

Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Supplementary Budget Estimates October 2016

Agriculture and Water Resources

Question: 161

Division/Agency: Meat and Livestock Australia

Topic: MLA Donor Company

Proof Hansard page: Written

Senator STERLE asked:

In chapter 6 of the report into the Industry structures and systems governing levies on grass-fed cattle there were concerns from the Productivity Commission in regard to the MLA reporting, with special attention on the MLA Donor Company Limited (MDC):

“6.14 The PC also highlighted that the absence of robust data on funding and spending flows within the overall R&D framework made it difficult to establish exactly how much money was being spent on rural R&D, with whom it was being spent, and which parties were ultimately providing the funding. The report noted the particular challenge of unravelling the ‘money-go-round’ which results from the heavy emphasis on leveraging and collaborative research effort.

6.15 Similar concerns were raised regarding funding and spending flows in relation to MDC. Efforts by the committee to establish details about MDC revealed a convoluted web of funding, relationships and vested interests. The fact that producers and their representatives had limited knowledge of how MDC operated, including its funding arrangements, clearly illustrated the current level of transparency and openness in relation to the company, and its relatively protected status within the red meat industry structure.”

MLA gets \$44ml. from Gov. for R/D matching grants (annual report 2016).

- a. Why is there no public reporting on the MLA Donor Company Limited?
- b. Could we have a list of all beneficiaries of the MLA donor company’s research and development projects?
- c. There is considerable money given to breed societies for genomics, could the cost of this be included in any answers (Who receives this money individuals and societies)?
- d. What steps are taken to ensure that any new technology developed through the RDC remains in Australian hands?
- e. Would the MLA support number 4 of the recommendations of the Senate for the National Audit Office to conduct a comprehensive audit of the revenue and expenditure of the respective components of the MLA?
- f. Number 7 recommended a departmental review of the costs and benefits to the cattle industry of introducing an Australian equivalent of the United States mandatory price reporting Act 1999 to ensure cattle producers receive accurate and timely market information with respect to prices paid for cattle and prices received by processor for the

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product from those cattle. The MLA contracted people to do a study 36 pages in length. Do you agree with this recommendation?

- g. Milestone 4 was published in April 2015. This report was supportive of enforced MPR, why was this document not made public and why did MLA withhold the report from the Red Meat Senate Inquiry?
- h. Why did MLA rewrite a Milestone 5 that was opposed to MPR and written by an ex MLA employee?
- i. In both cases MLA made mention of the fact that the government had contributed R&D money towards both reports. Why did we have two conflicting reports on the same subject?

Answer:

- a) MLA Donor Company (MDC) activities and funding have been reported each year within MLA's Annual Report and on the MLA website <http://www.mla.com.au/about-mla/Planning-reporting/annual-reporting/>. In addition, MLA's Annual Operating Plans (in previous years) and the 2016-17 Annual Investment Plan provides details of MDC investments against MLA strategic pillars.

Additionally, the MDC is producing a stand-alone Annual Report for 2015-16, which was released at the MLA AGM on 10 November 2016 and published on the MLA website.

- b) Partners in MDC projects are identified on the front covers of R&D final reports located on the MLA website. Project outcomes are made available through various communication channels, including but not limited to, MLA website, Feedback magazine, industry brochures and presentations to the broader industry, who are the ultimate beneficiaries of this work.
- c) MDC funding sources are listed on page 22 in the 2015-16 MDC Annual Report. Breed Societies accounted for 7 per cent of the MDC portfolio co-investment (noting that 50 per cent of this was contributed as cash by the Breed Societies themselves). The money is paid to those service providers delivering the research and development (R&D) outcomes. In some instances these are subcontracted by the investment partners (i.e. Breed Societies) and in other cases MLA subcontracts the providers directly.
- d) All MDC partners must prioritise the delivery of R&D to the Australian industry and in most MDC projects MLA retains a share of the IP ownership of products and technology created in the course of the project. However, in some cases the partner brings substantial background IP to projects, so they retain the ownership of IP in the product or technology. On a case-by-case basis, off-shore delivery of MDC funded R&D may incur royalties, which are reinvested through the MDC for the benefit of the Australian red meat industry.

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- e) MLA has just completed the most comprehensive examination of MLA's performance, comprising a Performance Review and an economic Impact Assessment as required under its funding agreement with the Commonwealth. It is therefore MLA's view that an ANAO audit is unnecessary. The Impact Assessment review found MLA is delivering a return of \$6.20 on every dollar invested by its levy payers, research partners and the Australian Government and that overall, MLA was performing at a high level, delivering strong returns to industry and the community.

Further, the financial report for MLA and the entities it controls are independently audited following the end of each financial year. The financial report and the independent auditor's report are published in MLA's Annual Report each year, which is distributed to MLA members, the Australian Government and other stakeholders and publicly available online at <http://www.mla.com.au/about-mla/Planning-reporting/annual-reporting/>.

