

SPA Submission

Responding to the RMAC Green Paper on the Red Meat MoU review

1) Key Messages:

A staged Red Meat MoU reform process needs to continue, that includes:

- **Industry Leadership:** Reinforce to Government and key Industry players that the Red Meat sector wants to and has the capability to be in charge of its own destiny, that it is prepared to lead and find good solutions to difficult challenges, even if that means recommending and implementing hard decisions.
- **Action Orientated Project Team:** A strong project team needs to be formed following the completion of the White Paper and Federal election to develop an Option 5; including structure, funding and implementation plan, that can be implemented from 2020.
- **Two bodies:** SPA envisions two organisations, one that combines and builds upon the functions of RMAC, PIC's and some components of the RDC's (e.g. Marketing) and another that combines the research and development functions of each of the three RDC's.
- **Unprecedented Challenges and Opportunities:** SPA expects that the Red Meat sector will face unprecedented challenges and opportunities in the next decade and that our current national industry representation model is not fit for purpose going forward.
- **Assumptions:** The Red Meat sector must be driven from a clear understanding of changing consumer and market attitudes, that business as usual will not be enough, particularly given that 60 cents in every dollar of industry revenue is generated overseas, that the Red Meat Industry will need to become a global niche player of high value goods and services.
- **The Problem:** There are too many small, national organisations representing the Red Meat Industry. Demands on these organizations have increased significantly, whilst their funding streams have not. Few have the scale, resources or capabilities to operate at the highest levels of Industry and Government, to drive the strategic thinking and required Research and Innovation activities.
- **New National Industry Representation Model:** A new single organisation will be required to represent the red meat value chain. It will be recognised as being at the forefront of the Australian food industry and agricultural technology and innovation. It would be seen as strategic, well-resourced and smart. It would focus on the really big issues and be able to assist senior Industry and politicians, from the Prime Minister down. It would help to drive the strategic thinking, applied research and innovation of the sector and work closely with the National Farmers Federation (NFF) and dynamic State Farming Organisations, who have a critical "grass-roots" role to play in shaping the thinking, knowledge and behaviours of farmers. It would also provide strategic guidance to one new research and development corporation.

2) Table of Contents:

- Introduction
- A major concern
- Australian Farm Institute Report
- Important assumptions
- Strategic context
- Perceptions of the current Red Meat MoU
- The Problem: Why change is needed
- Embracing one of the existing Scenarios outlined in the Green Paper?
- Developing a new Scenario: An Option 5
- Appendix

3) Introduction:

Sheep Producers Australia (SPA) commends the Red Meat Advisory Council (RMAC) for initiating a review of the Red Meat Memorandum of Understanding.

SPA believes the MoU task force has operated with a limited Terms of Reference (page 65 of the Green Paper), none the less Mr Jim Varghese and his team have done an admirable job in challenging the Red Meat sector and key stakeholders to consider a range of future scenarios and options.

Our submission highlights that we believe the Green paper has provided a good understanding of the current state within the MoU ecosystem and has motivated the Red Meat sector to think more about the future.

The resulting White Paper will hopefully consider SPA's recommendations, which includes a stepped approach beyond the White Paper.

Given the knowledge and relationships formed during the review of the Red Meat MoU, we envisage a role for some of Mr Varghese's team in a well-resourced project team to develop some serious recommendations as to how an option 5 would look like and be implemented, including a transition period from the Industries "current state".

This project team would also have the opportunity to understand the strategic themes being developed for the 2030 Meat Industry Strategic Plan (MISP) and reference various other reports, including the recently completed Ernst and Young review of Australia's agricultural research and innovation system (A National Approach to grow Australia's Future).

MISP2030 is doing significant work on describing the future state of the global food industry and Australia's red meat's place in that. SPA considers that MISP2030 will create the strategy that the resulting architecture of the MoU reform will have to deliver.

There are some significant challenges and opportunities for the Red Meat sector and this submission proposes a course of action to ensure the Industry leads a bold and visionary reform process.

4) A major concern

A major concern is that some of the key stakeholders may not be able to put whole of industry benefit above self-preservation or may lack the capacity to consider or embrace visionary change.

RMAC may be directed to pursue a mediocre agenda rather than the bold and visionary outcome industry desires.

This puts self-determination at risk, as a future Federal Minister could set up their own structure in the absence of clear and significant industry led reform.

