

**Senate Standing Committees on Rural Affairs and
Transport**

**Inquiry into the role and effectiveness of Government,
Meat and Livestock Australia, Livecorp and relevant industry
bodies in improving animal welfare standards in
Australia's live export markets**

by

Australian Beef Association Inc

July 20, 2011

Key Points & Summary

1. Meat and Livestock Australia has been fully aware that Australian cattle were being subjected to extreme cruelty at the point of slaughter in South East Asia since at least the early 1900s.
2. Peak Councils, Australian Live Exporters' Council and Cattle Council of Australia were also fully aware of the cruelty in South East Asian slaughter facilities.
3. Key members of the board of Red Meat Advisory Council and the RMAC Executive Group were fully aware of the cruelty at the point of slaughter in South East Asia.
4. MLA, ALEC and CCA failed to take effective action and achieve decent outcomes despite spending \$25 million on "market development" and "animal welfare" in this region in recent years.
5. The failure to take decisive action rests with the boards and committees of MLA, ALEC, CCA and RMAC – key components of the Red Meat Industry Structure. RMAC has been absolutely silent on the live export issue. MLA continues to claim it was unaware of cruel slaughter practices.
6. The structure's inability to take timely action on the cruelty at slaughter is due to its complexity, lack of democracy, lack of transparency and lack of accountability. The structure is corrupted. (Diagram 1)
7. MLA has a notable record of failures to act in the interests of livestock producers. Australian cattle prices are the lowest in the developed world and Australian consumers, in relative terms, pay the highest retail prices for beef.
8. The red meat industry structure, as revised in 1998, was intended to provide livestock producers, processors and associated groups with a mechanism for collective action to deal with issues such as: grading, bio security, R&D and animal welfare. The structure has delivered little.
9. The Government must dissolve the current meat industry structure as a matter of urgency.
10. The Government must initiate a process to allow livestock producers, processors and others in the meat industry to determine their own needs and organisational arrangements, if and when, collective action is required.
11. Failure to do so will result in more ethical, food safety, social and economic disasters for livestock producers, meat industry and the wider Australian community.

Evidence of Awareness of Animal cruelty in South East Asia

Point: 1

Cruelty at the point of slaughter in South East Asia has been widely recognized by MLA, ALEC, CCA and possibly many other industry participants since the early 1990s.

MLA commissioned consultants to design slaughter boxes to address the issue of cruelty at the point of slaughter at least as long ago as 2004. Some reports refer to concerns regarding slaughter practices in the early 1990s.

These reports typically include statements such as:

Stunning and restraining boxes in Australia's live export markets have been supported by the Australian livestock export industry and the Australian Government since the early 1990s. . . . The new design is a result of many hours spent observing ritual slaughter and focuses on improving both animal welfare and operator safety.

And

The upgrade of the Mark 1 restraint box and the production of a Mark 2 box were carried out as part of the live export industry's goal to improve animal welfare, processing efficiency and meat quality in countries that process Australian cattle. The Mark 1 box is an improved version of the existing boxes in use in South East Asia and will meet the needs of clients seeking a minimum investment.

The papers referred to above include:

Date	Author	Subject
Nov 2003	Whan et al	Review of live export standards
Nov 2004	Beere	Design slaughter restraining box
June 2005	Beere et al	Improving slaughter standards & profitability
July 2006	Beere	Plans for SE Asian abattoirs
Oct 2008	Beere	Upgrading Mk 2 box for ritual slaughter
Jan 2009	Beere	Mark 3 slaughter restraining box
June 2009	Wittington	Review of Mk 1, 2 & 3 restraining box
July 2010	Stark	Review of Mk 3 and development of Mk 4 box

Meat and Livestock Australia's Annual Operating Plans (budgets) suggest MLA spent \$24 million on "marketing" and "research" related to "animal welfare" in South East Asia through the six years 2005 to 2011.

The Annual Operating Plans suggest that of the total expenditure, about \$19 million was spent on marketing and about \$5 million on public relations. About \$4 million was designated as R&D.

The \$5million expenditure on public relations would seem to be based on MLA's advice from consultants who warned of the vulnerability of the live export trade to public criticism because of its poor animal welfare performance.

