



A ROADMAP FOR THE RED MEAT PROCESSING SECTOR

PROJECT CODE: 2019-1055

PREPARED BY: ACIL Allen Consulting

DATE SUBMITTED: 10 March 2020

DATE PUBLISHED: 12 March 2020

PUBLISHED BY: Australian Meat Processor Corporation

The Australian Meat Processor Corporation acknowledges the matching funds provided by the Australian Government to support the research and development detailed in this publication.

Disclaimer:

The information contained within this publication has been prepared by a third party commissioned by Australian Meat Processor Corporation Ltd (AMPC). It does not necessarily reflect the opinion or position of AMPC. Care is taken to ensure the accuracy of the information contained in this publication. However, AMPC cannot accept responsibility for the accuracy or completeness of the information or opinions contained in this publication, nor does it endorse or adopt the information contained in this report.

No part of this work may be reproduced, copied, published, communicated or adapted in any form or by any means (electronic or otherwise) without the express written permission of Australian Meat Processor Corporation Ltd. All rights are expressly reserved. Requests for further authorisation should be directed to the Executive Chairman, AMPC, Suite 1, Level 5, 110 Walker Street North Sydney NSW.



TABLE OF CONTENTS

1.0	EXECUTIVE SUMMARY	3
2.0	INTRODUCTION	4
3.0	PROJECT OBJECTIVES	4
4.0	METHODOLOGY	5
5.0	RESULTS.....	5
6.0	PROJECT OUTCOMES	25
7.0	CONCLUSION	28
8.0	BIBLIOGRAPHY	31
9.0	APPENDIX A – POLICY POSITIONS	32

1.0 EXECUTIVE SUMMARY

Red meat processors are positioned in the middle of the supply chain. They are major manufacturers, managing the commercial risks of securing the supply of livestock, processing at a higher cost than international competitors, and selling into highly competitive domestic and international markets. Put simply, the sector is labour intensive, energy intensive and trade exposed.

The 2018 *‘Cost to Operate Report’*, prepared by the Australian Meat Processor Corporation (AMPC), sought to build a case for stakeholders to reduce the significant impact of regulatory burden to improve the international competitiveness of the sector. Whilst important, the report received mixed reactions outside the processing sector because it focused on processor benefits.

ACIL Allen Consulting (ACIL Allen) were commissioned by AMPC to review the case for regulatory reform on 10 issues affecting red meat processing with a view to outlining a better way for the Australian red meat processing sector to successfully pursue regulatory reform.

The key findings of this project include:

The 10 issues reviewed are important to all processors. The returns from regulatory reform vary considerably but not all are universally understood. Many of the reforms are about systemic issues (e.g. labour and animal welfare) that require a sustained collaborative approach rather than changing a single regulation or policy. Cases built on processors’ technical/economic arguments will not succeed alone. The reform efforts of the processing sector are often perceived to be disjointed because:

- // There are tensions in the supply chain, with the *Red Meat MOU* underway.
- // Local processors are important businesses in the towns and regions where they operate and undertake activities that contribute to their (wider) socio-economic development. This is not always widely understood. Investment in understanding the critical factors for regional economic resilience and utilising this to develop a “grow together” strategy will be of direct benefit.
- // Some larger processors undertake their own R&D and advocacy and interact with AMPC, MLA and AMIC in different ways.

Reforms cannot be realised unless there is greater consideration of the needs and expectations of other red meat stakeholders, as well as the processing sector, and the Government’s policy agenda because:

- // Governments face their own constraints to enact reform (e.g. inspection charges is a complex and expensive reform beyond current budgetary allocations and power costs are linked to the energy policy which requires multi-jurisdiction coordination).
- // Any reform will need to pass a “no net loss test” (and preferably net gain) for upstream (producer) and downstream (markets and consumers) members of the supply chain to gain support and government/political endorsement.

2.0 INTRODUCTION

ACIL Allen was commissioned by AMPC to examine the potential for microeconomic reform in the red meat processing sector, including a roadmap, to provide a single agenda and direction for the industry going forward.

Over the last few years, AMPC had done several pieces of research on what issues were important to the industry, the costs of the regulation that impacts these issues, and a benchmarking study that compared these costs with the costs to operate in other major red meat producing countries (namely, Brazil and the USA).

Using this work as a base ACIL Allen assembled the Commonwealth and state government legislation and regulation that impacts on red meat processors across the processing supply chain. We then consulted with a range of processors from across the country including larger and smaller processors in beef and lamb processing, as well as the Australian Meat Industry Council (AMIC).

The findings from the desktop analysis and the stakeholder consultation suggest that while the top issues are still relevant across the sector there are several key issues that are currently having a larger impact on processors than others. Further, many of the issues that are of importance to industry are not solely legislative or regulatory issues, which means that reforming regulation is unlikely to provide a solution for the industry.

The rest of this report presents the project objectives and methodology. It summarises the results of the project, provides key findings, and concludes with recommendations and a plan for the way forward.

3.0 PROJECT OBJECTIVES

The objective of this project is to establish a toolkit specifically for the red meat processing sector to implement micro-economic reform on the top 10 priority issues to increase the value of the industry.

The outputs of the project will provide AMPC, industry and government with a map of the red meat processing supply chain which includes detailed priority issues and associated regulations to target economic reform.

4.0 METHODOLOGY

The methodologies used in this project are:

- // Desktop analysis including:
 - / collection and collation of industry data
 - / a review of recent literature
 - / scan of legislative and regulatory material at a Federal and State level
 - / discussion on the costs and benefits of regulation
 - / assessment of the top ten issues including the creation of an assessment framework
- // Stakeholder consultation including:
 - / a series of one on one interviews
 - / a validation workshop

5.0 RESULTS

5.1 Industry snapshot

Figure 1 below presents a snapshot of the whole of industry supply chain and indicates red meat processing's position between production and consumption. This means that processing is dependent on both supply of livestock and consumer demand, increasing the risks of a processor in managing both ends of the system.

Not unlike the manufacturing industry the industry is labour intensive, energy intensive and trade exposed, with over 70% of meat exported.

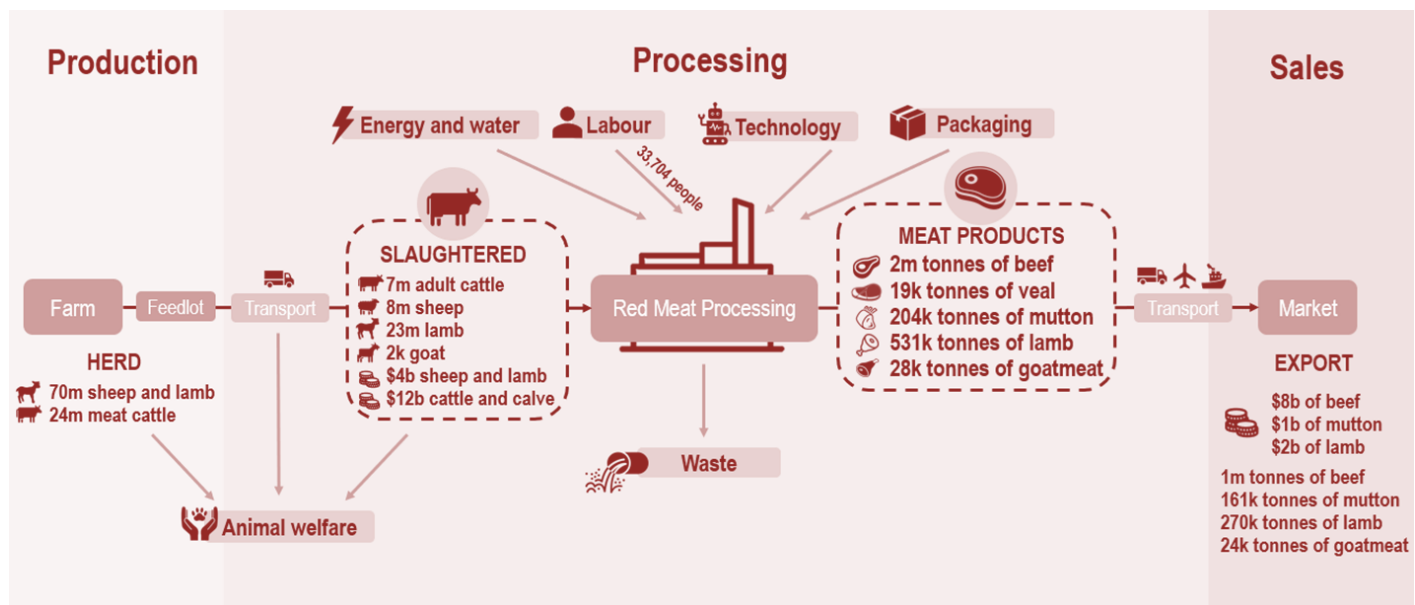


FIGURE 1 THE RED MEAT SUPPLY CHAIN (Source: ABS, 2017-18).

5.2 Literature review

To identify the key regulations that effect red meat processors, we reviewed key AMPC and industry literature and other industry information to identify the priority regulations in conjunction with AMPC's top ten industry issues. This literature review focuses on the key industry reports from the last decade that were publicly available at the commencement of this project and addresses them in chronological order.

The Joint RMI (2007a) submission provides an overview of the red meat industry regulatory situation. This submission identifies that animal welfare and food safety regulations generate benefits in maintaining the integrity of the red meat supply chain, but conversely add costs and impacts Australia's competitiveness.