5) Australian Farm Institute Report

The Australian Farm Institute report “Improving the sustainability of red meat and livestock peak industry councils” November 2016 identified that:

1. Within industry there is no clear consensus about the structure of or functions that should be performed by the PIC’s.
2. The three livestock PIC’s are severely resource constrained.
3. The statutory functions performed by the PIC’s need to be adequately resourced and compulsory levies are appropriate, provided the mechanism does not compromise independence.
4. Agri-political activity should be funded by voluntary industry contributions.
5. Commercial services could provide income, however there is no industry support for this.

The case studies focused on four successful international models. Each have strong grass roots networks and a strong and professional national advocacy organization (some supporting a commercial / service function).

6) Important Assumptions:

Our submission is underpinned by four very clear assumptions, namely:

1. That we must act in the best interests of the Australian Red Meat Industry, as opposed to the best interests of Sheep Producers Australia (the organisation)
2. That the Australian Red Meat sector is going to face unprecedented challenges and opportunities in the next ten years and will operate within an increasingly volatile environment. Its understanding and engagement with consumers/ markets will be critical
3. That for the Australian Red Meat sector to continue to prosper in the future, it must become a global niche producer of high value products and services
4. We don’t assume that Industry levies will always be available. At present, agricultural levies raise approximately \$500m a year, with Red Meat levies contributing about \$160m.

We believe future Federal Governments will have compelling alternative demands for funds. For example, as the population ages during the next decade, health care costs are projected to increase from around 14% of GDP to well over 20%. The challenge for the agricultural sector is that it will need to be politically strong and able to demonstrate that levy money is being used efficiently and that it provides an excellent Return on Investment.

7) Strategic Context:

SPA believes that due to the challenges and opportunities facing the Red Meat Industry (see the Appendix), the status-quo will national Industry representation will not suffice, that over the next 1-3 years, the Red Meat Industry will need to go into a transition period to better respond to challenges and opportunities beyond that. For example, alternative proteins are currently going “mainstream” in America and we must assume that the technology will impact on the Australian meat sector in the not too distant future.

In particular, we need to think about:

Strategically: Australia’s Red Meat sector needs to become a global, niche, value added player.

For Example: How does it take \$100 of farm produce and turn it into \$1000 of food products and services?

As defined in the Appendix, we believe there are substantial external forces that will significantly shape the Australian Red Meat sector in the next 5-10 years, including:

1. Vulnerability: Increased International Market Competition
2. Rapidly changing Consumer Attitudes:
3. Falling behind: Unprecedented Technology & Innovation Competition:
4. Producer Resilience and Profitability:
5. Urban Australia: Increased stakeholder and political “competition”

So, is our current Red Meat Industry representation “fit for purpose” over the next ten years?

8) Perceptions of the current Red Meat MoU

SPA believes the Red Meat MoU has been important in the development and evolution of the Australian Red Meat sector. It led to the establishment of RMAC; agreement with the Government (given they are a signatory), provided funding for the PIC’s, defined the relationship between the Peak Industry bodies and the Research & Development Corporates (RDC’s) and led to Industry strategic plans being developed (MISP).

RMAC under the MoU provides a valuable framework for whole of value chain collaboration and a single voice for the red meat industry.

9) The Problem: Why is change needed?

Given that SPA believes the Red Meat sector will operate within an environment of unprecedented challenges and opportunities, issues with current Industry representation include:

- **RMAC:** We see the “organisation” as in essence an informal group advising the Minister of Agriculture. Due to current funding models, RMAC and the livestock PIC’s are resource constrained and struggle to provide the thought leadership and political clout the industry requires. Representative membership models usually fail to recruit all of the skills required.

- **Lack of impact due to fragmentation & scale:** The livestock PIC's do not have the resources, capabilities, financial independence or scale to drive at the highest level the strategic thinking or implementation of strong Industry initiatives within an increasing dynamic and volatile environment (see Appendix). There are too many small, poorly resourced, siloed PIC's, often with outdated charters and governance structures, often competing for funds and duplicating efforts. Collectively RMAC and the PIC's support six CEO's and fifty board members. SPA advocates for one body, with one CEO and one skills-based board.
- **Research and Development Corporations:** The Australian food industry has a plethora of RDC's. Meat Livestock Australia is currently the second largest and is a world class institution. The other two red meat RDC's, AMPC and LiveCorp work from the same strategic plan as MLA (MISP) and both create joint ventures with MLA to achieve their outcomes. SPA advocates for one red meat RDC.
- **Collaboration:** The MISP is the mechanism for co-ordinating the strategy and deliverables for the ten participants of the MoU. The participants demonstrate a varied respect for MISP. The MoU outlines the responsibilities of the participants to each other. The responsibilities are clear but poorly enforced and the AMIC / AMPC relationship demonstrates this. A new MoU with a clear and enforceable relationship between two capable bodies will be far less complex.
- **Red Meat Industry Fund:** The rules determining disbursements from the RMIF to the PIC's were established 20 years ago. The rules are now no longer fit for purpose. New rules need to be established, focusing on the future needs of participants. SPA would advocate that disbursements to the one new body will create a more efficient use of that money.
- **Strategic Oversight and Thought Leadership:** The PIC's are responsible for strategic oversight of levy expenditure. The RDC's, as service providers, also rely on the PIC's for thought leadership, direction and strategy. Most of the current PIC's do not have the time, resources or intellectual capacity to do this. This severely restricts innovation.

