



Teys Australia Submission: Agricultural Export Regulation Review

October 2015

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Cover Letter

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Agricultural Export Regulation Review

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Teys Australia Submission

Teys Australia Pty Ltd is pleased to provide the Review team with our submission in response to the Agricultural Export Regulation Review Discussion Paper.

As a company, Teys Australia makes a large contribution in regional Australia, employing over 4,500 people and adding some \$2.6 billion to national GDP, and \$1.1 billion to household income each year. We compliment the Government on the planning and length of time to conduct this important review.

The efforts and achievements of the Australian government in negotiating Free Trade Agreements (FTAs) with China, Korea and Japan during 2014 are to be applauded. They position Australian businesses to develop sustained export growth for the next decade and beyond.

The imperative now is for the government is to work to remove unnecessary regulatory burden and to address non-Tariff trade barriers. This will enable the adoption of innovative practices and processes that will enable Australian businesses to compete more successfully and capitalise on the opportunities for increased food exports. This is particularly important as the Australian red meat industry transitions from a commodity to a consumer base.

In our view, the biggest gains for the beef industry are likely to come from a strategy of pursuing greater market access, competing on differentiation and premium quality and driving down the costs and impediments imposed on beef manufacturers.

Teys Australia looks forward to working with the government to develop the next generation of regulatory frameworks that help to reduce red tape and to maximise export performance to the benefit of cattle producers, beef manufacturers, regional economies and Australia as a nation. Yours sincerely

Teys Australia Submission October 2015

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Executive Summary and Recommendations

Teys Australia is the second largest meat processor and exporter in Australia and proudly operated by the Teys Family. The company exports to over 40 countries and employs more than 4,500 full time employees across 10 locations, predominately in rural and regional areas of eastern Australia. It provides a significant economic contribution, adding approximately \$2.6 billion to the national GDP, and \$1.1 billion to household income each year, generating over 17 000 jobs, when flow on effects are taken into consideration.

The Government's Discussion paper on the Agriculture Export Regulation Review comes at a critical time for Australian agriculture. The past strategy of competing on a commodity basis is losing currency, as reflected by declining trade performance in recent years¹. The reason is that as a country with high input costs for agriculture and manufacturing, Australia can no longer compete internationally on a lowest cost basis.

The evidence reveals a clear trend for other national agricultural exporters to win a higher proportion of the growth in demand for agricultural products in Asia. Australia's competitors have moved decisively to secure the economic benefits offered by strong growth in Asia.

The strategic implication is that without the right regulatory framework there is a high risk Australia will not fully benefit from the strong economic growth and increasing demand for quality food in Asia.

We know that addressing on-farm competitiveness issues in isolation from the competitiveness of other agricultural value chain firms, especially manufacturing, will not halt the decline in trade performance.

Instead, Australia's response will require an integrated approach that is based on differentiation of food products based on premium quality and supported by increased access to high value markets and urgent action to remove costs and other impediments across the agricultural value chain. A significant cost is that brought on by regulation.

Australia needs a highly efficient and competitive beef manufacturing sector.

Decisive action by government in reducing red tape and excessive regulation will assist in providing the enabling environment for firms across the value chain to invest and compete. Teys Australia is committed to working collaboratively with the government and the wider beef industry to facilitate this review.

Recommendations

Teys Australia recommends that the Government's White Paper on Agricultural Competitiveness:

- Expand the scope of the Act to allow for the coverage of animal production activities.
- The Act and subordinate orders should cater for innovation.
- Industry standards should be able to be recognised by the regulatory framework.
- The orders should continue to cater for the recognition of third party auditors
- To avoid duplication the Act should cover food intended for domestic or export use.

¹ Australian Farm Institute. 2014. Review of Australian Agriculture's Trade Performance. 46pp.

- Consolidate the commodity orders.
- Apart from the initial approval assess amendments to the Approved Arrangement during audit and other verification activities.
- The regulatory framework should have the capacity to recognise commercial systems that operate to recognised industry standards in determining compliance.
- The commodity orders should contain specific provisions for the recognition of third party provider organisations.
- Consult in a timely manner directly with fee paying clients (using electronic processes).

Introduction

The Teys family has been involved in the Australian beef industry since 1946 when four Teys brothers formed a partnership to wholesale and retail meat in South East Queensland. The family has since grown its business to become the second largest meat processor and exporter in Australia.

The company's success is founded on family values, trusted relationships with its customers and suppliers, and a commitment to constantly innovate and improve to compete with the world's best. Today, Teys Australia is still proudly operated by the Teys family and jointly owned by the Teys family and Cargill (50 per cent shares).

