

## **EXPLANATORY STATEMENT**

### **Select Legislative Instrument 2005 No. 284**

Issued by Authority of the Parliamentary Secretary to the Minister for Agriculture, Fisheries and Forestry

*Primary Industries (Excise) Levies Act 1999*  
*Primary Industries (Customs) Charges Act 1999*

*Primary Industries (Excise) Levies Amendment Regulations 2005 (No. 5)*  
*Primary Industries (Customs) Charges Amendment Regulations 2005 (No. 3)*

#### **Statutory Basis**

Section 8 of the *Primary Industries (Excise) Levies Act 1999* (the Levies Act) and Section 8 of the *Primary Industries (Customs) Charges Act 1999* (the Charges Act) provide that the Governor-General may make regulations prescribing matters required or permitted by those Acts to be prescribed or necessary or convenient to be prescribed for carrying out or giving effect to each Act.

Schedule 3 to the Levies Act and Schedule 3 to the Charges Act imposes levies in relation to cattle transactions. Funds corresponding with the amounts of revenue raised under each Schedule are appropriated for Meat & Livestock Australia Ltd (MLA) for marketing and research activities, Australian Animal Health Council Ltd to ensure that Australia's national animal health system delivers competitive advantage for Australia's livestock, and National Residue Survey for recovery of costs incurred in monitoring and testing residues and contaminants in food production.

#### **Purpose of the Regulations**

The purpose of the Regulations is to increase the rate of levy imposed by \$1.50 per transaction of adult cattle for a period of five years. The Regulations increase the amount destined for MLA, as the marketing body, from \$2.32 to \$3.82 per transaction for grass-fed cattle and from \$2.54 to \$4.04 per transaction for lot-fed cattle under the Levies Act and from \$2.16 to \$3.82 per transaction for adult cattle under the Charges Act. The Regulations also reduce the levy rates by \$1.50 per transaction on 1 January 2011.

The Regulations are legislative instruments for the purposes of the *Legislative Instruments Act 2003*.

#### **Background to the Regulations**

Following an industry-wide ballot, the peak industry bodies of the Cattle Council of Australia and the Australian Lot Feeders' Association approached government to increase the levy by \$1.50 per transaction.

The increased funds for marketing will be made available to MLA to boost its domestic and export beef marketing programs.

Details of the Regulations are provided in the [Attachment](#).

The Office of Regulation Review has been consulted in the preparation of these regulations and a Regulation Impact Statement has been compiled (reference number RIS ID 7600).

0516889A-051117Z

0516889B-051117Z

**Details of the *Primary Industries (Excise) Levies Amendment Regulations 2005 (No. 5)***

**Regulation 1 – Name of Regulations**

This regulation provides for the citation of the Regulations.

**Regulation 2 – Commencement**

This regulation provides for Schedule 1 of the Regulations to commence on 1 January 2006. Schedule 2 is taken to have commenced on 1 March 2003. The split commencements are due to Schedule 2 of the Regulations omitting Schedule 2 from the *Primary Industries (Excise) Levies Amendment Regulations 2003 (No. 3)*, which was to have reduced the overall levy rate by 17 cents per transaction of adult cattle from 1 January 2007. Instead, the Regulations provide for the 17 cent levy reduction in its place.

**Regulation 3 – Amendment of *Primary Industries (Excise) Levies Regulations 1999***

This regulation provides that the *Primary Industries (Excise) Levies Regulations 1999* (the Excise Regulations) are amended as set out in Schedule 1. It gives effect to the new levy rates.

**Regulation 4 – Amendment of *Primary Industries (Excise) Levies Amendment Regulations 2003 (No. 3)***

This regulation provides that the *Primary Industries (Excise) Levies Amendment Regulations 2003 (No. 3)* are amended as set out in Schedule 2. It omits Schedule 2 from the *Primary Industries (Excise) Levies Amendment Regulations 2003 (No. 3)*, which was to have reduced the overall levy rate by 17 cents per transaction of adult cattle from 1 January 2007. As a result of this omission, the other amendments under the *Primary Industries (Excise) Levies Amendment Regulations 2003 (No. 3)* continue to apply as of 1 March 2003.

**Schedule 1 – Amendment**

**Item [1] – Schedule 3**

Item [1] substitutes Schedule 3 (cattle transactions) to the Excise Regulations, providing for new rates of levy in 2006. Item [1] also inserts the new Schedules 3A and 3B, providing the rates of levy for the periods 2007-2010, and 2011 onwards, respectively.