We believe that increased collaboration across the value chain is important; that "going it alone" will be our worst competitive response.

Collaborate/Transparency	Go it alone
<ul style="list-style-type: none"> • In food industry • Costs of doing business • Meeting consumer expectations • 1+1>2 • Government will decide on what is collaboration if we do not. 	<ul style="list-style-type: none"> • Death/fragmentation • Survival of fittest • Lose diversity • Decision making by few • Limited platform for traceability • Could be better targeted research • Proprietary

10) Embracing one of the existing Scenarios outlined in the Green Paper?

Option 1: Improving existing MOU

Pro	Con
<ul style="list-style-type: none"> • Maintains status quo • Path of least resistance • Maintains buy in and current collaboration • Could still rationalise – but not as presented in Green paper 	<ul style="list-style-type: none"> • Cost of overhead maintained (still process duplication) • No improvement in governance • Maintains current levels of accountability • Inward thinking – focus, does not lend itself to dynamic thinking

Option 2: Law of the Jungle

Pro	Con
<ul style="list-style-type: none"> • Control own destiny • \$3M Trust fund dispersement (of \$40M) • Increase competition • Rise of influence of NFF 	<ul style="list-style-type: none"> • Loss of political impact • Only the biggest survive and do R&D • Increased influence of retailers • No strategic oversight of RDC's • Only have voice of SFO's • Loss of levy funding • Less innovation (projects cannot fail) • CCA break into many pieces • Only market signals for R&D

Option 3: Hybrid

Pro	Con
<ul style="list-style-type: none"> • Continuous improvement • RMAC2.0 • Some rationalisation • Non-threatening • Build on current structures • Industry is seen to be changing • Stage to option 5 • Better resourcing – sustainable • PIC's could be more sustainable 	<ul style="list-style-type: none"> • Not sure how it could work under legislation • Half best solution • Could be a structural but not strategic solution • Short term solution vs long term vision

Option 4: New Model

Pro	Con
<ul style="list-style-type: none"> • Increase in Consumer/Customer focus • Cheaper Governance • Less duplication • Only one accountable model • More responsive 	<ul style="list-style-type: none"> • One size fits all • No description of what model looks like • Architecture can acknowledge disruption, but not have a strategy (no strategic content)

<ul style="list-style-type: none"> • Allows industry to design future • New structure that aligns with MISIP 	<ul style="list-style-type: none"> • No account of where industry is sitting now (i.e. in the middle of a drought with uncertain markets).
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11) Developing a new Scenario: An Option 5

We believe a new national Peak Industry organisation (Newco) is required.

While there are many options in developing this Scenario 5, which a project team will need to carefully consider, we include some thoughts to assist with the debate and further thinking:

1. Guiding Principles of a New Organisation (Newco):

- That the organisation can look through the lens of the Consumer (they are King)
- A strong, clear voice for the Red Meat Industry
- That gives the sector the scale, capabilities and resources to operate at the highest levels of Government and Industry
- That decreases duplication and cost
- That leads to an organisation at the forefront of what is happening in the Australian food, agricultural and relevant technology/innovation industries. It would be seen as a strategic, well-resourced and smart group that operates across the food value chain, focuses on the really big issues and able to assist senior Industry and politicians, from the Prime Minister down.
- An organisation with a strong “doing” or operational component. It will be very hard for the organisation to develop a strong presence, brand, competitive advantage or financial sustainability if it is little more than just a “talking shop”

2. Some Statements underpinning the New Organisation (Things to Aim for):

- The new organisation would be a national guardian of the Australian Red Meat sector
- The new organisation would be accountable for ensuring that the Australian Red Meat sector, through a robust, “living” Strategic Plan, defines and owns its own future through leadership, collaboration and education
- The new organisation would understand that the Red Meat Industry ultimately derives its income and prosperity from consumers and that it understands the Industry’s responsibilities to livestock, the environment and people in meeting increased consumer expectations.
- That it would actively seek out and capture opportunities to provide a sustainable future for the Red Meat sector, including farmers.
- That the organisation would help to support the ongoing development of vibrant and resilient rural and regional communities and contribute to a stronger national economy

3. The Legal Entity:

This new organisation would be established as a limited liability company.