Teys Australia has a long-standing and significant presence and commitment in rural Australia. The company exports beef to over 40 countries and employs more than 4,500 full time employees across 10 locations that are dominantly in rural and regional areas of eastern Australia:



Teys Australia has a significant asset footprint in regional Australia, operating six modern and efficient beef processing plants strategically located across the Eastern seaboard:

- **Teys Australia Naracoorte:** in the Coonawarra wine district in South Australia; employs 400 people, making it Naracoorte's largest employer;
- **Teys Australia Wagga Complex** employs over 800 people from over 40 nationalities;
- **Teys Australia Tamworth Complex** employs over 450 personnel, and is focused on the retail markets in Australia;
- **Teys Australia Beenleigh Complex:** has approximately 800 employees, and processes grain-fed cattle from Teys' Condamine Feedlot;
- **Teys Australia Rockhampton:** remains Australia's largest single shift operation. It currently employs over 1100 people and is the city's largest employer.
- **Teys Australia Biloela Complex:** located in central QLD; employs 400 employees.
- Three cattle feedlots: **Jindalee** (NSW), **Charlton** (VIC) and **Condamine** (Qld).
- **Teys Australia Food Solutions, (Brisbane)** provides value added meat solutions; and □
Teys Australia Murgon processes cattle hides supplied by the Company.

These assets provide an economic contribution adding approximately \$2.6 billion to the national GDP, and \$1.1 billion to household income each year, generating over 17 000 jobs, when flow on effects are taken into consideration.

What does the future look like

Question 1 – What are the emerging export related challenges or opportunities for your business

As a major beef exporter servicing over 40 countries, Teys Australia is well aware of the domestic and international forces that are re-shaping the business environment for beef value chain firms and for agriculture generally. We also know that a modern strategic approach will be required to accelerate improvements in competitiveness. More of the same will not produce better results.

The Agricultural Competitiveness Green Paper recognised that Australia has become a high cost producer of agricultural products. These high input costs for farms and food manufacturing firms have impacted on trade performance for agriculture. For example, there is clear evidence that exporters in overseas countries and not Australian exporters are now winning the greater share of market opportunities created by rising demand from consumers in Asia².

Persisting with the past strategy of competing primarily on a lowest cost or commodity basis in international markets is losing currency for Australian agriculture generally and the beef industry in particular.

The Agriculture Export Regulation Review now provides an important opportunity for policies and initiatives that accelerate a shift in the basis of competition from a commodity (lowest cost) basis towards one of differentiation on premium safety, quality and other attributes.

It will require a focused and purposeful approach to manage the transition. Reducing regulatory burden and the excess costs of production that come with it is a priority area within that transition.

Those efforts involves viewing the competitive situation objectively:

1. Across the Australian economy, agriculture is only sector that is internationally competitive³
2. Australian agriculture has not improved its competitiveness since 2005⁴
 - a. Continuing to concentrate on policy actions designed to improve competitiveness on a lowest cost (commodity) basis are very unlikely to reverse the recent flat or declining performance.
 - b. Shifting policies and mindsets towards agriculture competing on a differentiated basis while also removing impediments to efficiency offers the best returns.

² Australian Farm Institute. 2014. Review of Australian Agriculture's Trade Performance. 46pp.

³ McKinsey Australia. 2014. Compete to Prosper: Improving Australia's global competitiveness.

⁴ McKinsey Australia. 2014. Compete to Prosper: Improving Australia's global competitiveness.

3. A value chain approach is fundamental to the future success of agricultural businesses and especially where products involve manufacturing in Australia before exporting. All businesses in the value chain need to be profitable in the long term.
 - a. Treating competitiveness of farm production in isolation from processing does not reflect how the business processes required to meet demand actually work.
 - b. The way to best improve profitability for cattle producers in the long term is for beef manufacturers to pay more for cattle. For that to happen, beef manufacturers firstly need access to multiple markets so that the highest value beef products go to the highest value markets. Secondly, they need policies and a regulatory regime that dramatically improves the efficiency of meat processing in Australia.

The main implication of the above assessment is that for agriculture to become more competitive it will involve a ground shift towards a competing on a differentiated basis. It means taking a value chain approach that leverages agriculture and processing businesses as linked sources of Australia's comparative advantage in meeting demand for premium food products around the world. The new regulatory framework needs to support this.

Teys Australia has invested over many years in developing trusted supplier and customer relationships and in building world class infrastructure to produce premium beef. Further significant improvements in performance will depend on government action to remove critical impediments to beef manufacturing competitiveness, to the benefit all businesses involved in meeting demand for Australian beef.

