



**SUBMISSION to the**  
Committee Secretary  
Senate Standing Committees on Rural and Regional Affairs and Transport  
PO Box 6100  
Parliament House  
Canberra ACT 2600

**Senate Inquiry Submission: Federal Government's response to the drought,  
and the adequacy and appropriateness of policies and measures to support  
farmers, regional communities and the Australian economy**

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*Date 14/02/2020*

**Australian Meat Industry Council**



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**Attention:**

Committee Secretary  
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PO Box 6100  
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By email: [seniorclerk.committees.sen@aph.gov.au](mailto:seniorclerk.committees.sen@aph.gov.au)

Dear Committee Secretary,

### About AMIC

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Australian Meat Industry Council (AMIC) is the Peak Industry body representing some 2,000 post-farm gate red meat industry enterprises. AMIC members include businesses processing for domestic and export consumption, smallgoods manufacturers, boning rooms, wholesalers and distributors through to exporters and independent retail butchers.

The Australian meat supply chain makes a substantial contribution to the national economy each year by accounting for over \$16.2 billion in Gross Domestic Product (GDP), or 1.3% of total GDP and \$7.6 billion in Australian household income.

The post-farm gate meat industry employs around 200,000 people directly and indirectly, and is often the single biggest employer in rural/regional areas, underpinning vitality and sustainability of Australia's agricultural sector and regional communities.

### Drought Resilience

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The post-farm gate meat industry is uniquely positioned within the agricultural supply chain, being one of the few rural/regional industries able to operate during even severe drought conditions, when most other agricultural businesses struggle. The meat industry provides critical support for regional communities by providing cash-flow through livestock purchases and off-farm jobs, propping up local spending and economic stimulus for many regional businesses during the difficult times of drought.

However, meat processing is a high throughput, low margin business, so once livestock liquidation plateaus (as is occurring in 2020), the meat industry is significantly impacted with reduced throughput of stock. The most recent forecasting by Meat & Livestock Australia (MLA) shows the national cattle herd is expected to decline to 30 year lows, with adult cattle slaughter expected to fall 15% in 2020. The national sheep flock is forecast to decline to 100 year lows, with national sheep slaughter predicted to fall 22%.

Without the right balance of Government policy setting, meat processing businesses may not be able to stay viable and internationally competitive. This would lead to closures, and loss of thousands of vital regional jobs, revenue streams, and reduced community resilience.

## Overview of Submission

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AMIC considers that the government's current drought assistance measures fail to adopt a whole of supply chain approach, and the current government policy setting actually creates pain-points along the supply chain, which fundamentally results in policy inconsistency and reductions in farm-gate returns.

Current drought assistance measures do not provide any relief to the post-farm gate sector, in fact, government policy (including full cost recovery for government export inspection and certification) adds substantial cost to the supply chain and creates a self-imposed barrier to trade by reducing the international competitiveness of Australian meat exports.

The government's response to drought assistance should be reevaluated and redefined to ensure that the intent of drought assistance is consistently maintained throughout the supply chain – that is, support provided at the start of the supply chain is not compromised by government policy at the end of the supply chain.

This submission will be focusing on the current absence of appropriate measures for the post-farm gate sector, and the impacts this will have for the red meat industry, with particular reference to:

- **Market Impact:** diminished national herd and flock numbers has led to significantly decreased stock available for meat processors, and forecasted prolonged negative margins, with no current measures in place for support.

At the same time, a proposed increase in overhead fees (including cost recovery), will only further compound these negative margins and reduce international competitiveness, leading to lower farm gate returns.

- **Market Access:** an increased focus is needed to ensure market access, and reducing technical barriers to trade. This will assist primary producers by allowing them to get the best possible price and returns on their livestock.
- **Water availability:** The post-farm gate industry is not currently eligible for any water efficiency infrastructure grants, to enable processing establishments to adopt water saving measures and enhance drought resilience.
- **Loans and Financial Support:** the current eligibility criteria for drought assistance loans and other financial support are not supply-chain inclusive and do not recognise the post-farm gate sector that are directly reliant on farm livestock outputs.



## Market Impact – Reduction in National Livestock Numbers and International Competiveness

### Reduction in National Livestock Numbers

With the current drought, livestock liquidation is occurring nationwide.