It would include the functions of RMAC and the Peak Industry bodies.

4. Ownership:

By Membership and Speciality groups. (this is a critical question). Shares might also be offered, although it potentially becomes a more complex model.

5. Governance:

It would be a skilled-based Board, with a maximum of 9 people.

A hybrid (particularly early on) of major existing Industry representatives might be required in the short-term, due to Industry politics.

6. Funding and Revenue:

It would initially be funded by 100% levies for up to 7 years. During that time period, it would develop its own revenue streams, to ensure that levy funding was no more than 50% after approximately 7 years.

Guaranteed funding for a set time period will be critical to giving the organisation “breathing space” to developing a sustainable business model, capabilities and longer-term competitive advantage.

7. Location:

Head office would be a capital city, with one or two additional locations around the country. It may also have a strong overseas presence, particularly in key international markets.

8. Structural Components:

This would be a well-resourced organisation with the following components:

- **Strategic Policy Division (Think Tank):** Responsible for strong strategic insights, analysis, strategy and policy. It would also include policy teams, originally aligned to sheep, cattle, goats, processing and retail, each with their own advisory Boards, given the history and sensitivities between the groups.
- **Industry Branding & Marketing:** It would be responsible for driving the strategic consumer engagement and marketing of the red meat sector. This component could be transferred from MLA for example
- **Research and Development Corporation:** Established as a separate organisation (which Newco might either own outright, or have a significant shareholding in), it would be a major Red Meat applied science R & D group.

It would drive innovation within the Red Meat sector. Loosely modelled on either the German or New Zealand applied science research Institutes, it would work closely with CSIRO, Universities (who would focus more on transformational research), innovation accelerators and state Department of Primary Industries, particularly in relation to extension work. (note, read the Ernst and Young Review of Australia’s Agricultural R & D system).

This would give Australia the capacity, scale and scientific infrastructure to collaborate and compete more effectively with some of the world's elite agricultural research groups, including attracting leading researchers and increased research and innovation funding.

It would help to underpin the Red Meat sectors global innovation strategy.

(Note: While outside the scope of this Red Meat MoU, the Newco might have a "sister" applied science organisation that would focus on Plants and Crops

9. Some additional comments:

A group Newco like this would:

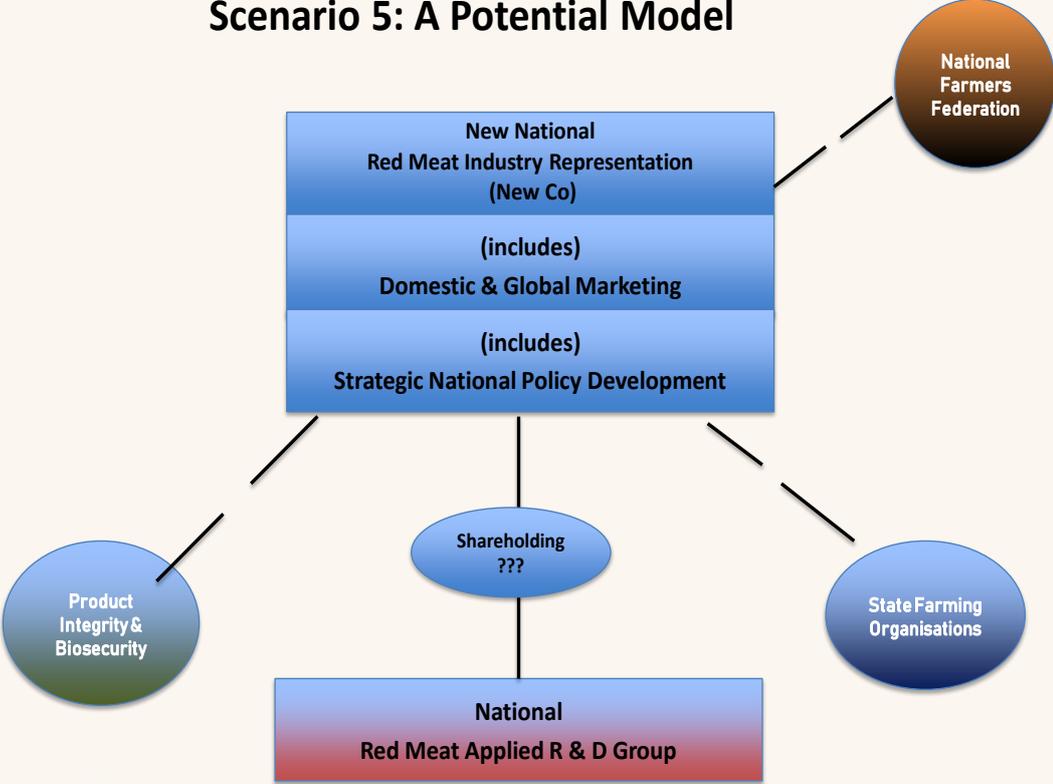
- Give the Red Meat sector unprecedented capabilities, resources and scale to operate more effectively, both within Australia and Internationally. Politicians and Industry would take notice!
- No one independent organisation can be "forced" to join such a group. However, incentives, particularly financial, would be provided to make it attractive for independent organisations to consider doing so
- This could be a politically neutral group, with much of the political advocacy to be carried out by the National Farmers Federation and State based organisations. Political advocacy is in reality a full-time job
- This organisation would work closely with state-based farming groups, who would provide the grass-roots knowledge and access that a group like this could never achieve alone
- Food safety would not be the domain of this group, in fact its critical that groups like Safe Meat continue to be highly capable and well resourced. There may well be an argument that some of the existing players in this space should be brought together!

10. Structural Diagram

The following diagram highlights one potential Scenario 5 model.

The solid black lines indicate a Newco controlled entity, the broken lines an organisation that Newco would work closely with.

Scenario 5: A Potential Model



Appendix:

Some Real Issues to Confront

1. Vulnerability: Increased International Market Competition:

The Australian Red Meat sector has a lot to be proud of, particularly its export performance.

In 2018 Australia exported about \$14b of red meat. This includes about 70% of the beef we produce, (about 55% of lamb, 90% of mutton & livestock (1.9m sheep & 1.3m cattle).

There are three major export markets that help to underpin the economics and capabilities of our domestic Industry, i.e.

- North America: (\$5.4b)
- The Middle East: (\$1.3b)
- Asia (especially China) (\$7b)

An issue is that we are not a big producer (globally about 3% of the beef herd and 6% of sheep), when compared to countries like America, India and Brazil, who are also major exporters.

Our export base is also built on supplying a relatively small range of products to less than 40 major customers globally, so we are vulnerable to major international competition, including America (which continues to increase beef production) and the awakening South American giants, Brazil (now the world's largest beef exporter) and Argentina.

Many Asian countries like China for example (our largest beef market by volume), also have specific policies in wanting to reduce red meat consumption by 50% and become more self-sufficient in food supply. China in 2017 spent \$300 buying alternative protein technology from 3 Israeli companies; SuperMeat; Meat the Future, & Future Meat Technologies.

A 20% reduction in export income would have a major impact on our domestic Industry cost base.

This Means: Australia key export markets are vulnerable to major international competition. It will not be able to basically compete on volume and a lower cost base than most of our major competitors.

Strategically: Australia's Red Meat sector needs to become a global, niche, value added player.

For Example: How does it take \$100 of farm produce and turn it into \$1000 of food products and services?

2. Rapidly changing Consumer Attitudes:

To feed almost 10 billion people in the next 30 years, the world will have to increase food production by at least 70%.

Protein production will be at record levels, but there will be more protein options and a greater range of market segments.

A key question will be: What will be traditional red meats market share?

Millennials and Generation Z & Y will provide these answers, as in most parts of the developed world, they are now either the major buying group, or about to be, and their attitudes towards food are very different to their parents. They are increasingly brought up in large cities, far removed from agriculture, are prepared to experiment with a greater variety of foods, are more health conscious, don't cook regularly (e.g. especially in America) and very much into convenience and buying foods that fit their values and self-worth.

New products will rapidly emerge in the next 5-10 years (e.g. alternative proteins), while advances in technology, new retail channels, and more international suppliers, will provide consumers with even greater choices.