A 2003 report states:

SUMMARY: Animal welfare is perhaps the most-important issue currently facing the live export trade. Opposition to the industry in Australia is almost-entirely based on animal welfare concerns.

A 2007 report commissioned by MLA assessed the economic impact of the cessation of the export trade. The report stated the closure of the trade would result in a loss of income of \$2.3billion over a decade and thousands of jobs.

The report states:

Assessing the regional level contribution of the value of the live export trade will assist the industry in promoting understanding of the livestock export trade and the value it provides to producers in the sheep, beef and dairy sectors. The target audience for these messages are the Federal, State, territory and local governments and community at large.

The MLA board was or should have been fully aware of the cruelty. The current and previous chairmen were both live export specialists. The current chairman, Mr Don Heatley was Chairman of the Queensland Minister of Primary Industry's Livestock Export Advisory Committee. This was his main credential for a seat on the MLA board. The previous chairman Mr David Crombie (1998-2005) was also a live exports specialist. Mr Crombie was a managing director, a director and consultant to a number of companies that exported hundreds of thousands of cattle to SE Asia.

Who else knew about the cruelty?

Point: 2

Australian Live Exporter's Council, Cattle Council of Australia and Red Meat Advisory Council were all fully aware of the cruelty at the point of slaughter in SE Asia.

Cattle Council of Australia, staff and board were fully aware of what was going on.

MLA's Annual Operating Plans are approved by Peak Councils.

CCA authorises the expenditure of the levy contributed by the cattle farmers. CCA would have specifically approved the \$9 million of grass fed producers' levy money used to part fund MLA \$24million SE Asia animal welfare program.

Clearly CCA and ALEC would have held major deliberations over these expenditures.

CCA particularly claims to closely monitor MLA's expenditure on behalf of cattle farmers. Animal welfare seems to be a priority. Committees listed in the CCA Yearbook include: Animal Health Welfare & Biosecurity Taskforce, Marketing & Trade Taskforce, Research Development and Extension Taskforce.

CCA Chairman Greg Brown is on the record stating:

Cattle Council will continue to keep a close eye on MLA activities and question our marketing and research and development organisation so we can arise at the best spend for producers' buck.

The CCA Board and Taskforce members also have access to the first hand knowledge and experience of CCA Executive Director, David Inall, a live export specialist.

David was previously Livestock Services Manager (Asia & Australia) for Meat and Livestock Australia/Livecorp. In this role, David represented the interests of Australia's cattle producers and livestock exporters into SE Asia. A considerable amount of David's time was spent in Asia (principally Indonesia) managing market access and associated trade related activities on behalf of industry.

The ALEC board would have scrutinised and authorised MLA's \$24 million SE Asia animal welfare expenditure. It also would have had access to MLA's R&D and marketing reports. ALEC should have been fully aware of what was going on.

ALEC has a website, but no part of this website is accessible to non-members. Mr Peter Kane is listed as Chairman of ALEC on the Red Meat Advisory Council website.

Point:3

Red Meat Advisory Council Limited (RMAC) was formed in 1998 *as a single industry touch-point for the Federal Government*. A key role is to provide advice to the Minister on cross-sectoral or whole-of-industry matters.

The board of RMAC includes the Presidents of CCA and ALEC and its executive group includes the CEO of ALEC and the Executive Director of CCA. The CEO of RMAC, Mr Angus Hobson previously worked at MLA and CCA.

All the above would have been fully aware of the cruelty at slaughter in SE Asia and MLA's \$24m program and were in a position to advise the RMAC board and the Minister of the ongoing issues and their potential impact on all producers, live exports, processors and ultimately the wider community and government.

RMAC would have been expected to provide leadership on this cross-sectoral crisis.

RMAC's silence and failure to provide advice to government or guidance to industry demonstrates its total irrelevance.

How it went wrong

Points: 4 & 5

MLA, Peak Councils and RMAC failed to take effective action to remedy their failed initiatives. They failed to take effective action despite the overwhelming evidence.

The system failed because the industry structure is a "closed loop". This is the very core of the problem. MLA, the Peak Councils and RMAC had painted themselves into a corner and were not prepared to criticise or to take action to remedy their own failing programs.