The finding in the Joint RMI (2007b) submission was a short-list of areas to target for the wider red meat industry for reducing regulatory burden – these included:

- // the animal welfare system
- // road and transport rules as applied to the industry
- // environmental reporting expectations
- // live export regulation.

The Joint RMI (2008) submission focused specifically on the regulatory burdens facing the red meat processing and manufacturing sector such a as employment and road transport issues. Such regulations align with AMPC's reform agenda for labour and regulatory burden issues.

The ProAnd Associates (2012 and 2016) reports focus on the costs of regulation in the red meat and livestock industries more broadly.

These studies are done on a sectoral basis, breaking down the costs of regulation for beef producers, sheep producers , feedlots, live exports goats and the meat processing sector. Data is primarily from ABARES for the years 2008-09 and 2014-15 as well as from financial information provided by stakeholders.

In 2008-09, regulatory costs for red meat processing were estimated at 3.25% of enterprise revenue and 3.6 of enterprise expenses. The burden is greater for beef processors than sheep processors. The high cost categories were identified as labour on-costs, industry levies and charges and environmental management. Costs fell to 2.7% of enterprise revenue and 3.5% of enterprise expenses across the red meat industry by 2014-15. ProAnd suggest that the decline in costs as a percent of revenue were offset by good trading conditions in 2014-15.

The ProAnd Reports will provide good background information on the regulatory environment in 2014-15 across States and Territories and the costs and benefits of regulation during that time. However, the processing sector is just a sub-set of the work conducted by ProAnd.

The Productivity Commission (PC) (2016) report provides an overview of the complexities of the regulatory system that affects farm businesses and the agricultural sector across Australia. The PC notes that regulatory burden matters because of the disproportionate burden it places on farm

businesses, and that it reduces productivity and competition in the agricultural sector. This complements the rationale behind this project.

This project also examined regulation across the different levels of government and considered the impact across the supply chain.

The Helibron (2018) report focuses on the comparative cost of processing red meat in Australia relative to other major meat producing countries. Helibron highlights a range of different regulations where he recommends further review and potential reform including labour market and visa issues as well as export inspections.

Helibron (2018) found that Australia's labour market interventions and regulatory burdens have negatively impacted Australia's cost competitiveness with the USA in international red meat markets. Helibron estimates that labour costs, as a result of legislation, account for 85% of total labour costs in the industry. Helibron's focus is to examine the cost of business in Australia relative to the cost of business overseas so although Helibron highlights the 'regulatory costs' of labour from the *Meat Industry Award 2010* and the *Fair Work Act* in relation to annual leave, payroll tax, workers' compensation premiums and superannuation in terms of regulatory reform for the industry it is unlikely that prosecuting an agenda to reform this legislation will benefit broader society.

Under energy costs Helibron (2018) notes that although the Australian Energy Regulator has responsibilities for supply and distribution costs, the AER does not regulate wholesale or retail prices and 45% of total electricity charges in Australia to be 'regulatory costs' and assumes a 25% cost for gas. With regards to certification costs, Helibron (2018) notes:

Information provided by processors was used to distribute this between costs associated with meeting public standards, required under Australian legislation to process and export beef. The proportion of certification related costs subject to regulation is estimated to be 70 per cent of these costs.

Helibron's study provides the most up to date estimates available and therefore have been considered in this report (refer Table 1). However, Helibron's focus was to compare these 'costs' with overseas countries rather than for regulatory reform.

In this project we worked to map the regulatory environment, identify the high priority areas for microeconomic reforms and examine the benefits of reforming regulation from the perspective of the red meat processing sector and broader society.

In 2017 AMPC conducted work with all stakeholders to ascertain the issues of greatest importance to them. This work identified the top 10 issues which affect the ability of red meat processing to sustain and increase the value:

- // Labour
- // Energy
- // Market access
- // Water and waste

- // Technology / automation / productivity
- // Regulatory burden
- // Packaging
- // Security of supply
- // Consumer trends and education
- // Animal welfare

This project takes these 10 issues of importance to AMPC’s stakeholders, validates whether these issues remain of importance to industry and assesses and prioritises these issues to develop a roadmap for the AMPC.

To provide background and context¹ prior to talking with stakeholders, we reviewed over 10 pieces of Commonwealth legislation and a total of 109 across all states and territories.² In addition to this are several labour agreements and visas for skilled and unskilled labour from other countries. These were classified by focus areas as per Figure 2 below which shows the alignment between the AMPC industry top issues mapped to legislation and regulation focus areas - noting that energy and consumer trends and education are not explicitly covered by the legislation and regulation examined.

Industry top issues	Legislation and regulation focus areas											
	Public health	Industry	Animal health	Chemicals	WHS	Labour	Immigration	Biosecurity	Transport	Land use & planning	Environment	Export
Labour		✓			✓	✓	✓					
Energy												
Market Access												✓
Water and waste	✓		✓					✓	✓	✓	✓	
Technology/automation/productivity	✓	✓	✓		✓	✓	✓					
Regulatory burden	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Packaging	✓							✓	✓			
Security of supply			✓	✓		✓	✓	✓	✓			
Consumer trends and education												
Animal welfare			✓									

FIGURE 2 SUMMARY OF INDUSTRY TOP TEN ISSUES MAPPED TO LEGISLATION AND REGULATION FOCUS AREAS (Source: Various).

¹ More detail on the legislation and regulation reviewed are provided in the Milestone 2 Report for this project.

² As per discussions at the Project inception meeting – local government regulation will be reviewed on an as needs basis rather than comprehensively documenting all relevant local government regulations.

5.2.1 Assessment of the top ten issues

Following from the collation of all legislative and regulatory requirements on a Commonwealth and State level, we assessed the AMPC's top ten issues through several lenses. These lenses included:

- // Importance to the industry with respect to regulation (based on the literature review).
- // These estimated regulatory costs as a proportion of operating costs (excluding livestock costs)³ – this provides perspective to Helibron's estimated regulatory costs relative to a processors' total operating costs (excluding the cost of livestock).
- // The proportion of operating costs that are estimated to be 'regulatory costs' to the industry (for the purposes of international comparison) (Helibron, 2018).
- // An assessment based on the three above criteria as high, medium or low relevance to industry.

Table 1 suggests using this approach the major issue for the industry is focused around labour. The issues assessed as medium such as water and wastewater, security of supply and market access and other market related issues such as packaging and consumer trends.

³ Helibron, 2018, reports operating costs excluding livestock costs in Table 11.

TABLE 1 REGULATORY REVIEW - ISSUE AND IMPORTANCE – DESKTOP REVIEW

Issue	Industry issue / importance in relation to regulation (based on the literature)	% of operating cost (excluding the cost of livestock)	Estimated % of these costs are regulatory cost (Helibron, 2018)	Preliminary assessment
Labour	Labour costs are unacceptably high. Most issues are bigger than regulation and are more focused on attraction and retention of employees.	58.4%	85.3%	High – costs are a very high proportion of operating costs
Energy*	Issue of concern for the industry – but the concern is to do with increasing prices not regulation.	4%	45%	Low – as costs are just a small proportion of operating costs
Market Access (includes certification costs)	High cost of compliance.**	2%	70%	Medium – costs are a small proportion of operating costs but exports are a large proportion of the industry (70%)
Water and waste	High environmental reporting costs. Reducing water use is a benefit to business.	1.9%	100% (water and sewerage) 20% (water disposal)	Low – as costs are just a small proportion of operating costs
Technology	Low relevance to industry.	N/A	N/A	Low
Packaging	Inconsistency between states on standards and labelling requirements.	7.4%	Not reported.	Medium
Security of supply	N/A	N/A	N/A	Low
Consumer trends and education	Inconsistency between states on standards and labelling requirements.	N/A	N/A	Medium
Animal welfare	Positive regulation providing a social licence to operate.	Not reported.	Not reported.	High
Transport	Harmonisation of National Vehicle Accreditation Scheme (NVAS) and discrepancy by state	15%	Not reported.	Medium

* Energy is not considered to be a regulatory issue (ProAnd, 2016) – although it is an issue of concern to red meat processors and has been costed in Helibron, 2018.

** Approximately 70% of beef is exported.

Source: Various with focus on ProAnd, 2016 and Helibron, 2018.

5.3 Stakeholder consultation – phase 1

ACIL Allen approached 24 red meat processors to interview but were only successful in speaking with 11 key stakeholders.⁴ A short online stakeholder survey was sent to a broader group of levy payers on the same issues (there were just 5 responses)⁵.

Consultation with stakeholders indicate that the top 5 industry issues are:

- // labour
- // energy
- // market access
- // inspection services (i.e. cost of compliance)
- // animal welfare

Discussions with stakeholders were framed around regulation and the potential for regulatory reform and its impact on business and the broader industry as this was the scope of the project. However, it became apparent during the consultations that many of these industry issues and the reason/s for their importance to stakeholders have little to do with regulation or associated compliance (with the exception of inspection and certification).

No stakeholders suggested that the issues list be revised or that issues be excluded (or added). This suggests that all the listed industry issues remain important, although some are currently more important than others.

5.3.1 Key findings from stakeholder discussions

// Labour concerns are widespread. However it appears that these concerns are more to do with the well-being of regional communities and people and less to do with visa requirements or labour agreements.

// Energy is essentially a high (and increasing) cost input, not unique to red meat processing, and is a policy (and global) issue effectively unrelated to regulation. However, the industry is calling for support in its transition to sustainable / renewable energy sources.

// Market access issues are around which markets get prioritised, which links back to the effectiveness of industry services companies (RDCs) – Peak Body – Commonwealth Government department interface and is essentially a non-regulatory issue.