Reducing Red Tape and Excessive Regulation

Decisions on domestic regulations need to take account of the potential impact on international competitiveness. Although it is a subjective measure, Australia ranks 128th on regulatory burden, while Australia's nearest neighbour New Zealand ranks 13th.⁵

The high cost of doing business in Australia relative to other exporting nations means that we cannot pursue a strategy of competing as 'lowest cost'. Instead, government action to increase competitiveness need to be about enabling a strategy of competing on quality and other attributes and recognising commercially based compliance and quality verification regimes.

Teys Australia operates in multiple states and therefore is required to comply with a large number of regulations administered across multiple levels of government.

The government's commitment to a collaborative approach with the States on program delivery should be extended to its commitment to cut red and green tape and reduce the cross-jurisdictional regulatory burden on the meat industry.

Regulatory reform does require a tailored, collaborative approach with industry to set priorities, take action and measure and monitor performance over time. We propose that the government prioritise the work program of the Departments of Agriculture and Industry special deregulation

⁵ McKinsey Australia. 2014. Compete to Prosper: Improving Australia's global competitiveness.

task-forces to ensure that they focus on removing imposts on those industries, such as the beef industry, where deregulation will produce the greatest returns.

Question 2 – To what extent would current export regulation make these challenges harder, or restrict you from pursuing opportunities

Value Chain Approach

A significant opportunity for the future lies in producing higher quality branded products. As part of this trend, markets both here and overseas are becoming more interested in the husbandry of the live animal prior to slaughter and may even be seeking information about the sustainability and ethics of the farming practices. Certification in the future is likely to cover on farm practices particularly at the higher quality end of the trade. An early example of this is EUCAS.

Programs like EUCAS rely on the states and territories having uniform regulatory systems covering farms, transport, sales feed-lots etc. The problem with EUCAS over recent years is that some state government have tried to remove regulatory burden and have removed certain controls from the EUCAS system. This has been rectified but had the potential to jeopardise the EU beef market for all Australian producers and processors.

Agriculture under the constitution is a state matter. International trade particularly when biosecurity is involved is a Commonwealth matter. On international Certification issues it would provide greater consistency and increased simplification if these could be required under one Commonwealth Act.

There should be consideration to expand the scope of the Export Control Act and subordinate orders to cover animal production activities in the event a market requires certification for part or all of those activities. It could be an overt recognition of the state system or be a stand-alone section itself.

Expand the scope of the Act to allow for the coverage of animal production activities.

Innovation

To enable Australia to better compete internationally production and inspection costs need to be minimised. Therefore the development of innovative production technologies (process efficiency) and methods to reduce market risk (rejections) need to be encouraged in the regulations. The production process must continue to improve in efficiency to enable the product to remain competitive in the international market place,

The current red meat orders do allow for alternate processes. This principle should be elevated into the primary Act.

The Act and subordinate orders should cater for innovation.

Industry Standards Recognition

Emerging markets such as China have been requiring that exports meet certain newly developed standards e.g. Chilled meat standard. In practice the industry can develop these types of documents very quickly, and can have them implemented and assessed for compliance also within a very short space of time.

The problem for government is that formally recognising a standard for regulatory purposes can be a lengthy process. If the government had the ability to recognise industry standards to satisfy a particular market access need then it allows for greater flexibility when confronted with these types of requests.

A provision on the orders to allow for the purposes of market access, industry standards could be a useful compliance tool. There are already operating examples in the areas of animal welfare and chilled meat exports, but these are referenced indirectly through guidelines or market access requirements.

Industry standards should be able to be recognised by the regulatory framework.

Audit Duplication

The vast majority of the industries customers require some form of independent certification audit covering a whole range of issues from food safety, production system sustainability, animal welfare, ethical production systems, etc. That is on top of the regulatory compliance audits from local state and Federal authorities.

Some customers tend to reference slightly different standards and some even develop their own standards. The customers generally don't accept the audits from the government that cover the basic elements of food safety, animal welfare and product integrity (truth in labelling and traceability) or the audits of other customers, so duplication of audit effort and cost is very common. This lack of recognition is often more about differentiating themselves in the market place. This creates quite a large financial burden on meat processors and this translates into lower farm gate returns to farmers.

The orders should continue to cater for the recognition of third party auditors.

Increasing flexibility and enabling innovation

Question 3 – What do you see as unnecessary regulation (or “re tape” when exporting? Please provide specific examples

Scope of the Act

The current Export Control (Meat and Meat Product) Orders are limited to meat and meat products that are intended for export for food.