Instead of addressing the cruelty issue directly and admitting their initiatives had failed they collectively chose to bury the issue with public relations and pretend it was not happening.

RMAC, MLA and the Peak Councils misled farmers, the public and the government. They got away with it for more than five years until the cruelty was screened on TV.

The ethical tragedy is that millions of cattle suffered cruel deaths while producers and live exporters developed the trade to make profits.

RMAC, Peak Councils and MLA's collective failure to take timely action has adversely affected the livelihoods of Australian cattle farmers, live exports, Indonesian farmers and Indonesia abattoir workers and the millions of Indonesian consumers who relied on Australian beef to provide meat protein.

MLA still in denial

The cruelty at slaughter in SE Asia became a very public issue following the *ABC Four Corners* report that was shown on May 30, 2011.

Since that time MLA Chairman, Don Heatley has repeatedly stated MLA had no knowledge that animals were being killed cruelly in Indonesia. No member of MLA, the Peak Councils or RMAC has come forward to contradict Mr Heatley's denials.

Mr Heatley's radio and press statements include:

"Having worked in the market, we are confident that the footage shown is not representative of the manner in which the majority of Australian animals are processed in Indonesia." (June 1, 2011)

"I have been to abattoirs in Indonesia and have never seen such barbaric acts. A decade's worth of industry and government representatives, plus independent animal welfare experts have not seen such cruelty – or something would have been done. (June 4, 2011)

"I can assure you that if this disgusting cruelty had been witnessed by any Australian industry representatives before now, action would have immediately been triggered to bring it to a halt.

(June 6, 2011)

"Number one, can I say really clearly: if MLA knew that this horrible activity was taking place within the marketplace, would we not have done something about it?" (June 23, 2011)

Mr Heatley's statements are not consistent with those of the recently resigned Managing Director, David Palmer. Mr Palmer acknowledged that there was an animal welfare issue and that MLA had spent a lot of money. Mr Palmer said:

During the past five years alone MLA has invested more than \$12 million and taken actions that provide tangible benefits to the welfare of animals. These measures include improvements to yards and processing equipment - resulting in better low-stress animal handling - throughout Asia and the Middle East.

and

The footage aired by Four Corners was, by our standards, animal cruelty. Considering the time and money invested by MLA in Indonesia and across the world we are as outraged as anyone that such acts took place. (June 22, 2011)

(Cont)

The Industry Structure

Point: 6

The root cause of the cruelty at slaughter and live export crisis is the totally dysfunctional and unaccountable meat industry structure. (Diagram 1)

At the centre of the structure sits MLA, the beneficiary and distributor of livestock producers' and taxpayers' money. MLA spends more than \$150 million of growers and taxpayers' money each year. The specifics of MLA's expenditure are not public.

MLA's board is not elected. It is not accountable to anyone. There are no minutes of board meetings. It is not a corporation nor is it recognized as part of the public service. MLA and government describe MLA as a "producer owned company". ASIC will not investigate MLA on the grounds it is a government department. Its Managing Director is paid around \$500,000 and the average salary of eight managers exceeds \$300,000 pa.

MLA exists at the behest of the Minister. It can only be a government department. Yet it has repeatedly publically defied the Minister's instructions to provide funds to stricken producers of cattle for live export during the current crisis.

MLA's expenditure is overseen by the Peak Councils. The members of peak Councils are not accountable to livestock producers.

The Peak Councils are totally opaque other than their public relations.

Cattle Council of Australia, Sheep Meats Council, Australian Live Exporters Council do not publish accounts. Peak Councils may receive money from MLA.

The members of farm-based Peak Councils (CCA and SMC) are nominated by state farm organizations (VFF, AgForce, NSW Farmers etc). These organizations have committee systems developed in horse and buggy times.

Victorian Farmers Federation has more than 200 branches in Victoria to service 1800 "livestock" members that include owners of sheep and cattle and other grazing animals. Its constitution requires the election of more than 1000 office bearers. VFF does not have a dedicated beef or sheep meat committee system. VFF nominates and allegedly pays to have a member on CCA. The VFF nomination to CCA has no mandate from Victorian cattle farmers. Clearly, without a mandate one just "goes with the flow".