// Inspection services are burdensome in terms of time and cost, however, the primary issue is with respect to the government's approach to cost recovery and efficacy and less to do with the regulatory requirements.

// Upholding and maintaining animal welfare is key in providing the industry a social licence to operate.

Each of these issues are discussed in detail in Section 5.6.

Following stakeholder discussions the project was reframed to focus less on regulation and more on issues that are important for the industry with a view to determine industry priorities over time in a

⁴ Interviews were primarily conducted between July and August 2019.

⁵ The five responses were from a range of processors. One with capacity of less than 100 head and one with capacity greater than 1000 head. 3 of 5 respondents were beef processors, one mixed and one sheep/lamb. Given the small sample size statistical analysis was not conducted. However, the top issues of the online survey respondents in general concur with the top 4 issues above.

rigorous, repeatable and cost effective manner and to provide AMPC with a roadmap of developing research on key issues over the next five years.

5.4 A framework for analysis

Following on from the stakeholder consultation we developed a multi-criteria analysis to assess and prioritise the issues with respect to the desktop analysis and stakeholder views. The roadmap prioritises issues through a 2-step process. The tool can be used with expert judgement, supporting evidence or both.

The analysis took the information provided in Table 1 and added further details around:

1. Importance of issue to red meat processing sector stakeholders (motivation)
2. Level of control the industry has in influencing this issue (ability to impact)
3. Regulatory or a non-regulatory / policy issue (legislative change)
4. Expected benefit to the industry (regulatory or broader (policy) reform)
5. Expected social benefits (beyond the red meat processing sector)
6. Probability of securing a positive outcome (through a coordinated approach)
7. Total reward for industry (considering importance, control, industry & social benefits and probability)
8. Focus (ideal time for an outcome) - short term (1-2 years), medium term (3-9 years) or long term (>10 years).

This analysis which uses opinions of stakeholders and expert judgement is summarised in Figure 3.

Industry issue	Importance to industry	Level of industry control?	Regulation or non-reg/policy issue?	Expected benefit to industry?	Expected social benefits?	Probability of outcome	Total reward	Time for focus	Category
Labour	Very high	Medium	Both	Very high	High	High	High	Short term	Tier 1
Energy	Very high	Medium	Policy	High	Medium	Medium	High	Short term	
Export market access protocols	High	Low	Policy	Very high	Medium	Low	High	Long term	Tier 2
Inspection certification and audit	High	Medium	Regulation	Medium	Low	Medium	Medium	Medium term	
Animal welfare	High	High	Both	High	High	Medium	High	Medium term	Tier 3
Water and sewerage	Medium	High	Both	Low	Medium	Medium	High	Medium term	
Waste disposal	Medium	High	Regulation	Low	Medium	Medium	Medium	Medium term	Tier 3
Consumer trends and education	Medium	Low	Policy	High	Medium	Low	Medium	Long term	
Security of supply	Medium	Low	Policy	High	Medium	Low	Medium	Long term	
Packaging (i.e. labelling requirements)	Low	Medium	Regulation	Low	Medium	Medium	Medium	Medium term	
Technology	Low	Medium	Policy	High	Medium	High	High	Medium term	

FIGURE 3 MULTI CRITERIA ASSESSMENT OF ISSUES (Source: ACIL Allen)

Issues were then prioritized based on multi-criteria analysis scores and the time to focus for an outcome into three categories:

// Tier 1 issues have highest importance to the industry, high-very high industry benefit, a medium-high social benefit and medium-high probability of achieving an outcome.

// Tier 2 issues have a medium-high industry benefit and total reward but the probability of securing a positive outcome for industry is less than for other issues because of the complexity of the issue (e.g. market access and inspection charges).

// Tier 3 issues are not currently of concern to the majority of stakeholders and are better addressed in the medium to longer term.

An assessment tool presents as a dashboard ranked by tier similar to Figure 3. The tool has been designed using Excel so the steps can be easily filled in and the dashboard is generated automatically. This tool has been provided as an attachment (separate file) to this report.

5.5 Stakeholder consultation – phase 2

A workshop was held on 9 December 2019, to which all stakeholders we had interviewed earlier in the project were invited to attend.⁶ The workshop was designed to bring the industry together on the same page and allow them to consider the perspectives of those within and external to the industry.

The aim of the workshop was to look at where we are going as an industry in the face of competition from demand (markets) and supply (post drought), noting the importance of regional communities and regional economies and looking for ways to avoid decline. The assessment tool was provided to workshop participants and trialled by them. A summary of the feedback on the tool and the key issues (labour, energy, inspection charges and market access) is provided below.

Workshop participants acknowledge that the industry as a group is not so good at advocacy, as there are many voices that are not aligned. AMPC and others should be supporting R&D for policy rather than policy for R&D.

During this discussion it was noted that the perception of processors is that they are not coordinated in their approach to government and are generally not viewed favourably by the broader public.

There is a disconnection between being classified as agriculture (and with it the concept of “farmers’ friend”) when in reality meat processing is a manufacturing industry.

The overarching conclusions were:

// The industry needs one message not one voice

// Processors need a clearly defined and shared purpose and values

// R&D for policy needs to be developed from a bottom up perspective

5.5.1 Workshop feedback on assessment tool

The tool was considered relatively easy to use and was useful in classifying issues and assisting the industry to determine priorities on a subjective basis. The tool requires some clarification on the definition of terms such as ‘social benefits’ and also some additional wording to provide context around perspective and time and the expected use of the tool.

⁶ Workshop attendees were: John Berry, Melissa Fletcher, David McKay, Patrick Hutchinson, Veneta Chapple, James Clarke, Alison Penfold and members of the ACIL Allen team.

The tool should also be tested with a broader sample of industry e.g. single site abattoirs and potential board members of AMPC and AMIC.

It was noted that the current list of issues are relevant and that it is important that new and emerging issues can be added over time. Further, each issue is likely to have a different solution and once identified as a priority a plan for each issue should be developed on a case by case basis.

5.5.2 Workshop issues summary

The workshop focused on the issues identified in the agenda papers – labour (people and towns), energy, market access, inspection charges and included a brief discussion on animal welfare. Due to time restrictions the majority of conversation was on labour and energy.

Labour

Concept of framers, processors and towns / communities working as one over the long term. This can be done through local efforts with strong connections with mayors and state members of parliament.

The aim is to avoid ‘chickenisation’⁷ of the industry and to create stable workforces (30% of skilled / semi-skilled labour is relatively stable, unskilled labour (70%) has a high turnover which is costly). Noting the conundrum between increasing use of technology and jobs (i.e. often when there is new technology put in place some jobs (typically low skilled ones) are lost). Again, perception of technology and innovation is different for different people – there is fear in regional communities that there will be less jobs as a result of innovation not more.

Unity of message is critical, even if delivered by disparate sector voices. The scale of the processor seems to impact reform priorities. Internal alignment is critical otherwise reform is disjointed and difficult to successfully present to external stakeholders.

Energy

Red meat processing is energy and labour intensive as well as trade exposed. There is an inability to control price but there is some room to place energy in a sustainability framework (to deliver clean and green meat to export markets) and to look to address issues on a site by site basis. Industry variability makes a consolidated approach difficult, but the industry needs to go as one to government in requests for assistance (many proven technologies but the returns on investment make it uneconomic for processors without financial support from government).

On its own energy is not a big enough issue to attract the attention of ministers.

There also is capacity to consider energy as part of a broader story around generation of economic and other benefits for rural and regional communities.

Market access

Each processor and their needs are different – this makes developing a co-ordinated approach challenging and generates conflict. There are many parts of the red meat supply chain and government involved which creates an issue of shared control.

⁷ Chickenisation was a word coined during the validation workshop, the intent of the word is based on the chicken meat industry which is dominated by just two large processors and the feeling that product is produced at the lowest possible cost.

Inspection charges

The industry noted the importance of this issue but acknowledged the limits to changing the system. The main reason that change is unlikely to occur in this space is that this is not considered a priority for government even though it is clearly a priority for industry. It is an issue of trust and control on both sides.

Animal welfare

An industry wide issues that requires focus and attention from all involved to ensure a continued social licence to operate.

5.6 Discussion on the five key issues

Incorporating desktop research and stakeholder views this section presents a summary of the five key issues of most importance to the industry in 2019.

Labour - people and towns

Red meat processors are significant employers in regional towns. There are approximately 95 abattoirs in operation across Australia,⁸ 60% of which are in regional areas (refer Figure 4). Many abattoirs are the largest employer in their town (or region) making red meat processing an important driver for jobs and growth in regional communities. A further 16 new abattoirs have been proposed, all in regional areas.⁹

Labour attraction and retention is critical to the sector's success. It is the single highest cost for red meat processors at 58.4% of total operating costs (excluding the cost of livestock) (Helibron, 2018).

In the immediate term, red meat processing will face surplus labour challenges due to the drought. This will continue in the post-drought period as herd and flock numbers increase. Other industries and businesses in regional locations are facing the same challenge to secure a sustainable workforce.

The sector's ability to secure labour is constrained by the relative attractiveness of jobs at processing plants. This relates particularly to the physical nature of many jobs and variable hours driven by seasonal/market conditions. The suitability of the local population in terms of their willingness and ability (e.g. skills, health etc) to participate is also a constraint.

These constraints apply to other industries and businesses in regional towns across Australia. More broadly, many regions and towns face higher unemployment, higher drug-use and depopulation, particularly among youth. The performance of many regions and towns on key socio-economic measures is often in the lower quartiles, static and even declining over time.