The replacement Schedule 3 revises the amount of levy imposed through a \$1.50 increase on adult grass-fed and lot-fed cattle transactions for the period 1 January 2006 to 31 December 2006.

Schedule 3A replaces Schedule 3 on 1 January 2007 and has effect until the last moment of 31 December 2010. It advises the amount of levy imposed on adult grass-fed and lot-fed cattle transactions, and from 1 January 2007, it reduces the overall levy rate by 17 cents, reflecting an existing sunset that was put in place on 1 March 2003 under the *Primary Industries (Excise) Levies Amendment Regulations 2003 (No. 3)*.

To effect the 17 cent reduction in the levy, Schedule 3A:

- amends subclause 3 (1) of Schedule 3 to decrease the levy amount destined for the marketing body from \$3.82 to \$3.66 per transaction for adult grass-fed cattle;
- amends subclause 4 (1) of Schedule 3 to decrease the levy amount destined for the marketing body from \$4.04 to \$3.88 per transaction for adult lot-fed cattle; and
- removes subclause 3 (4) and subclause 4 (4) of Schedule 3, including their respective notes. Schedule 3A moves each respective note 2 under subclause 3 (3) and subclause 4 (3) to advise that the levy amount destined for the Australian Animal Health Council is provided under paragraph 6 (1) (d) of Schedule 3 to the *Primary Industries (Excise) Levies Act 1999*. The amount identified reduces from 14 cents to 13 cents per head.

Schedule 3B replaces Schedule 3A on 1 January 2011. It advises the amount of levy imposed on adult grass-fed and lot-fed cattle transactions will return to current levels, minus the 17 cents deducted under Schedule 3A, by deducting the amount of \$1.50 per transaction from 1 January 2011.

Schedule 3B removes subclause 3 (1) of Schedule 3A. Schedule 3B inserts the note under subclause 3 to advise that the amount destined for the marketing body from levy imposed on adult grass-fed cattle transactions is provided under paragraph 6 (1) (a) of Schedule 3 to the *Primary Industries (Excise) Levies Act 1999*. The amount identified is \$2.16 per head.

Schedule 3B amends subclause 4 (1) of Schedule 3A to decrease the amount destined for the marketing body from \$3.88 to \$2.38 per transaction for adult lot-fed cattle.

#### Schedule 2 – Amendments taken to have commenced on 1 March 2003

##### **Item [1] – Regulations 2 and 3**

Item [1] substitutes regulations 2 and 3 of the *Primary Industries (Excise) Levies Amendment Regulations 2003 (No. 3)*. The Regulations replicate the planned 1 January 2007 amendments currently provided under Schedule 2 to the *Primary Industries (Excise) Levies Amendment Regulations 2003 (No. 3)*. Accordingly, item [1] provides that the commencement date for the separate and preceding amendments covered under the *Primary Industries (Excise) Levies Amendment Regulations 2003 (No. 3)* is 1 March 2003.

##### **Item [2] – Schedule 2**

Item [2] omits Schedule 2 from the *Primary Industries (Excise) Levies Amendment Regulations 2003 (No. 3)*. Schedule 2 of the *Primary Industries (Excise) Levies Amendment Regulations 2003 (No. 3)* was to have reduced the overall levy rate by 17 cents per transaction of adult cattle from 1 January 2007. In its place, the Regulations instead replicate the 17 cent levy reduction, commencing 1 January 2007.

## **Details of the *Primary Industries (Customs) Charges Amendment Regulations 2005 (No. 3)***

### **Regulation 1 – Name of Regulations**

This regulation provides for the citation of the Regulations.

### **Regulation 2 – Commencement**

This regulation provides for Schedule 1 of the Regulations to commence on 1 January 2006. Schedule 2 is taken to have commenced on 1 March 2003. The split commencements are due to Schedule 2 of the Regulations omitting Schedule 2 from the *Primary Industries (Customs) Charges Amendment Regulations 2003 (No. 3)*, which was to have reduced the overall levy rate by 17 cents per transaction of adult cattle from 1 January 2007. Instead, the Regulations provide for the 17 cent levy reduction in its place.

### **Regulation 3 – Amendment of *Primary Industries (Customs) Charges Regulations 2000***

This regulation provides that the *Primary Industries (Customs) Charges Regulations 1999* (the Customs Regulations) are amended as set out in Schedule 1. It gives effect to the new levy rates.