This is clearly stated in Clause 3 in the objectives:

3 Objectives of these Orders

3.1 The objectives of these Orders are to ensure that meat and meat products intended for export for food:

- (a) are wholesome or are identified for export for further processing for food; and
- (b) meet requirements to have an accurate trade description; and
- (c) meet the importing country requirements necessary to maintain market eligibility; and
- (d) are traceable, can be recalled if required and their integrity is assured.

As the orders don't cover meat and meats products intended for domestic use as food, there needs to be a Memorandum of Understanding with each of the state authorities so that the Commonwealth can discharge the domestic food safety function. In some states the food safety program in meat plants needs to be approved by both the export and domestic regulator. Some states have even raised the possibility of duplicating audits

The current orders reference the same food safety standards that the Domestic regulations reference. Therefore the need to have an MOU and administer that MOU adds to the cost of an export meat processing plants and to the various governments involved. If the export regulations covered all food then a significant layer of duplication could be removed.

It would still be possible for a State Authority to be the Commonwealth agent in certain circumstances if that were agreed to broadly by stakeholders but the principle would be that for export only 1 regulator needs to be engaged to avoid duplication.

To avoid duplication the Act should cover food intended for domestic or export use.

Numbers of Orders

The various commodity orders and the Export Control (Prescribed Goods General) Order share quite a few common parts mainly around administration of the registration, verification and certification functions as well as the powers and functions of authorised officers. There is very little difference between the commodities in this regard. Most orders reference Australian standards, guidelines or other technical documents for the commodity specific detail.

There would be administrative efficiencies if the commodity orders were combined into a single set of orders that allowed for the administrative arrangements to be harmonised between the commodities. Technical difference between commodities could be dealt with in referenced standard and schedules.

Consolidate the commodity orders.

AA approvals

Australia is one of the only countries in the world that has a formal approval process for the food safety aspects of the food production system. Most other countries operate on the basis that the processor is entirely responsible for that, and the regulator verifies that the process is adequate by the process passing audit. On that basis the processor is "approved" or otherwise recognised. The registration certificate is then current until the next audit.

It is probably not as clear cut when it comes to specific tasks that help create the export certificate such as “Request For Permit” validating. These direct processes between industry and government that cause a certificate to be generated probably do still need to be approved in advance for integrity reasons.

Apart from the initial approval assess amendments to the Approved Arrangement during audit and other verification activities.

Question 4 – Can you identify any improvements, initiatives or technologies that would make exporting easier for you? Please provide detail

Under the current orders, to help with the integrity of the prescribed goods information must be transferred from seller to buyer as the commodity moves through the supply chain. This information is often transferred manually to satisfy the official controls. For the same transfers there are often commercial transactions and many of those are actually handled electronically.

An examination of existing commercial system should be done so that any necessary government information requirements can piggy back an existing commercial transaction where they exist. The current orders attempt to do that by specifying the information required and then stating that it can be in a form approved by the Secretary of the Department.

The use of technologies like GS1 (international product identification and messaging standards [bar coding, RFID, eDec, eMTC, eCert]) can be used to identify and trace product. These have been used for the last 20 or more years in the retail sector to great effect.

The use of these types of technologies may enable the government to access product integrity/transfer information remotely and even automatically analyse that information to validate its integrity. This may be a cheaper option than to directly supervise a process and/or may allow for a decrease in audit frequency of some parts of the Approved Arrangement.

The regulatory framework should have the capacity to recognise commercial systems that operate to recognised industry standards in determining compliance.

Cooperation and communication

Question 5 – Are there activities in the export process the department currently undertakes that your business could manage. If so, what assistance (if any) would you require from the department to establish these processes.

In the meat area within the current orders there is scope for processor/exporters to do most functions now. There are markets that still require some level of government or independent involvement such as supervision of EU load-outs, or carcass by carcass inspection for the US, The response to Question 4 raises the possibility of using commercially available data to validate product integrity by trapping it through the supply chain and analysing those transactions. In exchange for sharing that information supervision or audits would occur less frequently

With regard to online meat inspection the EU currently accept inspection delivered by independent third party providers. The US are a little more cautious at this time preferring to rely on a government inspector inspecting each carcass.

A number of other tasks are outsourced to third party organisations such as auditing trade description, approval of Islamic slaughterers.

The commodity orders should contain specific provisions for the recognition and verification of third party provider organisations.

Question 6 - What information about exporting and export regulation does your business need? How would you prefer to receive this information?

Where ever possible the Department should consult directly with potentially affected businesses when-ever there are changes to regulations, market access requirements or to other quasi regulatory instruments including instructions to their own staff that have the potential to affect the relationship between the registered facility and the regulators staff.

Consult in a timely manner directly with fee paying clients (using electronic processes).