In 2018-19 AMIC reported:

73 processing plants advertised for almost 6,500 new workers, which were filled by 4,600 local Australian workers. However, this has failed to fill or even maintain job vacancies, particularly as Australian local workers stay an average of less than six months in the job.¹⁰

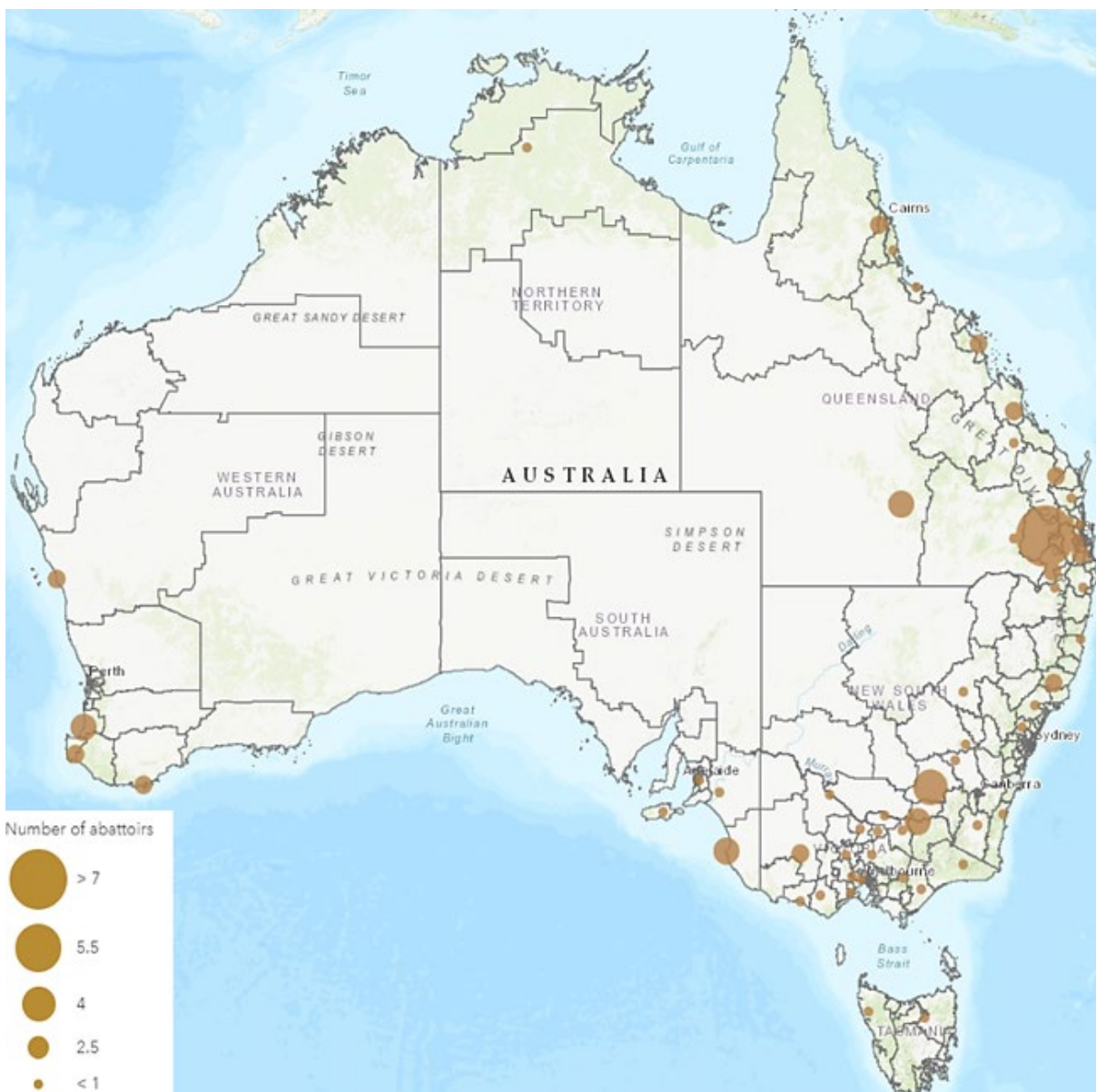
⁸ AMPC member lists have been cross referenced with public data from public websites for businesses and sites such as <https://www.aussieabattoirs.com/facts/directory>

⁹ See: <https://www.beefcentral.com/processing/australias-proposed-new-abattoirs-where-are-they-all-up-to/>

¹⁰ <https://www.beefcentral.com/processing/two-thirds-of-red-meat-processors-hampered-by-labour-issues/>

Temporary and permanent migrants and technology developments have played an important role in partly offsetting labour constraints. Industry surveys suggest that, on average, 25% of all workers are temporary and permanent migrants holding visas and at least 63% of businesses employ at least one visa holder.¹¹ However, migration is often politically contentious, particularly in locations where unemployment is high. The performance of schemes to increase local labour participation is mixed.

In an effort to boost regional development, in November 2018, the Minister for Immigration announced that as of 1 July 2019 workers with 417 and 462 visas could stay in regional areas and work at a processing plant for up to three years if they apply for annual renewal. This could increase the sustainability of the red meat processing industry.



¹¹ *ibid.*

FIGURE 4 – THE DISTRIBUTION OF ABATTOIRS ACROSS AUSTRALIA (Source: various)

Key findings

- // Abattoirs are important job providers in regional areas and offer benefits to regional communities.
- // Labour in regional areas is an issue for multiple regions and multiple industries.

Energy

The Australian red meat processing industry, like many other industries, has been hard hit by increased electricity and gas costs. Stakeholders confirmed that energy prices are at or near the top of their concerns, with high prices contributing to the erosion of their competitive position compared to their competitors in export markets. For example, Australian red meat processors pay twice as much for the utilities as their competitors in the United States and Argentina (Helibron, 2018).

However, energy as an input into red meat processing is proportionally very small relative to other inputs such as the cost of livestock, labour and transport. Helibron (2018) shows that energy costs are just 2% of total input costs (including the cost of livestock). This is relative to 16% labour costs and 12% transport costs.

The red meat processing industry is in challenging position. Meat processors account for only 0.25% of Australian Greenhouse Gas Emissions (GHGs), and only 2% of emissions from the whole red meat sector, the vast majority coming from methane emissions from cattle and sheep. Nonetheless, the industry is struggling to make its energy use clean, reliable and cheap.

At the national level, energy will not be cheaper or more reliable any time soon. All existing national and state policies, at best, will take a long time to work. Likely energy industry developments include:

- // increased penetration of renewable energy
- // progressive closure of coal-fired power stations and increased use pumped hydro to store electricity for use when other forms of generation are insufficient to meet the electricity load.

It is not clear what net effect these developments will have on the price or reliability of electricity.

As far as the price of gas is concerned, while the Australian Government appears to be sympathetic, none of its current policies are effecting change. Some state governments have moratoria on onshore gas exploration, which has restricted supply. But even if these moratoria were lifted immediately, it would take years for there to be any material impact on gas supply and price.

As a result, meat processors need to take actions themselves to reduce their energy costs. While governments could assist, this is not a priority area for government.

The Australian energy sector has and continues to experience volatile times in recent years. Motivated by the need to reduce emissions of GHGs, and policies to put these reductions into effect, the electricity sector is transitioning away from coal and gas fired electricity and towards renewables (wind, solar and hydro), which now account for about 25% of energy production in the National Electricity Market (NEM),¹² up from 14% five years ago and 8% 10 years ago.

For a variety of reasons, partly to do with this transition and partly because of higher network (transmission and distribution) charges, electricity prices for the manufacturing sector (which

¹² The NEM is all states and territories except WA and NT.

includes food processing) have risen by about 60% in real terms over the past 10 years.¹³ Gas prices have also risen sharply over this period due to LNG export, with domestic gas prices rising to match international gas prices.

Nationally, the increased penetration of renewable energy is complicated by the reliability of sufficient electricity generation to meet load (demand). The concern is that wind-generated electricity and solar-generated generated are variable – they depend on the strength of the wind and the existence of daylight respectively.

Through a variety of projects, the industry has already acted to improve energy efficiency and productivity and reduce costs, including:

- // Capturing biogas from waste¹⁴
- // Reducing waste processing costs and plant operating costs (reduced gas purchases)
- // Reducing methane emissions
- // Integrating heating and cooling processes
- // Converting solid waste to energy (using partially digested stomach contents).

These kinds of projects are promising but have not been widely adopted by industry, likely due to the following barriers:

- // significant up-front investment is required, and it is not clear that the return on investment is sufficiently high, at least not without significant government support.
- // differences in processors by size, type and operating environment meaning that there is no one-size-fits all solution. If each processor requires specific technology to match its needs, then this adds to the costs.

Key findings

- // Energy costs have been increasing over time and there are no clear cost effective or one size fits all solution.
- // Bespoke projects require significant up-front investment and there is uncertainty on returns on investment.

Market access

Market access is important as 70% of the 2 million tonnes of red meat and meat products is exported to over 100 countries. Australia is the largest sheep-meat exporter in the world and the third-largest exporter of beef and veal (MLA&EY, 2018). Access to global markets depends on fulfilling the health and safety requirements of importing countries.

Market access is also dependent on certification and inspections. This issue is discussed below.

International markets are complex and there is often uncertainty. Changes in market access can impact the profitability of both individual livestock producers and meat processors. This requires an

¹³ <https://grattan.edu.au/report/power-play/>. With the CPI increasing by about 24% over the past 10 years, this means that electricity prices in nominal terms for the manufacturing sector have doubled over this period.