### **Regulation 4 – Amendment of *Primary Industries (Customs) Charges Amendment Regulations 2003 (No. 3)***

This regulation provides that the *Primary Industries (Customs) Charges Amendment Regulations 2003 (No. 3)* are amended as set out in Schedule 2. It omits Schedule 2 from the *Primary Industries (Customs) Charges Amendment Regulations 2003 (No. 3)*, which have reduced the overall levy rate by 17 cents per transaction of adult cattle from 1 January 2007. As a result of this omission, the other amendments under the *Primary Industries (Customs) Charges Amendment Regulations 2003 (No. 3)* continue to apply as of 1 March 2003.

### **Schedule 1 – Amendment**

#### **Item [1] – Schedule 3**

Item [1] substitutes Schedule 3 (cattle producers) to the Customs Regulations, providing for new rates of levy in 2006. Item [1] also inserts new Schedules 3A and 3B, providing the rates of levy for the periods 2007-2010, and 2011 onwards, respectively.

The replacement Schedule 3 revises the amount of levy imposed through a \$1.50 per transaction increase on cattle producers relating to the export of adult cattle from Australia for the period 1 January 2006 to 31 December 2006.

Schedule 3A replaces Schedule 3 on 1 January 2007 and has effect until the last moment of 31 December 2010. It advises the amount of levy imposed on cattle producers relating to the export of adult cattle from Australia, and from 1 January 2007, it reduces the overall levy rate by 17 cents, reflecting an existing sunset that was put in place on 1 March 2003 under the *Primary Industries (Customs) Charges Amendment Regulations 2003 (No. 3)*.

To effect the 17 cent reduction in the levy, Schedule 3A:

- amends subclause 2 (1) of Schedule 3 to decrease the levy amount destined for the marketing body from \$3.82 to \$3.66 per head exported from Australia; and

- removes subclause 2 (4) of Schedule 3, including note 1. Schedule 3A moves note 2 under subclause 2 (3) to advise that the levy amount destined for the Australian Animal Health Council is provided under paragraph 3 (1) (d) of Schedule 3 to the *Primary Industries (Customs) Charges Act 1999*. The amount identified reduces from 14 cents to 13 cents per head.

Schedule 3B replaces Schedule 3A and commences on 1 January 2011. It advises the amount of levy imposed on cattle producers relating to the export of adult cattle from Australia returns the levy to its current level, minus the 17 cents deducted under Schedule 3A, by deducting the amount of \$1.50 per transaction from 1 January 2011.

Schedule 3B removes subclause 2 (1) of Schedule 3A. Schedule 3B inserts the note under subclause 2 to advise that the amount destined for the marketing body from levy imposed on cattle producers relating to the export of adult cattle from Australia is provided under paragraph 3 (1) (a) of Schedule 3 to the *Primary Industries (Customs) Charges Act 1999*. The amount identified is \$2.16 per head.

#### Schedule 2 – Amendments taken to have commenced on 1 March 2003

##### **Item [1] – Regulations 2 and 3**

Item [1] substitutes regulations 2 and 3 of the *Primary Industries (Customs) Charges Amendment Regulations 2003 (No. 3)*. The Regulations replicate the planned 1 January 2007 amendments that were previously provided under Schedule 2 to the *Primary Industries (Customs) Charges Amendment Regulations 2003 (No. 3)*. Accordingly, item [1] provides that the commencement date for the separate and preceding amendments covered under the *Primary Industries (Customs) Charges Amendment Regulations 2003 (No. 3)* is 1 March 2003.

##### **Item [2] – Schedule 2**

Item [2] omits Schedule 2 from the *Primary Industries (Customs) Charges Amendment Regulations 2003 (No. 3)*. Schedule 2 of the *Primary Industries (Customs) Charges Amendment Regulations 2003 (No. 3)* was to have reduced the overall levy rate by 17 cents per transaction of adult cattle from 1 January 2007. In its place, the Regulations instead replicate the 17 cent levy reduction, commencing 1 January 2007.

## ***REGULATION IMPACT STATEMENT***

### **REGULATIONS FOR A \$1.50 INCREASE TO THE CATTLE TRANSACTION LEVY**

#### **Background**

Beef cattle production is the most common enterprise on Australian farms, with farms running beef cattle found in all parts of Australia. It is an extremely diverse industry, ranging from intensively managed small holdings in the south-east of Australia, where more fertile soils and water availability allow high stocking rates, to extensive large scale and sometimes unfenced cattle stations in the continent's north.

