

Australian Meat Processor Corporation

Objective Carcase Measurement (OCM)

The ACCC's interim report (October 2016) recommended that:

The industry, led by the processing sector, should allocate a high priority to the adoption of technology to enable objective carcase grading to be introduced as soon as possible.

This will, of necessity, include the development of appropriate auditing and verification systems that instil confidence in the integrity of such systems. [Recommendation 6, p. 12]

In its final report (March 2017) this recommendation had changed to read:

The introduction of objective carcase measurement technology should be prioritised by the industry and adopted by all processors in a consistent manner as soon as possible.

Objective carcase measurement technology will increase accuracy and transparency of value assessments.

Appropriate auditing and verification systems will be needed to support the technology. [Recommendation 6, p. 12]

QUESTION: In the interim report, the ACCC recommended that the processing sector should take the lead in the adoption of OCM technology.

The final report doesn't indicate who should take responsibility for its implementation – what is AMPC's view of who should be taking the lead in relation to OCM?

The processing sector is taking the lead in the adoption of OCM technology; to date AMPC has invested over \$6.5 million in research into OCM for the benefit of its members and the whole of industry.

AMPC's investment in the EY150 report into DEXA is a specific example of the "whole of industry" approach we take in considering the sectorial investment being both prudent and considered.

OCM and the ensuing suite of related technologies clearly has potential for "whole of industry" benefit, however to what extent and how quickly they can be brought to market for beneficial effect cannot be accurately predicted. But they are being prioritised by the sector.

AMPC's role as the dedicated Research Development & Extension provider to the red meat processing industry has it at the forefront of innovative research, in its R&D Program 1.0 being Processing Technology.

The R&D into OCM technology and responsibility for its implementation should be up to the processing sector RDC. We believe that our processor members should be free to take up any

technological advancements from the RD&E that we are developing as is appropriate to their business model and their capacity to fund the same.

As the red meat processing industry RDC, the AMPC believe we should be investing into research to support the realisation of the benefit that OCM technologies are anticipated to bring.

If an innovation like “DEXA” a new or other particular OCM technology can lead to greater or more beneficial R&D outcome, then we should be mindful to consider funding it within in the scope of our mandate and our SFA.

QUESTION: Does AMPC have a view on who should be funding the installation of OCM technology?

Yes, we do have a view.

We at the AMPC believes that OCM (Objective Carcase Measurement) technology, should be funded (unless deemed for “whole of industry” benefits like DEXA) by its processor members levies and supported by matching government funds as appropriate.

Having said that, it is vital to understand the key role of the “whole of industry” in its desire to introduce objective carcase measurement, being a key goal of the Meat Industry Strategic Plan 2020.

QUESTION: Does the AMPC have a view on who should be responsible for calibrating and auditing the OCM machinery?

Yes, we do have a view.

AMPC believes that an independent body like AUS-MEAT should be responsible for calibrating and auditing of OCM technology like DEXA where there is a commercial transaction with a producer in OTH (over the hooks) sales.

This is an existing well respected independent industry body and hopefully its charge of this responsibility won't add significantly to the existing regulatory burden and high regulatory costs that the Australian red meat industry is already saddled with.

DEXA Technology

QUESTION: When did the AMPC first start giving consideration to objective carcass measurement (OCM) technology?

According to our directors AMPC, an organisation which has evolved over the years into funding CORE red meat processor research only more recently, has been considering OCM for over 20 years. This is in line with the related technological improvements which have made this commercially possible. From a recent review of our records we can see that there have been specific Core research projects dating back to 2013 which deal with OCM technologies. At the current time, the AMPC has over \$6.5 million invested in OCM R&D projects.

Project 2013-9215, for instance, was a review and strategy development project that considered various OCM technologies, including CT, X-ray, lasers, ultrasonic etc. It started in March 2013 and was completed in November 2015. It was a processor core project which was managed by MLA but funded by AMPC.

More recently, given the technological advances made in recent years and the consideration of the whole of industry benefit, ALMTech was formed in 2016 and funded through the Rural Research and Development for Profit program with a \$4.255 million funding grant from the Commonwealth. AMPC contribution to ALMTech is \$1.05m cash and \$0.125m in-kind on a \$4.255m total. This project will build on the benefits of OCM findings of an earlier round one “insights to innovation” project to identify and capture new export market opportunities.