¹⁴ For example a project by Southern Meat Corporation supported by ARENA (\$2.1 million grant, total capital cost \$5.75 million)

ongoing effort to gain, defend (existing rights of access) and increase access to livestock and meat markets.

Maintenance of favourable market access conditions and securing trade reform are commonly undertaken at a government-to-government level.

Market access is bigger than just red meat processing and involves players from across the red meat supply chain, the Australian government and international governments.

The Australian Government has an integrated trade policy program with the goal of creating new and more open markets for exports. This is achieved through three key trade reform avenues:

1. Multilateral trade: involves discussions with many countries and is achieved through the World Trade Organization (WTO).
2. Regional trade: involves numerous countries within a specified region.
3. Bilateral trade: involves two countries and is advanced via free trade agreements and individual country/sector negotiations on market access.¹⁵

MLA, in conjunction with industry stakeholders including AMIC, work alongside the Government in pursuit of this goal, primarily in an advocacy role.

Responsibility for market access support and advocacy traditionally involves MLA on behalf of the industry. Potential reforms to the *Red Meat MOU* and the research and development corporations¹⁶ are expected in 2020.

Beyond wider industry issues, red meat processors are faced with delays in getting access to markets. Market access approvals can be time consuming. Meat processing facilities need to be listed and then audited, which can take between 5 and 15 years. This is highly dependent on the market. Markets such as the USA, Japan and South Korea have no listing requirements, which significantly reduces approval times.

Many of the delays occur with international governments and are out of the control of processors, the industry and the Australian government.

Key findings

// Due to the complexity of the issues, multiple stakeholders and multiple reviews, the industry should consider a 'watch and wait' approach to market access in the short to medium term.

Inspection charges

Red meat processors are required to submit to government inspections. Without government inspections a processor cannot:

- // Get access to export markets
- // Retain access to export markets.

Red meat processors have several concerns with current inspection arrangements, including:

1. The government is, in effect, a monopoly supplier of these services and has no incentive to

¹⁵ Refer: <https://www.mla.com.au/marketing-beef-and-lamb/international-markets/market-access/>

¹⁶ See: <https://haveyoursay.agriculture.gov.au/modernising-rdc>

become more efficient and effective in providing this service.

2. The system is split (i.e. a processor can use Food Safety Meat Assessors (FSMAs) or Australian Government Authorised Officers (AAOs)). This system presents certain advantages to some and disadvantages others.
3. The cost of inspection services is provided on a cost recovery basis. Industry deems the cost of this service as too high.
4. The cost recovery process is not transparent.
5. The inspection fees and charges are paid on a per plant basis, i.e. they are not dependent on the size of operations. This substantially increases costs for smaller operations with multiple plants.
6. Red meat processors who are export registered are required pay for these services, while those that supply the domestic market are not (however domestic suppliers are subject to other checks and balances).

Inspection regime

The Department of Agriculture (the Department) undertakes a variety of activities to certify a product for export. This includes importing country requirements. Activities include:

// Developing, implementing and monitoring operational policy and systems which aim to maintain market access

// Inspecting, auditing, and enforcing activities to ensure the safe production, storage, handling and transportation of meat intended for export

// Issuing of permits, export certification and other documentation which confirm compliance

// Managing of any quota allocation and quota certification to assist exporters with tariff rate concessions offered under trade agreements

// Providing scientific and technical advice on improving, maintaining or restoring market access and to demonstrating compliance with export requirements.

The Department administers the Export Meat Program which provides inspection, verification and certification services to the export meat industry in Australia. As part of this Program the Department provides five services:

1. scientifically-based inspection system that underpins the production of wholesome meat and meat products
2. capacity for ongoing scientific review of the inspection system
3. supply of inspection services and veterinary oversight as required to all establishments registered for export with the Department
4. export certification acceptable to Australia's trading partners

5. audit activities that verify industry compliance with the Export Control Act 1982 and subordinate orders, including overseas market access requirements and establishments' 'Approved Arrangements'.¹⁷

Inspection services are delivered under Australian Export Meat Inspection System (AEMIS). AEMIS is “an integrated set of controls specified and verified by (the Australian) Government that ensures the safety, suitability and integrity of Australian meat and meat products”.¹⁸

Under this system, inspection is conducted by either FSMA or AAOs.¹⁹ AAOs are legally bound to the Department and must perform inspections in accordance with a detailed set of departmental controlled instructions. Approximately half of red meat processing establishments have implemented the AAO model (Palladium International, 2019).

The Palladium International (2019) report identifies that the main reason why some processors have retained traditional inspection services is to do with small cost differences, negotiated cost efficiency arrangements²⁰ and outsourcing workforce management.

Cost recovery

The Department cost recovers the fees and charges for inspection services. These are periodically reviewed. The latest cost recovery implementation statement (CRIS) was prepared in 2014-15.²¹ It provides information on:

- // the legislative basis for cost recovery
- // the design of fees and charges
- // how fees and charges are applied
- // ongoing reporting on the fees and charges.

The Department notes that there are few options available for funding export certification services (DAWR, 2015). These include:

- // Cost recovery
- // Funding through consolidated revenue (general taxation)

The government has determined that cost recovery is the most appropriate mechanism for funding export certification. Cost recovery of export certification services have been designed under the Australian Government Cost Recovery Guidelines (CRGs). These guidelines provide the framework for the design, implementation and review of cost recovery by government departments.

The Department notes the benefits to industry of a cost recovery approach which include:

*When a business pays for the activities it receives, the government has an obligation to justify the prices it charges. Cost recovery also increases the cost consciousness of clients of how much a government activity actually costs.
(DAWR, 2015).*

¹⁷ Refer: <http://www.agriculture.gov.au/export/controlled-goods/meat/>

¹⁸ Department of Agriculture 2017, Australian Export Meat Inspection System Information Package

¹⁹ Refer: <http://www.agriculture.gov.au/export/controlled-goods/meat/elmer-3/meat-inspection-aemis-package>

²⁰ The department offers some exporters cost-efficiency arrangements to provide additional non-regulatory services.

²¹ Department of Agriculture and Water Resources, 2015, Food Export Cost Recovery Implementation Statement (CRIS)/ <https://www.agriculture.gov.au/fees/cost-recovery/food-cris>

In contrast, funding through consolidated revenue is not appropriate in this case because:

...taxation is only appropriate for services that are provided to the wider community. Export certification services are provided to a clearly identifiable group—individuals and organisations that participate in the food export supply chain. If it were not for the business activities of this group, export certification would not be required. (DAWR, 2015)

Other charging options that cannot work in this situation include commercial charging and resource charging. Commercial charging is not an option as there is no competitive market. Resource charging is not an option because the services are not based on the value of the activity to the recipient.

While the private sector can undertake some export certification activities, the government must provide the export certification framework. (DAWR, 2015)

There have been several recent reviews of cost recovery, including an Australian National Audit Office (ANAO) review and a subsequent departmental review of its cost recovery arrangements. The key findings are detailed below.

Australian National Audit Office review

The ANAO review on the *Application of Cost Recovery Principles* was released in May 2019. Its remit was to examine whether there is effective application of Cost Recovery Guidelines “so that charges were set to not over- or under-recover costs, and stakeholders were engaged in the processes for setting charges” (Auditor General, 2019).

There were three main recommendations that relate to The Department:

Recommendation 1:

The Department of Agriculture and Water Resources:

- (a) ensure that their Cost Recovery Implementation Statements are fully compliant with the Cost Recovery Guidelines, including in relation to required updates; and*
- (b) report annually in their Cost Recovery Implementation Statements on their cost recovery performance at the regulatory activity level.*

Recommendation 4:

The Department of Agriculture and Water Resources:

- (a) uses the current review of its charging arrangements to align its fees and levies with the Cost Recovery Guidelines; and*
- (b) develops a cost recovery model that aligns the prices, expenses and revenues of outputs within regulatory activities to the efficient cost of providing those outputs. (Auditor-General, 2019)*

Recommendation 6:

Department of Agriculture and Water Resources:

(a) implement ongoing stakeholder engagement strategies for their respective cost recovery arrangements in consultation with stakeholders;

(b) include these planned engagement strategies in their draft Cost Recovery Implementation Statement each year; and

(c) include performance measures for engagement on cost recovery in their Cost Recovery Implementation Statements.

Departmental reviews

A Draft Cost Recovery Statement released by the Department has had a consultation period that closed on 10 December 2019.²²

The Draft Cost Recovery Statement proposed that there be cost recovery charges applied to technical and scientific advice. Traditionally this service which includes negotiating non tariff barriers (NTBs) or technical trade barriers has been funded by government through appropriations.

Technical trade barriers include stringent labelling, health declarations and border checks by an importing country. These 'barriers' relate to aspects beyond the processor, across the supply chain such as animal health issues, traceability, animal treatments and may also be politically motivated.

The rationale behind scientific and technical advice provision through tax payer funding this is that market access and maintenance of favourable market access conditions and securing trade reform are undertaken at a government-to-government level.

Independent reviews

The department has commissioned an independent review into cost recovery arrangements. This review is currently underway and being conducted by EY. This report has not yet been released.

In 2019, the AMPC commissioned Palladium International to conduct an independent review of the Australian Export Meat Inspection System (AEMIS). The priority recommendations of the AEMIS review are (Palladium International, 2019):

(1) That the department only deliver inspection services required to fulfil its regulatory responsibilities under importing country requirements, except where those FSMAs are not fully utilised and have capacity to provide additional inspection and non-regulatory services under cost-efficiency arrangements or where AAO delivery is not viable for small export processors. All other inspection duties which can be undertaken by a company or third party AAO should be transitioned.