In 2003-04, ABARE estimated the gross value of Australian cattle and calf production to be \$6.9 billion. The beef industry accounts for around 60 percent of all farm establishments in Australia, with the Australian Bureau of Statistics (ABS) reporting that there are approximately 77,734 farms recording cattle activities. ABARE estimates the Australian beef cattle herd at 24.2 million in 2004-05, around 0.6 million less than the size of the herd prior to the onset of drought conditions in 2002-03. Each year Australia produces just over two million tonnes of beef and veal (ABS).

Australian beef producers have adjusted their production and sale practices over the past decade in response to changes in the structure of beef cattle production in Australia and to changing markets. In particular, many producers have switched to cow and calf operations, producing young feeder cattle for feedlots or the live export trade and reducing production of grass fed steers and bullocks. For example, strong growth in export demand from Japan combined with strong domestic demand for grain fed beef has resulted in the number of beef cattle in feedlots increasing significantly.

Australia exports over 60 per cent of its beef and veal production, with the major export markets being in Asia and the Pacific, particularly the United States and Japan. Changes in international markets, including concerns over animal health and food safety, has a significant impact on the trading fortunes of the Australian beef industry.

The financial performance of Australian beef farms strengthened in 2004-05, as beef cattle prices and turnoff increased. With around two thirds of Australian beef and veal sold on international markets, prices are largely driven by developments in Australia's largest export markets. Most recently, Japanese and Korean demand for Australian beef has been stimulated by the import ban placed on beef from the United States following the discovery of BSE (bovine spongiform encephalopathy or 'mad cow' disease) in December 2003. The Australian feedlot sector has responded by increasing the number of beef cattle passing through facilities for export markets.

Over the last couple of years, demand and prices paid for Australian beef in the United States has also been strengthened by a ban on Canadian beef after the discovery of BSE (which has just been overturned), the prevalence of foot and mouth disease in South American countries and reduced cow slaughter by the United States domestic industry as a result of herd rebuilding taking place.

Australia's domestic market is the largest single market for Australian beef, with demand for beef having strengthened in recent years due to increased consumer demand.

The cattle lot-feeding sector has continued to grow in importance in Australia as beef producers seek to increase the quality and value of their product. Turnoff from the sector accounted for 27 percent of total Australian adult cattle slaughter in 2003-04, with grain-fed beef making up more

than 30 percent of total beef production, a more than doubling of grain-fed beef production in the past decade.

Meat and Livestock Australia (MLA), the industry's research and marketing body, was established in 1998 to serve the meat and livestock industries of beef, sheep and goat for the benefit of producers and other clients. With respect to the beef cattle industry, MLA conducts and supports research into beef production, as well as building demand for beef through domestic and export marketing and promotion. This research and development (R&D) and marketing activity is primarily funded by producers through the Cattle Transaction Levy. Matching funding is received from the Australian Government for R&D up to the value of 0.5 percent of the GVP.

The Cattle Transaction Levy is a flat rate payable by beef producers on each adult beast at the time of sale. Under the red meat industry's Memorandum of Understanding, the Cattle Council of Australia (CCA) and the Australian Lot Feeders' Association (ALFA) are responsible for advising MLA on the level of cattle levy required to fund industry programs and to provide strategic direction and policy overview for these programs.

The objective of the Cattle Transaction Levy is to create opportunities for growth and profit in the Australian beef industry through the provision and delivery of coordinated services and solutions. Key activities include focused marketing and market access initiatives to increase demand for Australian beef and providing producers with the necessary tools to allow them to improve efficiency, increase income and decrease costs of production. It is also critical that the Australian beef industry is able to assure its customers of the health and safety of Australian beef products and live cattle.

### **Medium-term outlook for the Australian beef industry – marketing challenges**

While the medium-term prospects for the Australian beef industry are positive overall, the industry faces a number of emerging challenges to its crucial export markets. The Australian beef industry's medium-term level of profitability is likely to centre on the industry's management of a number of crucial factors, particularly the extent to which Australian beef might be displaced should the United States and Canada both regain access for their beef to Japan and Korea, as well as emerging overall competition from the lower production cost exporters from South America.

