red meat processing, transport and export.<sup>26</sup>

**1. Only Australian Export Registered Establishments and Australian Certified Meat.**

The descriptors Tier 1 and Tier 2 need to be removed. These terms are not being used in the logical sense intended by the *Export Assurance* report. The expression 'tier' is open to misuse by enabling implications by companies and officials that one form of Australian registration or certification is better than the other.

**There should be one group of Australian Export Registered Establishments.** All red meat processing plants operating in Australia should be in a position to export as they continually operate to the Australian Standard with its embedded international criteria. We agree with Federal export registration and the Department being the single export certifier, based on company developed State approved Australian Standard systems plus any country-specific requirements being met. Review of the registration process is needed to remove 'regulatory creep' in the form of add-ons to the Australian Standard. These deter registration and add capital and operating costs that reduce competitiveness in world markets and by extension, reduce returns to farmers.

**Meat product exported from Australia, should be 'Australian Certified Meat'** with certification in one or two parts. A Part 1 Certificate would be Australian Government verification, utilising State and company systems, that the meat product is prepared to the Australian Standard for Hygienic Production and Transportation of Meat and Meat Products for Human Consumption. Part 2 Certification would be any additional government reports (Federal or State) needed to confirm the product has been prepared to meet extra country requirements where this must be in a government-to-government arrangement (Halal, USA, EU) rather than a commercial contract.

**2. The Australian Standard has to be the robust core of Australia's strong food safety performance for all markets.** In 2003, AQIS said it would "actively promote the Australian Standard to export markets where the opportunity arises". The reality then and now, is that the Department of Agriculture operates its own inspection and certification system implemented through Export Control Meat Orders (ECMOs) based largely on USA criteria and applied by a staff of inspectors trained to these criteria.<sup>27</sup> Overseas customers reading the Department website would barely see mention of Australian Standards as the platform for all meat preparation and export.

It is human nature for AQIS officers, veterinarians and inspectors to promulgate the scheme they have developed and to want to gain countries as customers to the system they have run over decades (as seen in quotes under Issue 4 above). However, as this Government is stressing, to lift productivity and competitiveness it is essential that regulatory duplication, costs and old ways be critically questioned and removed. As global dynamics shift, this is also vital to maintaining and opening export markets for Australian red meat with associated returns through to Australian farm gates.

<sup>26</sup> The Export Control Act 1982 regime for meat *includes* the following regulatory instruments and associated practices: The Act, Export Control (Orders) Regulations 1982, Export Control (Meat and Meat Products) Orders 2005 (ECMOs, previously EMOs), Export Inspection and Meat Charges Collection Act 1985; Export Inspection (Establishment Registration Charges) Act 1985; Meat Inspection Act 1983; Meat Inspection (Orders) Regulations 1984; Meat Notices (3-12pa), Export Meat Manual; Manual of Importing Country Requirements; Codes etc.

<sup>27</sup> Concern about expansion of the Meat Orders via the AQIS Meat Notices continues. Although the new ECMOs started off well in 2005 and were supposed to be based on the Australian Standard, in years since multiple Meat Notices have been issues issued and the Orders backtracked even seemingly changing the Standard. See also footnote 31.

**3. Remove the Export Control Meat Orders as another Australian meat preparation system.** With evolving circumstances, a time arrives when venerable regulatory regimes and blocks of rules can and should be repealed. Regulatory modernisation with associated training can be pivotal in addressing issues with control cultures and enduring practices.

We recognise likely negative reactions to this including in the Department of Agriculture. However, an advanced economy, a mature industry wanting efficiency and competitiveness, and a government committed to reform, should consider these points:

- The Australian Standard is the agreed national policy and regulation system. It consistently achieves Australian meat for human consumption from a range of plants each with a HACCP based Approved Arrangement for livestock handling, processing, packaging and storage operations and inspection, data recording and reporting.
- Additional requirements of overseas nations, if any, are specified by those countries in importing protocols (as contracts set out specific needs of Woolworths or McDonalds).
- The vision and logic of one Australian Standard as the regulatory and performance framework for products and trade marketing, has not yet been achieved. In particular, the ECMOs continue as a detailed parallel rule system 'owned' by some in the sector.<sup>28</sup>

The Government, Department and the Industry should be able to reduce regulation and achieve a proudly national regulatory system being applied by proactive agencies working to support widening of exports, without the Export Control Meat Orders, by:

- ▶ Regulating registration and performance (including the requirement to meet customer country specifications) through the *Export Control (Prescribed Goods - General) Order*, amended as needed, applying common principles across sectors.
- ▶ Regulating preparation of meat and meat products as food through the Australian Standard and streamlined associated instruments (notices, manuals, guides).
- ▶ Government to Government interaction on markets based on the Australian Standard plus model 'Approved Arrangements for Export to country X,Y,Z' that ensure product is prepared to any specific country requirements (eg. USA, EU, Israel). The models would be adjusted as requirements are re-negotiated on the Australian Standard platform, promulgated as an Australian brand worldwide.
- ▶ Government audit systems for individual plants to be on the Australian Standard plus, if part of the minimum rules needed for market access, any model Approved Arrangement for Export to a specific country that the company has made a commercial decision to adopt in that plant (or a line within the plant).

Two changes for opening and accessing export markets are put forward under Issue 8.

<sup>28</sup> The ECMOs, particularly the schedules, duplicate key parts of the Australian Standard but with differences based historically on USA trade criteria that add to costs. Detailed sections of the Australian Meat Standard AS 4696:2007 include: 2. Wholesomeness and Operational Hygiene, 3. Slaughter and Dressing of Animals, 4. Processing, 5. Packaging, storing and handling, 6. Identification, traceability, integrity and record keeping, 7. Premises, equipment and essential services, 8. Transportation of meat and meat products, Schedule 1. Personal Hygiene, S2. Procedures for post-mortem inspection, S3. Ante-mortem and post-mortem dispositions.