(4) That industry and government increase collaboration to improve data collection, integration, analysis and communication to monitor trends on audit and inspection outcomes and market access issues, to improve system performance and compliance and support risk-based approaches that reduce regulatory burden. Data captured can also contribute to whole-of supply chain

²² Available at: <https://haveyoursay.agriculture.gov.au/cost-recovery-implementation-statements>

improvements and transparency, including on- and off-plant process efficiencies, evidence-based market access, and improved livestock production practices and national herd health.

(7) That government and industry, through the Export Meat Industry Advisory Committee (EMIAC), develop rolling annual workplans which define shared priorities for market maintenance and expansion. These annual workplans should be used to inform market access resourcing requirements, particularly for technical negotiations by government.

(10) That the department clearly defines and consistently implements its regulatory culture for AEMIS.

Key findings

// There are multiple reviews currently underway and the industry should consider a 'watch and wait' approach to inspection charges in the short to medium term.

Animal welfare

In 2005 *The Industry Animal Welfare Standard for livestock processing establishments – preparing meat for human consumption* (the 'Standard') was first published and was then updated in 2009.

Since 2009 there have been updates and changes to industry practices, regulation and assurance schemes and the industry is in the process of updating and refining the Standard with associated guidance material for release in mid-2020. This revision will follow international best practice and will involve stakeholder engagement and a formal documented processes to ensure transparency and increased credibility.

Associated with the industry standard is the voluntary Australian Livestock Processing Industry Animal Welfare Certification System (AAWCS). At this stage not all red meat processing facilities are certified. AMPC and AMIC are conducting an industry funded gap audit against the system requirements to determine what might encourage more participants in the certification scheme. The results from this audit will be available at the end of 2020.

Key findings

// The industry standard is being updated and will be completed by mid-2020.

// Animal welfare is largely managed within each component of the supply chain rather than across the supply chain.

// Adoption of standards and certification is currently voluntary and the industry is keen to encourage more participants to conform.

6.0 PROJECT OUTCOMES

The project has three main outcomes:

1. A roadmap to highlight next steps in industry focus overtime
2. A set of policy positions for short term focus
3. An assessment tool to enable this work to be repeatable in a cost effective manner

6.1 The roadmap

Based on the multicriteria analysis in Section 5.4, a roadmap for the next five years identifies the five main areas for the industry to focus – labour and energy (tier 1), market access, inspection regimes and animal welfare (tier 2).

Figure 5 presents the main policy issues for consideration by AMPC and AMIC over three timeframes for policy development.²³

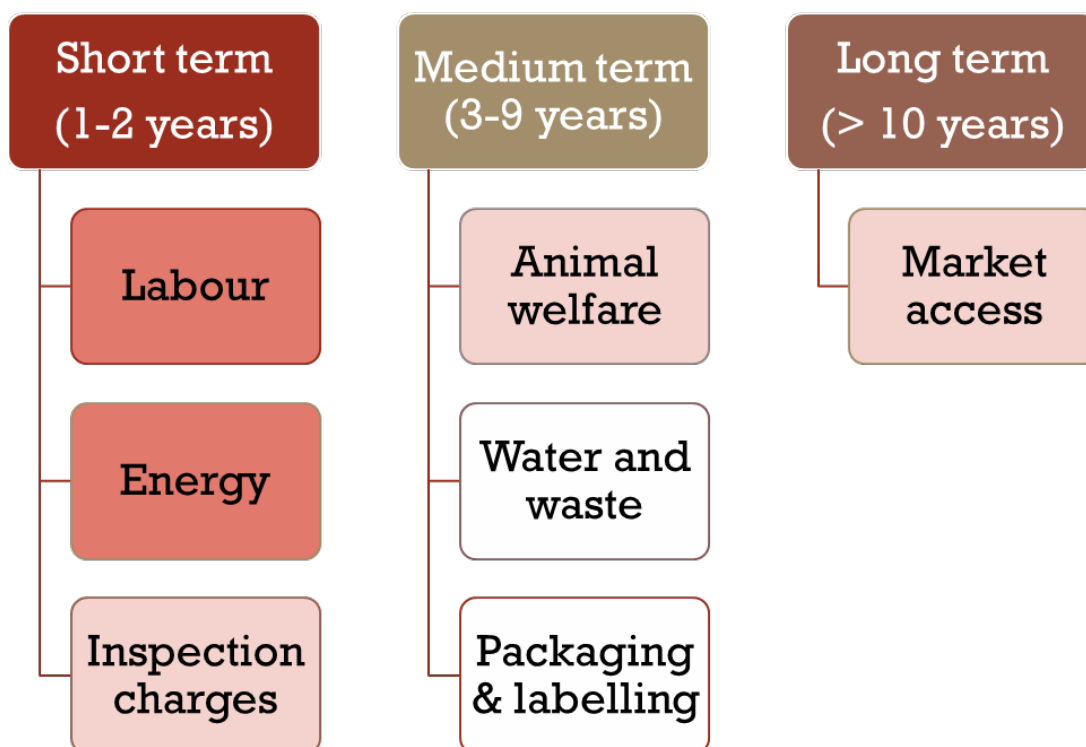


FIGURE 5 – AN ISSUES ROADMAP FOR 2020 - 2024

²³ It is considered that technology, security of supply and consumer education and trends are issues that cannot be resolved through policy development.

These issues are currently of high importance to the industry (the darker than shaded box in Figure 4 the more important the issue). This will change over time and the industry's policy focus will need to shift accordingly. It is suggested that the industry consider surveying a sample of its processors every two and a half years and its entire population every five years using the assessment tool (Section 6.4) to verify and then to update its position/s over time.

6.2 Policy positions

As noted in Section 6.2 there are two short term positions (labour and energy) for the industry to take forward and one to progress as Departmental reviews are completed (inspection charges)²⁴.

The animal welfare industry standard is currently being revised and will be released in mid-2020. Animal welfare more broadly requires coordination across the whole of the red meat supply chain. The multiple players in the system means a medium term perspective will lend itself to ensuring an optimal outcome across all levels of the supply chain.

We recommend a 'watch and wait' approach to a policy position for market access be reconsidered at a later date. Market access is complex and beyond the industry and government alone. It requires a long term coordinated approach across the whole of the red meat supply chain, which given potential changes to the red meat MOU and the RDC system is again considered to be beyond the scope of this project.

These policy positions – are provided in Appendix A and a timeline for the next five years is presented in Figure 6.

²⁴ inspections charges and cost recovery are currently under review by the Department and forming a view prior to findings being released would be premature.

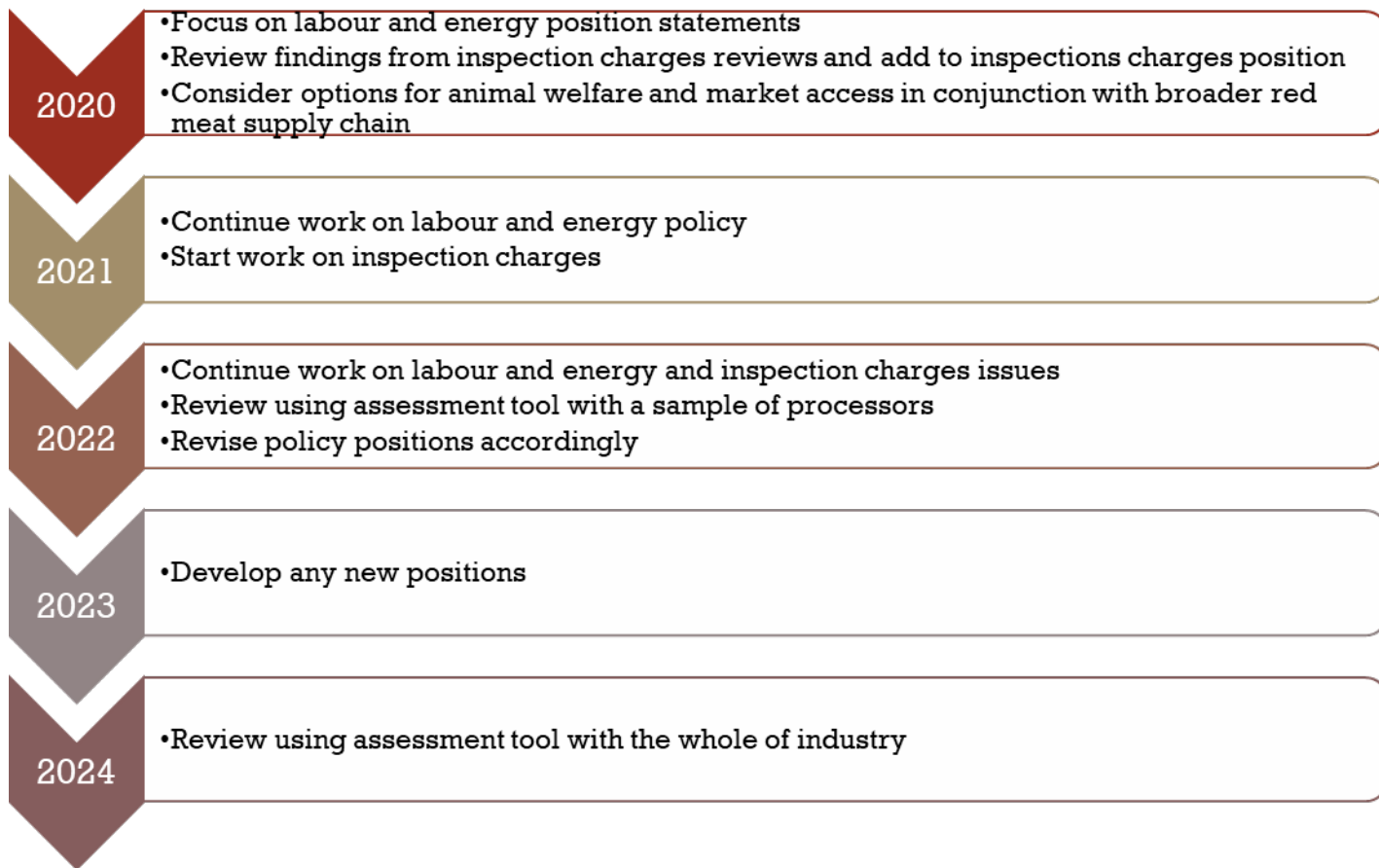


FIGURE 6 TIMELINE FOR NEXT FIVE YEARS

6.3 The assessment tool

A revised ready for use assessment tool is provided as an excel file (a separate document accompanying this report) with instructions for use.