These concerns were raised at the Red Meat Industry Strategy Forum held in October 2003, and an agreement was made to undertake a review of current beef industry marketing programs to ensure appropriate strategies and adequate funds will be available for future promotional and market development activities. An industry steering Committee, termed the Beef Industry Funding Steering Committee (herein referred to as the "Committee"), was established to undertake the review, producing a report in April 2005 titled "Funding for the Future".

The broad perspective of the Committee's membership, which covered production, processing, trade and export expertise, allowed it to take a critical view of potential investments and future opportunities that could maintain Australian beef and cattle prices at attractive levels.

The Committee met on six occasions, sighting information and data provided by MLA and other industry sources. The Committee found that the Australian beef industry's current prosperity is based on historically high levels of demand for Australian beef in Japan and Korea as well as domestically. Over the last couple of years, the Australian beef industry's disease-free status has allowed it to concentrate on exporting beef into the most valuable markets of Japan and Korea, but as a consequence, Australia's exports into secondary markets have fallen. When these secondary

markets are again needed because of increased competition in the Japanese and Korean markets, the Australian beef industry will have to recover its secondary markets from competitors.

After establishing forecasts for Australia's beef production and consumption patterns to 2009, the Committee judged that without additional funds for market development and promotion, the Australian beef industry can expect to lose market share in its most valuable export markets to the United States and to South American countries like Brazil.

Supporting this finding is analysis published by ABARE and Rabobank, which predicts exports of Australian beef to fall following the removal of trade embargoes for BSE and foot and mouth disease by several key importing nations like Japan and Korea. The removal of these trade embargoes is predicted to provide increased competition for beef supplies in Australia's crucial export markets from countries as the United States and Canada in the short term and by South American countries in the medium to longer term.

Therefore, the Committee's judgement that the Australian beef industry is likely to face increased competition in its export markets in the short to medium term appears a valid concern. For that reason, promotional programs to retain relationships established in the Japanese and Korean beef markets should be critical to subduing a likely decline in export volumes and prices, while regaining secondary markets from competitors will be just as important.

The Australian beef industry's marketing challenges lie in increasing domestic demand while defending its new-found position in Japan and Korea, and positioning Australian beef against the huge productive and low-cost power of competitor countries such as Brazil. The Committee's analysis revealed opportunities, along with investment strategies, to grow demand for Australian beef in domestic and global markets. The key investment opportunities are outlined below.

- Maintain a dominant position in the Japanese and Korean markets to counter the return of the United States by consolidating current trade partnerships and fostering new brands and business.
- Opportunity exists to continue demand growth in Korea by expanding current programs, developing new and existing brands and promoting a broader range of cuts.
- Recover volumes and improve growth prospects for Australian beef in South-East Asia, and position Australian beef in the emerging China market.
- Further develop live cattle exports into Indonesia and consolidate live trade into the Philippines and Malaysia.
- Support live exports to compete against low-priced beef from South America and India, particularly in South-East Asia, and to position Australia as a reputable supplier.
- Further grow demand in the United States for both manufacturing and chilled beef by undertaking new retail initiatives and partnerships and by containing non-tariff trade barriers, while supporting exporters to find and develop sustainable market niches.
- Establish a bigger and stronger presence for beef in the domestic market, with expanded nutrition promotion, new beef meal promotion and increased new product activity to boost annual beef consumption.

It is the Committee's view that the successful implementation of these programs would help maintain Australia's global markets and accommodate a forecast growth in beef production by 2009, while at the same time, limiting any potential downward pressure on Australian cattle prices. The Committee estimated that an additional \$21 million per annum is required over the next five years to fund these supplementary marketing and promotional strategies.

## **Problem to be addressed by the Regulations**



The Committee's investigations found that current rate of the Cattle Transaction Levy does not provide sufficient funds to finance these supplementary marketing and promotional strategies. The Committee believes that these supplementary marketing and promotional strategies are important for the future profitability of the Australian beef industry and that additional funds should be found so as to invest in the future of the Australian beef industry.

Increased funds will allow MLA to facilitate opportunities for further growth and profit in the Australian beef industry through additional promotional and marketing activities.

## **Objective**

The objective is to increase the funds available to MLA for promotion and marketing of Australian beef for the benefit of producers, consumers and the general community. Monies collected will be forwarded to MLA from 1 January 2006 to increase its promotional and marketing programs for a period of five years.

## **Identification of options to achieve the objective**

### Option 1: Status Quo

Under this option, there would be no change to the current level of funding going to MLA for marketing purposes.