- The cattle herd is set to drop to **24.7 million head<sup>2</sup>**, an almost 30 year low
- The sheep clock is expected to drop to **63.7 million<sup>1</sup>**, the lowest in more than a century

Meat processing is a low-margin, high-throughput business, and heavily relies on sufficient numbers of stock being processed for viability, with studies<sup>3</sup> showing 76% of margin variation is explained by level of throughput. Meat & Livestock Australia released forecasting data this month, which has estimated that in 2020, cattle slaughter to decrease 15% to 7.2 million head, and sheep slaughter will decline 22% to 7.2 million head. This will result in a sustained negative margins for processors.

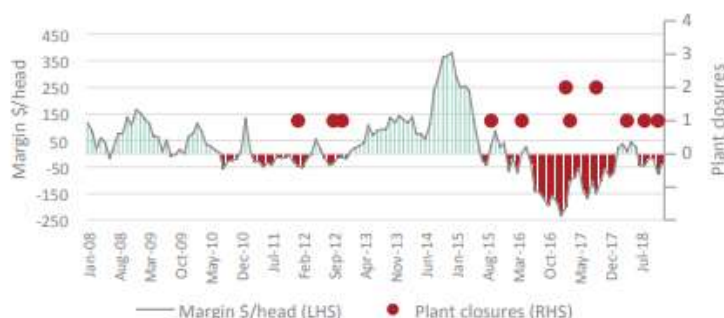
When this drought eventually breaks, stock numbers available for processing will severely contract, as producers look to restock reduced herds and flocks. The recent heavy rain events have already seen an immediate retraction of stock available for processing, with grid prices jumping substantially in response.

Processor margin is negatively impacted further by high overheads costs including; inflated energy prices, labours costs and regulatory fees and charges for inspections and certificates. These costs not only impact individual businesses, but more significantly lead to:

- Reduced returns to livestock producers
- Reduced competitiveness in a global market
- Increased cost of domestic meat for Australian consumers

In the past, sustained negative margins have had a close relationship with plant closures. Since 2008, these closures resulted in the loss of 1800 jobs, but also had broader economic and social impacts, particularly on regional communities where the majority of processors are located.

#### 4. Processor margin and plant closures



Source: AMPC margin analysis, AMPC data base and Australian Abattoirs<sup>3</sup> for plant closures

### International Competitiveness

The Australian meat industry is fighting to remain competitive on an international market. Australia's current regulatory fees are 3.4 times higher than the US and 4.5 times higher than Argentina. Brazil has no regulatory costs, as they are covered entirely by Government. Australia currently exports 70% of its red meat, as a premium price can be obtained for meat overseas, but this is reliant of Australia being competitive on an international market.

The Department of Agriculture, Water and the Environment is currently proposing to lift government cost-recovery fees and charges for export inspection and certification for a wide range of agricultural commodities ranging from meat through to horticulture, dairy and seafood. If the proposed increases proceed, the cost increases will have to be absorbed by the supply chain, reflected in lower returns for producers, during a time of unprecedented hardship. This contradicts the government's policy objectives of supporting farmers.

Further, persistently high energy costs faced by the sector threaten Australia's international competitiveness. In the absence of an east coast domestic gas reservation policy, and reliable, cost efficient and clean sources of energy, processors are being crippled with spiralling energy costs. It is AMIC's view that current drought assistance measures do not adequately provide sufficient incentives for businesses to "future-drought-proof" through the adoption of lower emission technologies.

As the largest trade-exposed agricultural manufacturing sector in Australia, another significant factor affecting Australia's international competitiveness is the availability of labour in rural/regional areas. Industry research has shown that at any point in time, the post-farm gate meat sector has 3800 job vacancies. It is AMIC's view that current drought assistance measures are not adequate in halting the exodus of workers from rural/regional areas, and more needs to be done to attract and retain workers to these communities.

### Recommendations:

#### **Regulatory Burden**

AMIC recommends that the Federal Government removes the regulatory fees and charges associated with Government inspection and certification for meat processing and export.

#### **Energy**

AMIC recommends that there is clearer policy setting to control rising energy costs, and greater opportunities for meat processing businesses to apply for Government grants to assist with developing cleaner, and more sustainable energy options such as microgrid energy generation, renewable energy generation and storage, and waste to energy solutions.

#### **Labour**

AMIC recommends that there is greater focus on ensuring that drought assistance measures are directed at attracting and retaining a strong labour workforce in rural/regional areas.

### Market Access

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The current government framework of full cost recovery, and 'beneficiary-pays' approach needs to be re-evaluated in relation to its impact on drought-affected regions and towns.

There are multiple beneficiaries of resolving trade barriers and forging new trade relationships, not limited to the meat industry supply chain from producer through to exporter. Robust trade allows for increased agricultural production, employment, and regional economic stimulus. The general public also benefits from increased animal health, food safety and traceability standards.