The tool has been designed to assess and prioritise industry issues to create a roadmap to assist industry to determine which issues to prosecute that will return the greatest benefits to industry and broader society.

The tool can be used with expert judgement, supporting evidence or both. The issues can be updated at anytime and the analysis can be conducted as frequently as the industry thinks is appropriate. For each issue, a processor or other industry stakeholder (respondent), needs to consider the five criteria listed below and score its importance relative to a scoring rubric. There are no right or wrong answers as this analysis is subjective in nature and will produce different results based on the respondent's preferences or considerations at the point in time that they are completing the assessment. Box 1 provides some detail on how industry should consider each of the questions when using the assessment tool.

In considering your response to each of the criteria in this tool, the following may assist you:

1. Importance of issue to red meat processing sector stakeholders (motivation)

You should consider issues as they relate to the red meat processing industry as a whole rather than your own specific issues.

2. Level of control the industry has in influencing this issue (ability to impact)

To what degree do you think it is possible that the industry alone could implement change?

3. Expected benefit to the industry of reform (noting that sometimes reforming things can have a negative impact)

If the issue was to be reformed / changed from its status quo, what benefit do you think this will have for the red meat processing sector?

4. Expected social benefits (beyond the red meat processing sector)

Thinking more broadly and considering society rather than just the industry – will there be a benefit for others outside the industry? You could think of this in terms of the benefits it might bring to your local communities or to the nation as a whole.

5. Probability of securing a positive outcome (through a coordinated approach)

How likely do you think it is that reform can be achieved and provide a positive outcome for industry?

Finally, each issue needs to be considered in respect to the industry focus the respondent considers is required.

If change were to happen do you think it needs to occur in the short term (1-2 years), medium term (3-9 years) or long term (>10 years)?

BOX 1 GUIDELINES FOR USING THE ASSESSMENT TOOL

7.0 CONCLUSION

7.1 Key findings

There are three key findings from this project:

- // The sector's approach to reform is disconnected from stakeholders and their needs. Benefit selling without consideration of the needs of those who will implement reforms, and the expectations stakeholders have of the sector, are unlikely to succeed (need win-win).
- // Positioning processors as the red meat industry and producers' friend is hard given its supply chain role and the presence of others.
- // The sector has unique connections across Australia and resources within AMPC and AMIC that can be harnessed for reform.

7.2 Overall recommendations

Rather than pursuing reform based on the contributions and efforts of processors, AMPC, in collaboration with the red meat processing industry, needs to develop a new and unique position which:

1. Repositions the sector by building a unified narrative and messages that are supported and used by processors, AMPC and AMIC.
2. Creates a collaborative orientation to reforms that integrates stakeholders' expectations and drives joint actions.
3. Harnesses processors' grass-roots connections to demonstrate the sector's contributions and to strengthen the socio-economic development of the towns and regions in which the sector operates.

7.2 A plan for the way forward

A three-step plan has been developed based around building a unified narrative, creating a collaborative approach to reform and harnessing the connections that the industry already has with its local communities to drive the industry forward. The benefits of each step and some actions are articulated in the table 2.

TABLE 2 PLAN FOR THE WAY FORWARD

Step	Benefit	Action
Step 1: Build a unified narrative and messages that are supported and used by processors, AMPC and AMIC.	// Articulates the value proposition of the Australian Red meat processing sector (contribution to society and supply chain) // Defines areas where the sectors want to and can influence (shared priorities and effort)	a) Engage Red meat processing sector leadership to create understanding on the need to change and develop the unified narrative and messages
		b) Sessions with AMPC, Australian Processor Council of AMIC
		c) Individual briefings before / after with key processors (incl those who could not attend workshop and participated in project)
		d) Develop narrative and messages
		e) Draft for sector engagement
		f) Final following engagement
Step 2: Create a collaborative orientation to reforms that integrates stakeholders' expectations and drives joint actions.	// Ability to effectively meet stakeholder expectations and progress issues (cost-effective reforms) // Changing perception of red meat processing sector (more support for sector and willing to engage by stakeholders)	a) Develop simple behavioural framework which works with priority tool developed, i.e. issues prioritisation and stakeholder segmentation.
		b) Organise coalitions of willing and action plans to pursue/pilot a couple of key issues
		c) Focus on issues which enter in public understanding of the animal protein supply chain, by clearly articulating the role they play in producing quality assured food from livestock, for both domestic and export markets
Step 3: Harnesses processors' grass-roots connections to demonstrate the sector's contributions and to strengthen the socio-economic development of the towns and regions in which the sector operates.	// Ability to effectively meet local stakeholder expectations in and progress issues (cost-effective reforms) // Demonstrated articulation of processors' value proposition to regional communities and towns	a) Develop processor regional socio-economic toolkit
		b) Regional processor socio-economic profiles and case studies
		c) Framework to engage locally (including case studies of new ideas that work the sector can borrow/use)
		d) Pilot in a number of regions will a range of different processors (March 2020+)

8.0 BIBLIOGRAPHY

AMPC (2018). Industry Top Issues. Accessed 15 July 2019: <https://www.ampc.com.au/knowledge-hub/industry-top-issues>.

Auditor-General, 2019, *Application of Cost Recovery Principles*, Auditor-General Report No.38 2018–19 Performance Audit, Australian National Audit Office.

Department of Agriculture and Water Resources (DAWR), 2015, *Food Export Cost Recovery Implementation Statement (CRIS)*.

Department of Agriculture 2017, Australian Export Meat Inspection System Information Package.

The Department, 2015, *Cost Recovery Implementation Statement: Food exports certification, 2015–16*.

Helibron, S.G., 2018, *Cost to operate and processing cost competitiveness — A combined report*, Report for AMPC.

Joint Red Meat Industry, 2007a, *Red Meat Industry submission (part A) to the Productivity Commission first Annual Review of Regulatory Burdens on Business — primary sector*.

Joint Red Meat Industry, 2007b, *Red Meat Industry submission (part B) to the Productivity Commission first Annual Review of Regulatory Burdens on Business — primary sector*.

Joint Red Meat Industry, 2008, *Red meat industry submission to the Productivity Commission second Review of Regulatory Burdens on Business — manufacturing sector*.

Meat & Livestock Australia, Ernst & Young, 2018, *State of the Industry Report 2018: The Australian Red Meat and Livestock Industry*.

Palladium International Pty Ltd, 2019, *AEMIS Review Recommendations Report*, Report for AMPC.

ProAnd Associates, 2012, *Regulatory costs and assistance to the red meat and livestock industry*, Report for MLA.

ProAnd Associates, 2016, *Regulatory costs in the red meat and livestock industries*, Report for MLA.

Productivity Commission, 2016, *Regulation of Australian Agriculture*, Report no. 79, Canberra.

9.0 APPENDIX A – POLICY POSITIONS

Three policy positions are detailed in the following pages.



Labour – people and towns

Aim to secure a sustainable workforce for red meat processors in resilient regional towns.

Background

The red meat processing industry contributes about 100,000 direct and indirect jobs in Australia. In regional areas it can be especially difficult to fill these roles. About 60% of Australia's 95 abattoirs currently in operation are in regional areas.²⁵

Many abattoirs are the largest employer in their town (or region) making red meat processing an important driver for jobs and growth in regional communities. This can be evidenced by multiple (16) proposed new abattoirs in regional areas over the next 5 years.²⁶

Labour attraction and retention is critical to the sector's success. It is the single highest input cost for red meat processors at nearly 60% of total operating costs (excluding the cost of livestock) (Helibron, 2018).

Red meat processing has been and will continue to face surplus labour challenges due to the drought. In 2018-19 AMIC reported a national meat processing industry employee shortfall of around 3,800 people for skilled and unskilled positions.²⁷

This trend will continue in the immediate post-drought period as herd and flock numbers increase. Other industries and businesses in regional locations are also facing similar challenges to securing a sustainable workforce. More broadly, many regions and towns face higher unemployment, higher drug-use and depopulation, particularly among youth.

The sector's ability to secure labour is constrained by:

// the relative attractiveness of jobs at processing plants. This relates particularly to the physical nature of many jobs and variable hours driven by seasonal/market conditions.

// the suitability of the local population in terms of their willingness and ability (e.g. skills, health etc) to participate is also a constraint.

These constraints also apply to other industries and businesses in regional towns across Australia.