MLA's reporting requirements are detailed in the Funding Agreement between the Commonwealth of Australia and MLA. MLA is required to complete a Performance Review before the expiry of each Agreement and within terms of reference agreed by the Commonwealth. MLA must engage, at its own cost, an independent organisation to undertake the Performance Review of MLA's operations, governance and service delivery to industry and prepare the Performance Review Report. The full criteria for the conduct of the Performance Review are provided in section 18 Review of Performance of the current Funding Agreement. The most recent independent Performance Review of MLA was conducted for the period 2010-15 by ACIL Allen while CIE completed an assessment of the impact of MLA's research, development and marketing programs. These were published in April 2016 and are publicly available online at mla.com.au.

- f) MLA is the service provider for the red meat and livestock industry and it is for industry to direct MLA on levy investment. MLA is committed to continuous improvement in its market reporting and insights services in order to provide industry with comprehensive, accurate, timely and professional information.

In response to Recommendation Seven of the Senate inquiry into industry structures and systems governing levies on grass-fed cattle and at the request of the Cattle Council of Australia, MLA completed the research project 'An assessment of price transparency in the beef supply chain'. Subsequent to this report, MLA initiated a review of its market information services to ensure that it continues to enhance the provision of information for the red meat industry.

Over the past eighteen months, MLA has also made a range of enhancements to the market information service, including:

- Five additional saleyards added to the National Livestock Reporting Service (NLRS) in 2015-16
- Launch of the Western Young Cattle Indicator (WYCI) in July 2015
- Launch of the Market Statistics Database in September 2015
- Quarterly projections updates – which assist industry by providing insights into future supply and demand forecasts.

Further augmentations are being progressively introduced and MLA will raise awareness of these improvements amongst industry participants. MLA will also be launching a number of innovative online services for the red meat and livestock industry in November 2016, including my MLA, which incorporates upgraded prices and markets information and functionality.

- g) MLA would traditionally publish a report only on the completion of a project. Projects are contracted on a milestone basis. Given the interest in the 'An assessment of price transparency in the beef supply chain' project progress reports on project milestones were also published. The final project report, milestone five, represents the conclusion of the research project and contains recommendations.

Milestone Four identified the potential benefits to producers from improving price transparency. Milestone Five recommends options to deliver greater price transparency at identified points along the Australian beef supply chain. For this reason Milestones Four and Five need to be considered together and were released in close succession. While Milestone Four outlines in theory the benefits that full price transparency could provide, Milestone Five provides context, outlining critical factors like cost and practicalities surrounding implementation.

In November 2015 Richard Norton, along with Lisa Sharp (MLA), David Warriner (AGINFO) and Peter Hall (Cattle Council of Australia), attended a public hearing of the Senate inquiry into the effect of market consolidation on the red meat processing sector and provided a full overview of findings from the 'Assessment of price transparency in the beef supply chain' project.

- h) Cattle Council of Australia (CCA), as the peak industry council for grassfed cattle producers, was heavily involved in development of this project including participation in the Project Review Committee, which participated in a tender assessment panel to appoint the consultants and reviewed project milestones.

The Project Review Committee consisted of two CCA producer representatives and one CCA staff member, an independent producer stakeholder, an ABARES economist and MLA staff.

Agribusiness consultants AGINFO, consisting of lead consultant Brian Todd, David Warriner, Winifred Perkins, Dr Gregory Sullivan (Colorado, US) and Peter Weeks, were appointed by MLA in December 2014 to conduct an independent assessment of price transparency across all areas of the beef supply chain. The Project Review Committee raised a number of issues when they met to consider Milestone Five of the report and made a series of recommendations to improve the report which included input from an additional independent consultant.

The project team, consisting of Brian Todd, AGINFO Pty Ltd & Peter Barnard, Oliver and Doam Pty Ltd, prepared the Milestone Five report, which is available on the MLA website.

- i) MLA uses project milestones as part of its project management process. The research project 'An assessment of price transparency in the beef supply chain' is made up of five project milestones.

Price transparency is a complex matter and, implemented to its fullest extent, has many implications for the beef industry. Given this, the price transparency project was designed to be considered in its entirety, rather than viewed as individual progress sections.

Milestone Four identified the potential benefits to producers from improving price transparency. Milestone Five recommends options to deliver greater price transparency at identified points along the Australian beef supply chain. For this reason Milestones Four and Five need to be considered together and were released in close succession. While Milestone Four outlines in theory the benefits that full price transparency could provide, Milestone Five provides context and outlines critical factors like cost and practicalities surrounding implementation.

Other milestones for the 'An assessment of price transparency in the beef supply chain' project considered:

- an assessment of current price transparency in beef supply chains in Australia
- review of price reporting systems in comparable beef producing and exporting countries
- identifying points in the supply chain where price information can be improved.

The Funding Agreement between the Commonwealth of Australia and MLA requires MLA acknowledge government contribution for research and development.

Rural and Regional Affairs and Transport Legislation Committee

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Supplementary Budget Estimates October 2016

Agriculture and Water Resources

Question: 162

Division/Agency: Meat and Livestock Australia Limited

Topic: Cattle Pricing

Proof Hansard page: Written

Senator STERLE asked:

Does MLA have concerns about the high cattle prices and risks associated with the continued high price for our local and international markets, for drought affected farmers and meat processors in rural and regional Australia?