The first project is ‘Advanced Measurement Technologies for globally competitive Australian meat’ (ALMTech) which is funded by the Australian Government’s Rural R&D for Profit program, led by MLA, is in collaboration with Australian Pork Ltd, Teys Australia, JBS Australia, Australian Country Choice, Australian Cattle and Beef Holdings, PorkScan Private, Australian Lamb Company, Murdoch University, Melbourne University, University of Technology Sydney, Scott Technology, Carometec, Harvey Beef, South Australian Research and Development Institute, Department of Agriculture and Food Western Australia, NSW Department of Primary Industries, Victorian Department of Environment and Primary Industries and ourselves (AMPC)

We can note more recently the investment into the industry economic analysis report by Greenleaf co-funded by AMPC and MLA into the estimation of overall economic benefits to industry of OCM technologies, and more recently the EY150 report reviewing specifically the accelerated roll out of DEXA technology.

QUESTION: It has been reported that a number of processors have been conducting trials of the DEXA technology.

There have been conflicting reports about how far advanced the development of the DEXA technology is, when it will be available for installation?

Australian red meat processors including both JBS and Teys/Cargill have been working on both beef and lamb to develop the DEXA hardware and resulting species specific algorithms.

In addition, MLA, Murdoch University, Scott Technology, in conjunction with ALMTech have been working on independent trials.

Reports provided to AMPC suggest that...

- the lamb algorithm and hardware is ready adoption in commercial works within Australia.
- the beef hardware is ready for mass adoption in commercial works in Australia.
- the beef DEXA algorithm is ready for adoption in Australian commercial works where the beef animals processed are those that the DEXA algorithm has been currently developed on.
- within the next 6 months the Beef DEXA algorithm will be extended to cover more than 90% of Australia's beef processing makeup

QUESTION: Which processors have been conducting trials?

Per the above reply, the Australian processors currently conducting trials include JBS (both beef and lamb) and Teys/Cargill (beef)

QUESTION: Please provide an update on where things are at in relation to the development and installation of DEXA technology.

In relation to development of DEXA technology please see earlier answer.

According to reports from the MLA, it has had direct installation enquiry/requests from up to 20 processors who are now working to finalise a "price" to install the systems through either of the following mechanisms

- MLA's Donor Company or
- MLA/AMPC's Plant initiated program mechanisms.

Both mechanisms utilise 50% matching from the Australian Federal Government R&D dollars through matched funding vehicle.

The former would take 50% from each private processor for their specific installation.

The latter would enable each processor to acquire up to 25% of their installation costs from their available AMPC PIP funds with any shortfall in the 25% and the remaining 25% to be covered by the processor.

In parallel MLA and AMPC are con-currently evaluating a "whole of industry opt-in" collective funding model. This process has been publicly supported by all industry peak councils.

An industry representative body Objective Measurement Adoption and Commercialisation Committee (nicknamed the OM Taskforce) has been commissioned, at the suggestion and encouragement of the EY150 report with appropriate industry representation of PICs (CCA, SCA,

AMIC, ALFA), the two-red meat industry RDCs (MLA/AMPC) and includes the non-AMIC member processors (JBS & Teys/Cargill) who are participants within this committee and it is currently evaluating the installation and implementation budgetary expenditure.

QUESTION: Concerns have been raised about the independent regulation of the new technology – for example, who is going to calibrate the system, conduct audits and be responsible for a complaints resolution process?

These are reasonable and legitimate concerns for the red meat industry which is well aware of and it is currently working towards a final solution.

As we have stated earlier, our current thinking is that AUS-MEAT is the appropriate independent industry body for oversight of calibration, audit and complaint resolution in relation to DEXA.

AUS-MEAT already provides these functions to the Red Meat Industry, so the addition of DEXA oversight should not be out of scope nor capability.

However, this is yet to be finalised and will in our understanding be actioned by the whole of industry Objective Measurement Adoption and Commercialisation committee (OM Taskforce) which has recently been established.

All the appropriate industry PICs, the two RDCs and the non-AMIC processors are participants within this committee.

QUESTION: Given processors' funds have been used in the development (and potential installation) of DEXA, will they actually own any part of the technology?

No, processors will not own, co-own, nor joint venture in any part of the DEXA technology.

In relation to the industry “opt in” participants (accelerated roll-out of DEXA technology proposal); the processors will own the physical hardware / scanning equipment as installed in their plant. The processor will in turn own and maintain the physical hardware with respect to any installation on their facility.

Also, processors will only be allowed to “opt-in” if they commit to sharing of aggregated DATA retrieved for research and development purposes.

QUESTION: Who ultimately does own both the machinery and the Intellectual Property rights in relation to DEXA?