Temporary and permanent migrants both play an important role in partly offsetting labour constraints. Industry surveys suggest that, on average, 25% of all workers are temporary and permanent migrants holding visas and at least 63% of businesses employ at least one visa holder.²⁸

Migration issues are often politically contentious, particularly in locations where local unemployment is high. The performance of visa schemes to increase local labour participation is mixed.²⁹

Options

²⁵ AMPC member lists have been cross referenced with public data from public websites for businesses and sites such as <https://www.aussieabattoirs.com/facts/directory>

²⁶ See: <https://www.beefcentral.com/processing/australias-proposed-new-abattoirs-where-are-they-all-up-to/>

²⁷ AMIC, 2019.

²⁸ <https://www.beefcentral.com/processing/two-thirds-of-red-meat-processors-hampered-by-labour-issues/>

²⁹ AMPC is currently undertaking a review into visa arrangements and as a result the two options below take a different tact that should be able to work with any visa or immigration policy stance that the industry may wish to take in parallel with the option/s outlined here.

Option 1: Individual initiatives

Negotiating temporary and permanent migrant visas remains an important priority for the sector. The nature of the work and commercial relationships in export markets means the sector will need migrant labour in the future. The standards and processes for on-boarding and retaining migrant workers (and families) will need to be refined over time. Similarly there is scope to improve local labour participation.

Option 2: Multi-faceted and collaborative initiatives

There is a growing recognition that sustaining labour requires a systemic and adaptive response involving many initiatives such as:

- // Infrastructure – to improve transport and information connectivity
- // Services – to improve access to health, education, entertainment, recreation and other facilities
- // Reforming regulation – to improve the cost and ease of doing business and attract more industries and businesses
- // Civic participation and leadership – to build resilience and social cohesion
- // Social cohesion and leadership.

A bottom up agenda needs to be developed and led by red meat processors on a local level in conjunction with other local business and industry and local government which can draw in additional support by working with state and Commonwealth governments. The range, focus and timing of the initiatives will likely vary by region/town/industry.

Option 1 may be effective for individual processors who are large enough to enact change in their local communities. However, Option 2, working in conjunction with, and for the benefit of, regional communities in a collaborative manner with other local businesses and local government will help to drive grass roots change and attract the support of state and federal government. It will also provide direct benefit to red meat processors through building communities, developing social licence and providing labour supply which is more engaged, more sustainable and more resilient.

There are several risks and barriers to Option 2 that will need to be managed. The key ones include:

- // Inability to find leadership (leadership is crucial to the development of collaborative initiatives).
- // Inability to find suitable collaborators and convince them of the importance of this approach.
- // Inability to gain traction with local, state or Federal government.

Recommendation

AMPC, with AMIC, over the next 12 months, should work with the industry to:

- a) Profile all regional processors and their communities on a socio-economic basis to determine individual region/town needs.
- b) Develop a framework to engage locally to validate (a) (including examples of ideas that work that the sector can borrow/use).

c) Develop a template for designing regional strategies and pilot in a number of regions with a range of different processors and produce a series of case studies which can potentially be applied in other regions.

References

Helibron, S.G., 2018, *Cost to operate and processing cost competitiveness — A combined report*, Report for AMPC.

Energy

Aim to secure sustainable and renewable sources of energy for red meat processors so as increase energy reliability and affordability whilst reducing emissions.

Background

The Australian energy sector has and continues to experience volatile times in recent years. Motivated by the need to reduce emissions of GHGs, and policies to put these reductions into effect, the electricity sector has been transitioning away from coal and gas fired electricity and towards renewables (wind, solar and hydro), which now account for about 25% of energy production in the National Electricity Market (NEM),³⁰ up from 14% five years ago and 8% 10 years ago.

For a variety of reasons, partly to do with this transition and partly because of higher network (transmission and distribution) charges, electricity prices for the manufacturing sector (which includes food processing) have risen by about 60% in real terms over the past 10 years.³¹ Gas prices have also risen sharply over this period due to LNG export, with domestic gas prices rising to match international gas prices.

Nationally, the increased penetration of renewable energy is complicated by the reliability of sufficient electricity generation to meet load (demand). The concern is that wind-generated electricity and solar-generated generated are variable – they depend on the strength of the wind and the existence of daylight respectively.

The Australian red meat processing industry, like many other industries, has been hard hit by increased electricity and gas costs.

In terms of emissions the red meat processing industry is in a challenging position, accounting for only 0.25% of Australian Greenhouse Gas Emissions (GHGs), and only 2% of emissions from the whole red meat sector. Nonetheless, while the sector continues to make incremental improvements in energy efficiency, it continues to struggle with the transition to cleaner, more reliable and cheaper forms of electrical & thermal energy supply.

As energy policy is constantly evolving at a national and state level many meat processors have taken actions themselves to reduce their energy costs. Whilst this may be more feasible for larger scale operations it can prove to be more difficult for smaller and medium sized businesses and those in remote locations. The sector faces barriers such as:

- // significant up-front capital costs for “behind the meter” renewable & clean energy solutions
- // uncertain returns on new investments
- // uncertainty around support for a range of technologies in a changing energy & environmental policy landscape
- // no “one size fits all” solution – processors differ in size, demographics, type and operating environment.

The industry should move to harness comprehensive government support to assist with energy reliability and affordability whilst reducing emissions, but should do so with a focus on broader

³⁰ The NEM is all states and territories except WA and NT.

³¹ <https://grattan.edu.au/report/power-play/>. With the CPI increasing by about 24% over the past 10 years, this means that electricity prices in nominal terms for the manufacturing sector have doubled over this period.

benefits such as regional development including jobs, environmental gains and export competitiveness.

Options

Option 1: Targeted support

Many larger processors are already planning to improve energy efficiency, reduce costs and increase productivity through projects such as capturing biogas from waste.³² Collation of lessons learnt from these projects across a range of different sized processors will help inform the aggregate potential for energy efficiency, cost reductions and emissions reductions in the industry and assist in understanding sectoral differences.

Targeted support (i.e. both technical support and financial support) for projects for small and medium sized businesses need to be available and accessible as small and medium sized processors do not have the time, budget or expertise to find their own solutions.

Option 2: Coordination among processors, across industries or within regions

Looking for regional (technological or pricing) solutions that can support other local industry as well as red meat processors within a region should be explored. This may include for example:

- // Partnership or co-operative arrangements with renewable energy providers in the region
- // Aggregated regional supply to lock in favourable long term prices and/or more beneficial regional energy management practices

These solutions require leadership and may be best coordinated at a local government or regional chamber of commerce level with the support of AMPC and/or facilitation by AMIC. Each town/region's needs are likely to be different.

Option 1 requires an element of transparency and timeliness within the industry to enable lessons to be learnt more quickly and to develop a portfolio of different solutions to be developed for different types and sizes of red meat processing facilities.

Option 2 requires effective leadership beyond the red meat processing sector as most energy providers want a longer term commitment (at least 10 years) than processors (without interest from other industries) may be willing to accept. There are several risks and barriers to Option 2 that will need to be managed. The key ones include:

- // Inability to find leadership (leadership is crucial to the development of collaborative initiatives).
- // Inability to find suitable collaborators and convince them of the importance of this approach.
- // Inability to gain traction with local, state or Federal government.

Recommendation

AMPC, with AMIC, over the next 12 months, should work with the industry to:

- a) Understand the aggregate energy demand needs across the industry including the differences for large and small facilities, regional differences and also their different capacities to effectively measure, manage and reduce emissions.

³² For example a project by Southern Meat Corporation supported by ARENA (\$2.1 million grant, total capital cost \$5.75 million)

- b) Investigate opportunities for targeted government support to reduce barriers (financial or otherwise) for small and medium sized processors to find sustainable solutions.
- c) Investigate opportunities on a regional basis for collaboration with other industries for technical, management and/or pricing solutions to increase energy reliability and affordability and reduce emissions.

References

Kember et al., 2019, *Emission reduction pathways and opportunities for the Australian red meat processing sector*, Report for AMPC.

Inspection charges

Aim to improve the effectiveness, efficiency and transparency of the Department of Agriculture's inspection charges.

Background

The Department of Agriculture (the Department) provides a suite of services to certify a product for export including importing country requirements. Industry is concerned that as the Department is a sole provider of these services there are little or no incentives for it to operate efficiently and effectively. The cost of most of these services is provided on a cost recovery basis which is not transparent.

There is potential for many of the issues industry has with fees and charges to be resolved through these review processes. Expected benefits to both government and industry of the Department adopting the Australian National Audit Office recommendations are:

- // Improved effectiveness and efficiency
- // Improved transparency
- // Improved stakeholder engagement

The industry should consider a 'watch and wait' approach to inspection charges in the short term.

Options

Option 1: 'Watch and wait'

There are several large reviews recently completed (December 2019) or ongoing that should be fully examined prior to developing a policy statement.

Concurrently, further work should be considered in areas where concern remains especially if it is unlikely that industry is satisfied with the possible outcomes. For example, examining alternative cost approaches for dealing with technical trade barriers and the services the Department provides when product is rejected at the time of entry into a market. Other areas for further research could be around investigating the rationale behind the use of flat fee for service structure rather than charging on a per head or unit basis.

Recommendation

AMPC, with AMIC, over the next 12 months, should work to:

- d) Understand the findings of the various reviews by government (e.g. the release of the cost recovery statement, the EY review into cost recovery arrangements, AMPC's recently published report by Palladium International on AEMIS).
- e) Investigate opportunities from the outcomes/findings of these reviews to develop a policy position for the industry going forward (second half of 2020).

References

Palladium International Pty Ltd, 2019, *AEMIS Review Recommendations Report*, Report for AMPC., Report for AMPC.