Existing food industries are under threat like never before and just to survive, will need to accelerate change, including; operating within more integrated value chains, better understanding and engaging with customers. Unsafe or environmentally poor practices will mean that consumers won't feel good or trust our products, meaning lost market share and profitability.

3. Falling behind: Unprecedented Technology & Innovation Competition:

In 2018 Amazon spent \$30b on Research & Development, almost as much as Australia. China now accounts for about 20% of the world's R & D spend.

Plant based meat is in the process of going mainstream in America. With hamburgers accounting for 50% of American beef consumption, our grounded beef exports are about to come under attack.

Noel White, the President and Chief Executive of the world's largest meat company, Tyson Foods, stated on the 14th February, 2019 that: "Tyson is using all its resources to make "great tasting protein alternatives that are more accessible to everyone."

Do we assume that this will have little impact on our American export market, or even domestically?

The globally recognised Innovation Index (GII) currently has Australia ranked at number 20 out of 126 nations surveyed annually.

(The index is a joint initiative between the World Intellectual Property Association, Insead and Cornell Universities).

While the Index should only be treated as a guide, Australia consistently ranks between 16 and 23. Of concern is that most of our major trading partners sits above us: including America; the United

Kingdom, some European countries, China, Japan, Hong Kong, South Korea, and Singapore. Malaysia, Vietnam, Indonesia and the Philippines are all rapidly improving their ranking.

Asia's capacity to produce quality food is also growing. For example, the Thailand company, Charoen Pokphand Group is now the world's largest producer of cooked, chilled, ready to eat chicken meals.

4. Producer Resilience and Profitability:

A producer's ability to farm profitability is under considerable pressure from hotter, drier climates which in itself is likely to reduce the number of cattle and sheep farmers and accelerate farm consolidation.

Productivity growth has stalled, partly due to low rates of technology adoption and the ability to manage risk (e.g. Live Exports) appears to be far from optimal.

The future will also see a different type of farmer, better able to understand and manage technology (e.g. precision agriculture), with improved environmental, animal welfare and business skills needed just to keep the farm, let alone attract labour (more robotics) and understand what customers demand if they are to buy their product.

5. Urban Australia: Increased Stakeholder & Political Competition:

Recent discussions with some senior Federal politicians and bureaucrat's highlight that the Red Meat Sector increasingly lacks political clout. There are seen to be too many small industry organisations, fragmented; under resourced, with too "many voices" 'often with diametrically opposed opinions. The sector lacks influence and "power".

- **Governance:** The 6 Peak Industry Bodies (excluding the 3 key service providers) collectively have about 50 Board members between them
- **Resources:** In total the 6 Peak bodies each do approx. \$2-3m in revenue and collectively have about 30 staff. It appears that most operate on the "smell of an oily rag".
- **Capabilities:** The economic model alone means that the sector often struggles to attract, retain and pay for highly capable staff.

6. A Provocation:

What if Australian food exports have fallen in value by over \$3b; that is 30% in America and 30% in China by 2028 (due to rapidly improving domestic manufacturing quality, political trade tensions, new technologies like cell-based meat able to increase domestic Chinese supply?)

What role could existing Red Meat Peak Industry bodies play in helping to mitigate such a scenario, including driving the strategic thinking required?

Could our responses include:

- More targeted understanding and engagement with millennials (as they are increasingly the largest purchasing group in the developed world)?



- Australia accelerating international market diversity (greater emphasis on India, parts of South America and even Africa where countries like Nigeria will have become increasingly viable within 10 years)
- Accelerating R & D and innovation to develop new product choices and foods to capitalise on convenience and poor cooking skills in many of our markets (e.g. nutraceutical meats, blended meat products (traditional and cell/plant based), bio-actives & associated business models (e.g. Amazon has “taken” approx. 4% of Coles & Woolworths food business in the last 12 months)
- A focus on improved productivity, in an environmentally sustainable manner (e.g. precision agriculture), increased drought resistance (partly by decreased water use) and preparing farmers for other land use options if significant export markets are lost (as ultimately markets determine the economic viability of land use)
- Fully integrated and dynamic supply chains, using sensors, machine learning, robotics, and large data to automatically monitor food quality
- A supply chain able to support the marketing of high value meat (more like the Wine Industry by region; different variety’s, taste profiles etc); where advances in nanotechnologies will enable product and farmer information to be stored directly on food for example, increasing opportunities for more direct producer & consumer relationships
- The need to understand, engage and tell our story to urban populations more effectively

END

15 April 2019

Graham Smith

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