The Australian Meat Industry Council is Dickensian. AMIC does not reveal its financial membership but it is probably less than 3000. Its members are mainly meat retailers. Its processor membership is probably no more than 200. AMIC has about 30 formally constituted committees with about 180 office bearers. Many committee positions are vacant. Its committees and committee members are listed on its returns.

AMIC's organisational structure possibly pre-dates phones. It is unworkable and must struggle to remain uncorrupted and to provide effective outcomes for its members.

AMIC and its associate, Australian Meat Processor Corporation are the beneficiary of millions of dollars of its members' fees and millions of dollars of federal funds. RMAC is the biggest single beneficiary of RMAC funds earmarked for communication with members (about \$800,000 pa, compared to \$550,00 for CCA) despite its small processor membership.

A Record of Failure

Point: 7

MLA and CCA have a long record of failures to represent and prosecute the interests of livestock producers.

- In 2009 CCA and MLA both supported the US request that Australia should allow the importation of beef from the US, despite the history of BSE in North America. The importation of beef from North America would have put Australian exports to Japan and South Korea at risk. Fortunately for Australian farmers, the Federal Government was alerted to this issue and has maintained the ban on beef imports from BSE infected countries.
- MLA's domestic marketing has been a failure. Since 1998, domestic beef consumption has declined 20%. ABARE price data shows that retail beef prices have increased 45% over the decade while cattle prices have remained unchanged. Australian cattle farmer's share of the consumer dollar spent on beef is around 27% whilst UK and US cattlemen receive between 43% and 50%
- A national grading system was promised in 1998. MLA has failed to deliver a grading system that gives quality signals to consumers and provides measurable price signals to cattle farmers. The US, Canada and Europe have had national grading systems for more than 50 years. Japan and South Korea have systems based on the US system. A grading system is a core factor contributing to North American and European farmers' higher returns relative to the retail price.
- MLA has spent about \$700m on R&D over the past decade. Most of the research associated with the expenditure cannot be accounted for. The technical reports are not listed nor are the contractual arrangements with researchers or consultants.

The recently completed productivity Commission into Rural Research and Development Report stated:

Of paramount concern is the absence of robust data on funding and spending flows within the framework. As a result, it is hard to be certain about how much in total is being spent on rural R&D, with whom it is being spent, and which parties are ultimately providing the funding. A particular challenge is unravelling the 'money-go-round' that results from the heavy emphasis on leveraging and collaborative research effort.

This statement was in response to MLA's and other RDC's inability to present the Productivity Commission with evidence of how they had spent their R&D money and that the associated contractual/financial records were adequate.

MLA's 2009-10 Annual Report shows \$17m, or 21% of MLA's \$82m R & D expenditure was spent with organisations associated with nine of its 12 directors. \$5m was spent with organisations associated with directors in 2008-9.

- MLA's NLIS initiative costs producers about \$500m p.a. but delivers little or nothing in additional market access or higher livestock prices. The accuracy of the NLIS database, based on analysis of individual producers' accounts is poor.
- MLA and CCA failed to make submissions on behalf of livestock producers to the 2008 ACCC inquiry into grocery prices. Absence of good data undermined the ACCC's ability to reach useful conclusions about the relationship of cattle and meat prices.
Australian Beef Association estimates Australian consumers are paying in excess of \$4billion (or about \$400 per family) per year too much for beef given the level of Australian farm-gate livestock prices.

- The disclosure of the cruelty at slaughter in SE Asia is the first time a meat industry issue has spilled into the public arena. Scrutiny by the public and media has found serious flaws in the performance and behavior of major elements of the meat industry structure.

Where to from here?

Point: 8

The current meat industry structure was designed in the mid 1900s. The design of some of its components date back to the late 1800s.

More importantly, the challenges and issues that face Australian farmers are substantially different in 2011 than they were, even 20 years ago, in the mid 1990s.

In the 1970s the challenge for Australian cattle farmers and meat processors was to export Australian beef.

A marketing organisation such as AMLC, that to some degree coordinated the activities of producers and Australian processors and combined their resources to facilitate exports, was timely and relevant. Its level of success is another matter.