### Option 2: Request the funds be provided by the beef processing sector

In addressing the issue of who should pay for the additional marketing activities, the Committee acknowledged a potential to raise the additional \$21 million per annum through added contributions by beef processors.

### Option 3: Raise the funds through voluntary means

Beef producers could be asked to make voluntary contributions for the purpose of raising the additional marketing funds.

### Option 4: Increase the Cattle Transaction Levy by \$1.50

The Committee recommended that the estimated \$21 million needed per annum to fund the additional marketing activities should be raised from levy payers through an increase to the Cattle Transaction Levy.

## **Impact analysis**

### Impact group identification

Increasing the funds available to MLA for additional marketing of Australian beef is aimed at generating commensurate market demand for Australian beef against forecast production trends. Without additional marketing, which is expected to provide commensurate market opportunities for Australian beef, greater choice and volumes of cattle will be available to buyers, allowing them to pay less for stock being sold by beef producers. Correspondingly, this would impact on beef producers returns.

The provision of increased funds to MLA for additional marketing of Australian beef is most suitably funded by the Australian beef industry, as it is likely to be the beneficiary of the outcomes

achieved by the additional promotional work. Therefore, the groups likely to be impacted by the proposal to raise the additional marketing funds are beef producers and/or cattle traders and/or beef processors – depending on the group/s targeted to raise the funds.

#### Analysis of option 1: Status Quo

Not having additional marketing and promotional monies generated could see the Australian beef industry lose market share to competitors in many of its export destinations. This would likely lead to a fall in cattle prices as a consequence of reduced promotion not being able to maintain and gain market opportunities and a greater choice of cattle available to buyers, allowing them to pay less for stock being sold by producers.

Separately, a 2003 CCA review determined that there is very little opportunity to trim existing marketing programs or divert funds from other areas of MLA. For example, there is an inadequate surplus of funds available under MLA's R&D programs to allow the diversion of funds into marketing. In 2003, the CCA also expressed concern that there was insufficient funding available to MLA for it to undertake its envisaged marketing activities at that time.

#### Analysis of option 2: Request the funds be provided by the beef processing sector

In addressing the issue of who should pay for the additional marketing activities, the Committee acknowledged the potential for raising the additional \$21 million per annum through added voluntary contributions by beef processors. However, this is unlikely as there is insufficient incentive for this to occur without sanctions also being put in place.

Alternatively, a compulsory levy on the slaughter of cattle could be introduced but this would require separate amendment to the *Primary Industries (Excise) Levies Act 1999* and separate consideration against the Government's Levy Guidelines and Principles to ensure they have been met. It would require the beef industry to have undertaken the necessary consultation and that a request to this effect is proposed to the Australian Government for consideration (which has not occurred). If a compulsory levy on the slaughter of cattle was enacted, some beef processors may choose to pass the cost of the levy on to their consumers, resulting in those consumers having to pay a higher price for the product purchased (i.e. processed beef).

The Committee found that many beef processors do undertake extensive private marketing of their own, estimating that up to \$10.2 million was spent on private marketing activities by beef processors in 2003-04. In addition, MLA has advised that around 60 individual beef processors contributed up to \$3 million annually to MLA to participate in collaborative marketing activities in export markets. Accordingly, the Committee recognised that the beef industry's marketing effort is not only represented by MLA programs.

The Committee also noted that many beef processors are significant cattle producers in their own right, with 10 out of the top 25 Cattle Transaction Levy payers being beef processors. It is reported that Australia's beef processors contribute approximately \$5 million annually to the Cattle Transaction Levy revenue.

#### Analysis of option 3: Raise the funds through voluntary means

There is no infrastructure or systems currently in place to accommodate voluntary contributions from beef producers, so they would need to be developed with cost implications and likely duplication of existing levy collection arrangements. Further, an industry body would need to take

on the principal function of managing the flow of funds from voluntary contributions to marketing and R&D activities

Further, attempting to raise additional marketing and promotional funds voluntarily is likely to present the 'free-rider' problem for some beef producers. Even if they understand that there are benefits to be gained from increased marketing and promotion, if they saw that there were other beef producers willing to fund enough marketing and promotional activities voluntarily, they are likely to further their own private interests by diverting their contributions to alternative activities.