While supporting farmers facing drought with direct support is important, longer term drought responsiveness and preparedness needs to focus on ensuring that producers can get the best possible prices for their stock, by adequately resourcing the active resolution of technical barriers to trade and maintain international competitiveness.

### Recommendations

It is AMIC's view that the budget appropriation funding for the *Department of Agriculture, Water and the Environment*, needs to increase (and be less reliant on industry cost-recovered funds), to ensure they are able to effectively maintain and grow export opportunities for Australian producers, through effective negotiations to reduce technical barriers to trade.

### Water availability

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The meat processing industry is a significant water consumer, with primary utilisation for both food safety and meat hygiene throughout operations. Drought creates a challenging situation for meat processors, due to the need to balance domestic and international concerns for food safety, with conserving water usage and environmental sustainability. In areas of severe drought, some processors are currently facing the imminent prospect of carting water, which is economically unfeasible.

Industry research into water sustainability in the meat processing sector have demonstrated small changes can lead to substantial water conservation. For example, simple water conservation methods including efficient spray nozzles and high pressure cleaning rings can save up to 10% of town water. More complex water sustainability options include water reuse systems and water recycling which have the capacity to save 15-70% of town water usage. Although these water saving methods are available, their adoption is hindered by long payback times, especially for water recycling systems.

There are currently emergency water infrastructure rebates in place in all States. Within these schemes, approximately 25% of infrastructure costs are paid for by Federal Government, up to a maximum amount decided by the State Government. However, these rebates are only available to primary producers, and can only be used for very specific infrastructure such as pipes, water storage and bores on farms.

### Recommendations:

Agricultural dependent businesses in drought declared areas should be considered for water infrastructure rebates. These rebates could encompass building or upgrading of current infrastructure, which would lead to reduced town water usage, for example instigating a water reuse system, with 25% of costs to be paid by Government. This water saving infrastructure would not only decrease town water usage, but also leads to future drought proofing and

greater water security, which in turn results in economic and environmental benefit for the broader community.

## Loans and Financial support

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### **Infrastructure Financial Support**

The Community Resilience Grants and Building Better Regions Funds have been included in the new drought assistance package, and allow for the upgrade and development of infrastructure in drought impacted area.

#### **Community Resilience Grants**

*Community Resilience Grants are available through the Drought Communities Programme Extension to 128 Councils. These councils provide \$1million to complete local infrastructure and other drought-relief projects. The target of these projects are to; provide work for people whose employments has been impacted by drought, stimulate local spending, use local resources and provide long-lasting benefit to communities and the agricultural industries they depend on.*

#### **Building Better Regions Fund**

*The Australian Government has \$841.6 million funds available for the Building Better Regions Fund (BBRF). This project aims to: create jobs, drive economic growth, and build stronger regional communities for the future. It is available for projects located in or benefiting areas outside of major capital cities. One of the funding streams is the 'The Infrastructure Projects Stream', which supports projects that involve construction of new infrastructure, or the upgrade or extension of existing infrastructure*

These avenues of financial support for infrastructure are currently only available to non-for-profit organisations or local councils. However, if agricultural dependent businesses, such as meat processors, were given the opportunity to apply for financial support to develop large-scale infrastructure related to meat production, this will achieve similar if not better return on investment, through the creation of jobs immediately via infrastructure construction, as well as additional meat processing jobs post-construction.

#### **Recommendation:**

Review the eligibility criteria of existing infrastructure grant programs to processors in drought affected regions.

#### **RIC AgBiz Loans for small businesses**

Regional Investment Corporation new AgBiz loans have been recently released for small businesses that supply goods or services, relating to primary production, to farm businesses. This currently includes businesses such as harvesting and fencing contractors, carriers, stock and station agents and businesses dealing in agricultural equipment and repairs. Those businesses further down the agricultural supply chain, such as meat, grain and fibre processors, are not currently eligible. This is despite the fact that these processors are strongly reliant on the livestock output of farm businesses.

#### **Recommendations:**

It is AMIC's recommendation that the eligibility definitions RIC loans are re-evaluated, to include those businesses that provide services, relating to primary production, for farm businesses, or are directly reliant upon farm agricultural outputs (e.g. livestock).





AMIC would like to make known their interest to be considered as witnesses at the public hearing. If you have any questions regarding this submission, or should you wish to engage on AMIC's recommendations, please contact me at:

**AUSTRALIAN MEAT INDUSTRY COUNCIL**  
ABN 65 990 653 488

### ***Citations***

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