AMLC was past its use-by date in 1998 when it was dissolved. MLA and the new industry structure was little more than a reorganisation of the pieces. MLA and the new structure were obsolete before their incorporation.

The new structure had a major fault. Cattle farmers who provided the bulk of the funds exercised the least influence.

The global meat industry has changed substantially in recent decades.

The latter part of the past decade has seen food prices reach record levels. Demand for food is outstripping supply.

Globalisation has created a worldwide marketplace for foods, particularly meat.

Global mega-traders now dominate the local and international meat trade. These corporations are huge by any measure. Typically their operations in Australia are a small part of their total business and typically their red meat businesses represent a small proportion of total sales.

In Australia, two foreign owned companies, Brazil based JBS Australia and privately owned US based, Cargill, account for more than 50% of the cattle kill.

JBS Swift controls about 25% of the world trade in beef and kills more than 90,000 head of cattle per day, worldwide - about 8,000 in Australia. JBS and Cargill account for more than 40% of the US cattle kill and 20% of the US pig kill.

Coles and Woolworths control 70% of retail meat sales in Australia. This level of market concentration is illegal in North America and Europe.

More than 450,000 tonnes of beef, valued at \$2.5 billion, is shipped from Australia to Japan and South Korea each year with little or no marketing/distribution input by Australian companies. In a sense, Australia does not export. Others trade/import. Australia just supplies.

Global meat merchants have infinitely better information, money, flexibility and commercial and political power. They have the power to influence global organizations such as WTO, OIE and the governments of major economies. (The CEO of JBS Australia, the most senior executive of Brazil based JBS, is a director of MLA – “the producer owned company”.)

Meanwhile Australian cattle farmers struggle to be heard by state and federal governments.

Local meat processors face similar challenges competing amongst global giants.

The issues now facing Australian producers and Australian processors are very different to the challenges of last century.

JBS's operations in Australia represent less than 10% of its global beef kill. Its Australian operation is less than 5% of its global meat business.

Cargill's meat operations in Australia probably represent a similar proportion of its global food businesses. Cargill reported more the US\$100 billion in sales in 2010 and employs 130,000 people in 66 countries.

Meat is about 5% of Coles' and Woolworths' food sales. And meat represents an even smaller proportion of Westfarmers and of the combined Woolworths Groups' sales.

Farm businesses with sales in the order of hundreds of thousands of dollars, even tens of millions, cannot individually negotiate sustainable socio-economic outcomes directly with global corporations. Nor can they competitively articulate their concerns with governments.

Under the current arrangement farmers are embedded in the same structure and their voices are swamped by the powerful influence of massive processing and retail companies.

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A New Structure

Point: 9,10 &11

Australian cattle farmers need an organisation to fight for their interests.

Traditional issues include animal health, grading systems, animal welfare, quarantine, market access, social, technical and environmental R&D, quality assurance. Cattle farmers may or may not still support funding these causes.

The new issues faced by cattle farmers centre on market power and securing fair and sustainable farm-gate returns.

These issues no longer coincide and are often in direct conflict with those of global-merchant processors.

Conflicts of interests go way beyond the traditional battleground of price.

For example, global merchants want unrestricted trade. They care little for the investment made by Australian cattle farmers in eradicating TB, Brucellosis and investment in keeping BSE out of this country - Australia's "clean-green" image.

Supermarket managers know sustainable cattle prices bear little relevance to their performance bonus or the share price of their corporation.

This new geo/political/commercial market place means farmer must have the right to organise and lobby independently. Farmers also face issues such as the environment, an aging farm population, low educational levels and poor rates of productivity-gain that present another set of challenges that may need collective action. Global merchant processors and supermarkets have no interest in these issues.

In this environment farmers need a strong independent, democratic, dedicated and appropriately resourced voice to promote their interests.

The Government must initiate a process to allow livestock producers, processors and others in the meat industry to determine their own needs and organisational arrangements and if, and what, collective action is required.

Failure to do so will result in more ethical, food safety, social and economic disasters for livestock producers, the meat industry and the wider Australian community.

Attachment: Red Meat Industry Structure Diagram

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