#### Analysis of option 4: Increase the Cattle Transaction Levy by \$1.50

The estimated cost of increasing the Cattle Transaction Levy by \$1.50 per cattle head sold will be around \$21 million per annum for Australia's beef producers. Australia currently conducts around 13.5 million cattle transactions per year, a figure that is likely to increase over the next five years to average around 14.0 million. Accordingly, an increase in the Cattle Transaction Levy of \$1.50 per cattle head sold (from \$3.50 to \$5.00) is estimated to raise an additional \$21 million per annum.

There will be no additional administrative costs for the Australian Government in collecting and remitting the levy to MLA, as the Levies Revenue Service of the Australian Government Department of Agriculture, Fisheries and Forestry operates under full cost recovery.

The \$1.50 increase to the Cattle Transaction Levy would be borne by beef producers on each adult beast at the time of sale. There is not expected to be any extra costs to consumers. If the Australian beef industry fails to consolidate and build additional demand for beef, the Committee reports that an imbalance in supply and demand could occur by the year 2009 due to a forecast growth in domestic beef production. The Committee forecast that this imbalance in supply and demand could trigger a 15 per cent decrease in cattle prices (according to historical price movements on supply and demand patterns).

The Committee recommended to the CCA and the ALFA that the additional \$21 million identified for increased marketing and promotional activities is raised by increasing the Cattle Transaction Levy from \$3.50 to \$5.00 per cattle head sold. The CCA and the ALFA have subsequently recommended the increase of \$1.50 per cattle head sold to the Australian Government.

The Committee reported that it arrived at its recommendation by examining the sectors that would ultimately benefit from strengthened MLA promotional and marketing programs that aim to increase the value of beef sales. The Committee observed that there is a strong correlation of around 97 percent between the value of beef sales made by retailers and exporters and farm gate values received by beef producers. This indicates that Australia's beef producers are the major recipients of increases (or falls) in beef demand, while other supply chain sectors largely maintain their value positions.

The strong correlation between beef sales and farm gate values indicates beef producers will benefit by the extent of the success of MLA strengthening its marketing programs from the levy increase.

Through the Cattle Transaction Levy, all cattle producers compulsorily pay for industry-wide services provided by MLA. The raising of revenue through the statutory Cattle Transaction Levy avoids non-payers 'free-riding' under a voluntary system – that is, obtaining broad industry benefits from programs funded by only a few. This is a form of market failure often referred to as 'non-excludability' because those who do not contribute (under a voluntary system) to industry-wide services cannot be effectively excluded from benefiting from their impact.

The current Cattle Transaction Levy of \$3.50 per head consists of four separate components, transferred to various organisations for animal health, residue surveys, marketing and R&D. Each component of the Cattle Transaction Levy must, by law, only be used for the purposes for which they are raised. The additional \$1.50 would be added to the current marketing component of \$2.32 per head for grass-fed cattle and \$2.54 per head for grain-fed cattle currently provided to MLA. These proposed rates are under the \$6.50 cap set for marketing under Schedule 3 of the *Primary Industries (Excise) Levies Act 1999*.  
Competition Policy

The Cattle Transaction Levy rate is applied universally across the levy paying population to each cattle selling transaction. The additional \$21 million to be raised through the Cattle Transaction Levy is to be utilised solely for marketing and promotional purposes. The additional \$21 million to fund marketing and promotional programs is expected to strengthen the industry's profitability.

## **Industry consultation process**

The industry consultation process underpinning the recommended \$1.50 increase to the Cattle Transaction Levy conforms to the Government's Levy Guidelines and Principles.

The Committee arranged for MLA to provide resources for communicating the findings of its "Funding for the Future" report to all cattle levy payers before carrying out an industry-wide ballot.

Noting that not all levy payers are members of MLA, the Committee requested MLA to ensure all levy payers were aware of the ballot and were provided with access to information and voting kits. The communication included:

- 20 public forums in key beef producing regions throughout Australia leading up to the ballot;
- presentations to State farmer organisations and peak industry councils;
- full page advertisements in rural newspapers leading up to and for the duration of the ballot;
- a series of fliers and posters distributed to a range of networks (e.g. saleyards and livestock agents); and
- a 1800 phone number for non-MLA members to provide their details to obtain a voting kit.

The release of the Committee's report, the public forums and the undertaking of the ballot received widespread media coverage in both rural print and radio media. The issue was also featured on the Landline program on ABC television.