In the Export Control (Meat and Meat Products) Orders 2005 as amended at 1.10.11 Order 6.1 says the Australian Standard applies to meat products prepared under the ECMOs unless a contrary intention appears in the ECMOs. The Orders include detailed Schedules for: 1. Registration and approved arrangements, 2. Management of the preparation of meat, 3. Structural requirements, 4. Operational hygiene requirements, 5. The preparation and transport of meat, 6. Trade descriptions and official marks, 7. Integrity, transfer, Halal certification & EU. These replace the Australian Standard.

## **Issue 8. Enhancing Agricultural Exports.**

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ABARES is forecasting beef to be the second largest agricultural export from Australia in 2014-15 at \$5.46 billion, after wheat (\$6.39b). Lamb exports are forecast at \$1.25b and mutton at \$0.53b.<sup>29</sup> As made clear by MLA,<sup>30</sup> the marketplace for meat exports is shifting with stronger competition in blue-ribbon markets and initiatives to develop new markets for Australian meat and offal including as protein. As outlined under Issue 4, ABARES forecasts rising exports this decade, but this will require more effort to hold and grow markets including in large, price sensitive emerging economies.

Again noting Government policy objectives and the background provided under Issue 4 above including on markets, and building on the points we put forward under Issue 7, we advocate the following specific changes to current market access process:

**4. Government and industry officials promoting the Australian Standard food safety platform**, ie. Australian Standards, Australian Registered Export Establishments, Australian Certified Meat, and if essential for a particular market, a model Approved Arranged for Export as close as possible to the Australian Standard. Co-ordinated commitment of and briefing/training for Federal and State officers at all levels involved in trade interactions, plus Meat and Livestock Australia staff,<sup>31</sup> and industry associations, to reinforce the Australian Standard platform is crucial.

There is no advantage to the Australia economy of our own envoys 'selling' a more costly inspection regime (required by, say, the US or EU for their own trade reasons) instead of the Australian Standard platform, to rising markets for meat in South East Asia, the Middle East or Africa. Price is an issue in most markets, and if Australia must carry higher costs and price to the market, returns to the farmer will be lessened.

After decades of experience, we express sincere concern about Australian Department of Agriculture officers with histories in traditional markets and personal ownership of the AQIS ECMO system, leading market access negotiations overseas. There are conflicts of interest in this arrangement. We consider the Department of Trade should lead these negotiations including around WTO provisions on technical obstacles.<sup>32</sup>

**5. Priority action by Departments on formal access for all Australian Registered Export Establishments to a much wider range of countries.** Australia cannot afford to compete within itself on models of red meat processing for various markets. Producers and processors need more pipelines for selling our great meat and meat products.

Current differentiation of 'tiers' of exporters and accessible countries does not serve Australia. Companies know they cannot export to a country if their Approved Arrangement does not meet country requirements. A firm might decide commercially on Part 1 Certification for a whole plant, and Part 2 only for say, Halal preparation.

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<sup>29</sup> ABARES Agricultural Commodities series: 2014.v4.1.

<sup>30</sup> "Historically Australia's red meat exports have been heavily weighted towards North Asian and North American markets. In recent years though, exporters have been diversifying the mix of markets, with a stronger focus on ... South Asia and Greater China, and the Middle East." "Last year, non-traditional markets across South-East Asia, Greater China, Russia and the Middle East accounted for approximately 30% of total beef shipments." MLA website 26.3.2014

<sup>31</sup> Meat and Livestock Australia website: "MLA assists industry and government to improve market access for Australian beef, lamb and goatmeat by enhancing product integrity, ensuring a whole-of-industry approach to maintaining and liberalising world meat markets, and maximising options of the livestock export trade."

<sup>32</sup> Trade officials would be supported by Department of Agriculture, MLA officers and ideally, a mix of commercial entities.

Current access for Australian plants registered for export and operating under the Australian Standard but not the AQIS Export Control Meat Order system, is to only 23 countries, up from 17 in 2007, out of potentially more than 100 countries.

We seek urgent Government arrangements to firstly remove Australian-imposed barriers to export to Cambodia, Hong Kong, India, Iran, Iraq, Libya, Macau, Morocco, Palestine, the Philippines, Saudi Arabia, Singapore, South Africa and Thailand.<sup>33</sup> We have invested in commercial interactions in some of these markets, and believe that for a number, access is a matter of administrative correspondence to the government but this has just not occurred.

As part of working to establish the Australian Standard platform, Australian Export Registered Establishments and Australian Certified Meat, and removing the ECMO scheme, there is also an onus on the Department not sustain categorisations such as 'Tier 1' or 'expanded Tier 1' or to perpetuate these in practice including committees.

If a particular country decides, for instance, to require a government vet on site, this needs to be written into the Department's Manual of Importing Country Requirements (for Part 2 Certification), and into a model Approved Arrangement for Export to that country. Each company can then decide commercially whether to arrange its plant system to meet the particular country requirement.

Arrangements that preclude or deter this from happening have a protectionist anti-competitive effect, the opposite to government objectives to "further engage the engine of competition to ... enable efficient business ... to grow and prosper [and to] establish a footing for exports".<sup>34</sup>

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<sup>33</sup> Libya is an important example. Around 2005, Libya was buying sheepmeat from Registered Australian Standard Export Plants after efforts to open markets. Then there were suggestions of delegations being persuaded on need for Australian government inspectors, and in 2014, Libya is on the ECMO export plant list only.

<sup>34</sup> Australian Government, 2013, 'Root and Branch' Review of Competition Laws, draft terms of reference.