This question needs to be considered in more detail three parts,

- a. the IP hardware (machinery) and
- b. the IP of industry algorithms
- c. the IP of the aggregated DATA

In respect to the IP hardware (machinery)

- the actual specialised components coupled within the hardware solution are either purchased “off the shelf” from global providers and or are “custom built” by DEXA solution integrator (manufacturer) and then integrated in an onsite solution by the integrator.
- Scott Technology is an example of an integrator and they do not manufacture any of the x-ray hardware for example inside the DEXA solution that they offer but amalgamated the technologies for a specialised task. (like carcase scanning)

In respect to IP rights of the “industry algorithms”,

- the “algorithms” used to determine meat, fat and bone content, loaded/installed in the hardware which are species specific are currently owned by MLA on behalf of the red meat industry.

In respect to the IP rights of the “aggregated DATA”

- all the aggregated data from the DEXA systems carcase scans will be collected and stored by MLA (Amazon Cloud)
- MLA have committed to making this data available for R&D purposes
- any IP from the DATA will be retained by industry for R&D purposes

QUESTION: Will smaller processors find themselves at a disadvantage if they are unable/unwilling to install the new technology?

This is a very complex question to answer.

Potentially yes, smaller processors may well be disadvantaged, in terms of opportunity loss, if in fact they see a benefit in buying cattle OTH with objective measurement including LMY as a procurement precursor.

However, this is very complex question to answer, as very typically smaller processors don’t/can’t buy cattle this way anyway in the first place, as they typically don’t have the ability to process large numbers of animals where the ensuing benefit could/would be applied.

The “opt-in” funding proposal as suggested specifically excludes “non AUS-MEAT accredited” processing works (essentially domestic processing plants).

So, in further consideration

- if a plant is not an AUS-MEAT accredited export plant then they will not have access to the industry “opt-in” solution, however they may use AMPC PIP funding as an alternative; this accounts for around 18 plants.

- if a plant is either smaller (or indeed larger) and is an “AUS-MEAT accredited for export plant” it may also chose not to “opt-in” if does not see commercial sense in doing so (an example might be a processor focusing on processing “chopper cows” for manufacturing meat for export to USA whereby neither the producers nor the plant would be interested in LMY)

Dispute Resolution for OTH Sales

The ACCC's interim report included a recommendation that:

Processors and buyers should review, and in many cases, improve, their internal processes for responding to inquiries and complaints and OTH sales.

Cattle processors should develop a uniform and independent complaints and dispute resolution process, with AUS-MEAT filling the role of an independent and binding arbitrator. [Recommendation 7]

The ACCC's recommendation was changed for the final report to read:

The Red Meat Advisory Council should develop a uniform and independent complaints and dispute resolution process.

Some processors have their own dispute resolution systems. However, an independent system would provide an additional and independent dispute resolution option to the industry.

The independent system should apply to all purchasers and sellers of cattle, including for OTH and electronic cattle sales.

The Red Meat Advisory Council, AUS-MEAT and buyers should publish information about how parties can use the independent process. [Recommendation 8]

QUESTION: Once a 'uniform and independent complaints and dispute resolution process' has been developed, does the AMPC believe it should be made mandatory, and adopted by all processors?

This is not an appropriate question for AMPC to answer as the red meat processor industry RDC as is out of scope of the role of an RDC, but one which is more appropriate for the red meat processor industries Peak Industry Council – Australian Meat Industry Council “AMIC”.

Of course, AMPC would aid its Peak Industry Council “AMIC” reply by providing the appropriate research if requested, as this is seen a “policy” decision for our industry.

However, by way of red meat processing industry general knowledge, there is already such a process which is in fact overseen by AUS-MEAT, which is reasonably considered as independent, readily available to deal with complaints and disputes in OTH transactions.

If this information has not been presented previously to the hearing, you may find all the information required and published publicly through this URL link:

[http://www.ausmeat.com.au/WebDocuments/Complaints_Handling - Over the Hooks - OTH.pdf](http://www.ausmeat.com.au/WebDocuments/Complaints_Handling_-_Over_the_Hooks_-_OTH.pdf)

As you can see, this process exists for use by producers, it is mandatory that for anyone engaging in OTH trading to be governed by this program, so in effect it is currently used by all processors currently involved in buying cattle OTH who must adopt it and as such our processors are already bound by it.

It could be simply amended to include “DEXA scanning” related disputes in OTH sales.

So perhaps the ACCC would consider this a more appropriate body than RMAC to facilitate the same who has a different mandate.