The industry-wide ballot was conducted between 14 June and 27 July 2005, presenting all levy payers with an opportunity to have their say and vote for or against the recommended levy increase. 9,806 levy payers participated in the voluntary ballot, with 8,849 participants from the grass-fed sector and 957 participants from the grain-fed sector. The 9,810 levy payers participating in the ballot shared approximately 12 million votes between them, with the grass-fed sector accounting for 9 million votes and the grain-fed sector accounting for 3 million votes. On average, each respondent from the grass-fed sector held 1013 votes while each respondent from the grain-fed sector held 3141 votes.

The voting results from the industry-wide ballot registered an aggregate industry figure of approximately 58 percent in favour of the levy increase, with approximately 42 percent of respondents voting against the levy rise. The grain-fed sector's vote was strongest, with approximately 66 percent of respondents voting in favour of the levy increase, while the grass-fed sector only voted 55 percent in support. The table below depicts how these results were arrived at and identifies the different voting patterns between the grass-fed and grain-fed sectors.

	<b>Grass-fed producers</b>	<b>Grain-fed producers</b>	<b>Aggregate</b>
<b>Total No. of Ballots</b>	8,849	957	9,806
<b>Total No. of Votes</b>	8,964,961	3,006,252	11,971,213
<b>No. of Votes “For”</b>	4,924,296	1,982,658	6,906,654
<b>No. of Votes “Against”</b>	4,040,665	1,023,594	5,064,259
<b>Percentage “For”</b>	54.93%	65.95%	57.70%
<b>Percentage “Against”</b>	45.07%	34.05%	42.30%

In addition to the industry-wide ballot, support for the levy increase was provided by the cattle producing peak councils – the CCA and the ALFA. The Committee’s proposal to increase the levy also enlisted support from the cattle Committees or boards of most state farming organisations, including:

- NSW Farmers;
- Victorian Farmers Federation;
- AgForce Queensland;
- Pastoralists & Graziers Association of WA;
- Western Australian Farmers Federation;
- Northern Territory Cattleman’s Association;
- South Australian Farmers Federation;
- Tasmanian Farmers and Graziers Association.

The Australian Beef Association (ABA) and a small number of beef producers have contended that the small participation in the ballot precludes credibility being able to be given to the ballot result. For that reason, the ABA has asked the Government not to support the proposed levy increase.

Despite the proposal to increase the levy and the ensuing ballot receiving widespread publicity, it is clear a large number of beef producers did not participate in the ballot, given that there are approximately 77,000 farms recorded as having cattle activities. Notwithstanding, MLA has advised that the ballot achieved more participation from beef producers than that ever previously achieved through typical endorsement processes carried out at an MLA meeting. For example, only 3,000 producers participated in a 2002 MLA vote to alter the Cattle Transaction Levy rate. It should also be acknowledged that it is inherently difficult to achieve widespread participation in a voluntary ballot.

Further, given the widespread publicity and the opportunity provided to all levy payers to participate, it can be argued that there was an onus on industry participants to make their individual views known through the ballot process as well as through the industry bodies that represent them. The low participation rate may also represent a measure of ambivalence in the outcome by a subset of the levy paying population. While levy payer participation may be lower than that hoped for, MLA reports that the number of votes tendered for this ballot represents around 35 per cent of the Cattle Transaction Levy monies.

## **Conclusion and recommended option**

The recommended \$1.50 increase to the Cattle Transaction Levy is regarded as the only effective means of raising the additional \$21 million per annum required over the next five years to strengthen MLA’s marketing and promotional programs. In addition, the recommended increase of \$1.50 to the Cattle Transaction Levy:

- conforms with the Government’s Levy Guidelines and Principles;
- will be applied universally across the levy paying population;
- has clear potential to benefit the industry; and
- is not expected to impose extra costs on consumers.

It is therefore recommended for implementation.

### **Implementation and review**

The Australian Government has approved the recommended increase of \$1.50 to the Cattle Transaction Levy for implementation on 1 January 2006.

Further, the Australian Government has balanced its approval of the levy increase by placing a number of conditions on the Australian beef industry. In 2010, MLA will be required to commission an independent performance report on the expenditure of the additional levy funds.

MLA will then be required to communicate the results of this performance report to the Australian beef industry before evaluating the industry's support for continuing the levy rate at \$5.00. If the Australian beef industry does not support the continuation of the levy at \$5.00 in 2010, the levy rate will return to \$3.50 per head sold as of 1 January 2011 by way of a sunset clause in the Regulations.

Domestic Meat and Livestock Policy Section  
Food and Agriculture Division  
Australian Government Department of Agriculture, Fisheries and Forestry  
October 2005