Answer:

Meat and Livestock Australia Limited's (MLA) market information service provides the latest prices, reporting, forecasts and analysis for Australian and international red meat markets.

MLA continues to provide measured insights and analysis of red meat market movements so that producers can make informed business decisions. MLA produces individual sale yard reports for 62 saleyards on a weekly basis, in excess of eight market news and analytic stories weekly and quarterly projections.

MLA's Managing Director and Market Information team have appeared on Landline and other rural media providing producers with factual and measured insights behind the current global red meat markets and the potential impacts on the Australian market for Australian producers.

The consistent message across all of these channels over the past year has been that Australian cattle prices are moving in the opposite direction to the global market. The reason for this is that Australian cattle slaughter is the lowest it has been in twenty years, while elsewhere (e.g. Brazil, USA) production has been increasing. Once Australian beef production returns to normal levels, it is likely the market will realign with global trends.

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Supplementary Budget Estimates October 2016

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Question: 163

Division/Agency: Meat and Livestock Australia Limited

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Proof Hansard page: Written

Senator STERLE asked:

MLA has said that cattle numbers are likely to begin to slowly increase by 2018, can you provide detail as to what 'slowly' means in practical terms?

Answer:

As outlined in Meat and Livestock Australia Limited's (MLA) October 2016 Cattle projections, 2014 and 2015 were back-to-back years of record adult cattle turn-off and the result is now a severely depleted national cattle herd, with tight supplies exacerbated by widespread rainfall across some of Australia's largest cattle producing regions. Expectations are for the extremely tight supply situation to remain for the duration of 2017, before slowly increasing from 2018 onwards. While Australian cattle supplies are at such tight levels, Australian cattle producers are being insulated from generally softer global markets. With Australian prices moving in a different direction to those globally, it becomes more likely that once Australian production does eventually increase, prices will realign with global trends.

Eastern states adult cattle slaughter is destined to head from one unprecedented level to another in the space of just 18 months. In July 2015, the 12-month rolling average adult cattle slaughter peaked at an all-time high of 162 829 head, coinciding with near record live cattle exports, and consequently, eastern states cattle slaughter is soon likely to edge below 120 000 head for the first time since 2006. During 2006, the rolling average remained below that level for 23 consecutive weeks as a result of strong herd rebuilding intentions. This time, expectations are for the rolling average slaughter to remain below 120 000 head for the majority of 2017 – the result of the herd having fallen to a 20-year low, at 26.2 million head. Solace comes from the expectation that the abrupt slow-down in cattle slaughter will result in more calves on the ground in 2017 and higher beef production in 2018. In the meantime though, there will be extremely strong competition for the limited numbers available.

Expectations are for adult cattle slaughter to drop to 7.1 million head in 2016, down 21 per cent year-on-year, before falling a further 2per cent to 6.9 million head in 2017. In short, a shock to the processing sector in 2016, a matter of managing the limited numbers available in 2017, before a small rise in 2018.

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Question: 164

Division/Agency: Meat and Livestock Australia Limited

Topic: Cattle Pricing

Proof Hansard page: Written

Senator STERLE asked:

What is the cost of MSA over its life cycle? Can you breakdown this figure with regards to levy payer funding and Government contributions?

Answer:

Meat and Livestock Australia (MLA) has completed two assessments of the Meat Standard Australia (MSA) program:

- In 2012 CIE was commissioned to conduct a Red meat eating quality – Recent program performance review (1998 to 2011): <http://www.mla.com.au/globalassets/mla-corporate/generic/about-mla/report-eating-evaluation-2013.pdf>;
- CIE also completed an Impact Assessment of MLA expenditure 2010-11 to 2014-15: <http://www.mla.com.au/globalassets/mla-corporate/generic/about-mla/mla-impact-assessment-final-report-2010-11-to-2014-15.pdf>.

Total investment by MLA into the MSA beef and sheepmeat program since 1998 is \$153.3 million, in areas including business development, integrity programs, marketing and research and development. Of this investment, the Government contribution is \$48.7 million.

The MLA Impact Assessment for the period 2010 – 2015 reported an investment of \$54 million for the MSA program over the 5 year period returning a net industry benefit of \$679 million.

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Agriculture and Water Resources

Question: 165

Division/Agency: Meat and Livestock Australia Limited

Topic: Grading

Proof Hansard page: Written

Senator STERLE asked:

Does MLA undertake performance measures on the outcomes of Company graders vs Independent Industry graders?

Answer:

AUSMEAT are the custodians of the meat industry standards which include the National Accreditation standards, carcase classification, standard carcase trim, chiller assessment and MSA standards.

Meat and Livestock Australia Limited (MLA) plays a role in assisting industry to ensure the integrity of the MSA program is maintained and improved. AUSMEAT are contracted to be the independent auditors of the MSA program. MLA provides assistance to improve compliance and add value to the integrity of MSA through regular account management with all MSA licensed processors. This includes checking MSA grader compliance, training records and reviewing audit outcomes.