

2014 NTCA CONFERENCE
PRESIDENT'S REPORT

Dignitaries, Chairpersons of MLA, Livecorp, & ALEC and their CEO's, Mark Harvey Sutton from CCA, Peter Camp from the Kimberly Cattlemen's Association, Indonesian delegation, Life Members, Members, Ladies and Gentlemen

Once again it is a privilege to deliver the NTCA's Presidents Report and even more so being that of the 30th Anniversary of NTCA.

Browsing through earlier reports as I do from time to time a common theme is we are in battle. Every year we are fighting to protect our lot somewhere. It is now very obvious that there are many more stakeholders in and around our businesses, and they all want to stick their finger in the pie.

Social media platforms that have emerged in recent time have simply expanded the stakeholder base and given them more political clout. This cannot be good as for the life of me I cannot see how a 15 year old kid from Tasmania is entitled to an opinion on our lot. Nor should we have that entitlement on their lot. We do however, have to manage the new "cyberspace" battlefield.

I reckon it is due to a constant fight, that NTCA has consistently been strong. We are small, focused, flexible, and have common goals and aspirations. We are always fighting. A well-known opinion is that extended times of peace lead to complacency, and when you are 1 million and your enemy is 1 billion, you cannot even fathom the result of failure"

Unfortunately, industry rep bodies come to mind here, and some have a big big problem. **The risk of annihilation of some representative bodies is certainly not beyond the realms of possibility. They have too many conflicting agendas, they cannot represent one constituency and cannot fight one fight well. To me it seems there is too much dilution and fragmentation so nothing can be done as well as it should be.**

Last year I stated "Indonesia, Indonesia, Indonesia, Whatever happens in this market is going to have a profound effect on us in the NT" and, I stated "If we

are smart and with some luck I feel we could see some improvements into this market from the current 230,000 head for 2013. I say this with some trepidation as there is much wiser opinion contrary to this.”

Well haven't we seen a turnaround! Indicators looking like close to 700,000 head for 2014 quite possible and the current rate of around \$2.30 per kg extending beyond the normal wet season highs. A great outcome and I believe the results of many people participating individually and collaboratively to see this market re-established. An enormous effort has been put in by both Indonesians and Australians needs to be applauded, and on behalf of NTCA members, thank you.

In 2009, when over 700,000 head were sent to Indonesia problems emerged.

We must address these and others going forward.

There are 6-7 million farmers dependent on living from their own small cattle business. They need the price manipulation mechanisms imposed by the Indonesian Government to work, or I am sure we will feel the ramifications one way or another as we did in 2010.

I will once again say “with some trepidation as there is much wiser opinion contrary to this” that the sustainable Indonesian market level for Australian live exports is more around the 5-600,000 head mark. I can see no reason right now that the Indonesian farmers will not be subject to the same supply based downward market pressure on their livestock that was the case in 2009. The only way it could be mitigated is if the livestock price ex Australia is higher, thus sustaining their local price. **Market manipulation usually does not deliver the anticipated results.** Indonesia does not wish to see its cattlemen subjected to the pressures of 2009 again. Indonesia has such as synergy with northern Australian production systems that we need to assist their cattlemen where we can. Indo is a massive market. **We need to leverage their cattle industry for the benefit of our own.** The big picture needs to be considered.

At home and on the broader market and live export front we have many issues in front of us.

NT Issues

We continue to battle for good workable government policy around pretty well the same issues of 30 & 20 & 10 years ago. I am not saying the NT is any worse than other states, but seriously, here we are with basically **no drought policy at all after almost 150 years** of occupation. This is nothing other than astounding.

The conditions of our roads are declining. At a meeting in Katherine the other day I asked the Government representative what was needed to start the trend to improvement. He surprisingly said it was not money or resources, but timing. The money is allocated after the July budget. Is not available until November. Work commences but is invariably washed out by December. Work cannot begin until April Time is spent redoing work that was damaged just before. So it is May before the program continues. And it ends in June. Unfortunately, I don't believe this is an isolated situation.

On rates and rents. We have been informed that all land titles will be charged rates in the near future. Although it has been stated that it will only be around \$200 (at the moment) this does not mean we should accept it. If it so minimal why charge it at all?.

Land title issues continue. It seems we are heading towards developing a practical methodology of valuation and rating. The committee of Grant Heaslip, Rohan Sullivan, John Armstrong, & Tom Stockwell, with the assistance of Tracey Hayes seems to be getting some logic into the methodology. In anticipation of a practical solution thank you to these guys. Native Title respondent funding is half back on track I believe, however in a diluted format. Such a good program that went on for years benefiting all parties and somebody in Canberra had to meddle in it. For \$2.5 million per year! Smacked of a very malicious agenda in the previous regime to me. One that we were lucky to get back on track.

NTCA, without another major crisis to deal with, certainly intends to get back to grassroots in regards to the NT issues.

I will here congratulate NTG on how they have managed to improve the approach to all things good for NT industry. The encouragement of northern Australian development has been well received by many. Of particular interest to pastoral leaseholders is the **greatly improved approval process to develop**

country and the allocation of 30 year diversification permits attached to land titles. However the charges that are being bandied around are a concern. Developments maybe viable for some and not others depending on size and activity. We need to keep a close eye on this space. Generally there has been a massive improvement in the dialogue and consequential results between pastoralists and your departments, compared to what it once was.

Infrastructure

The **export yards are now clearly not of a good enough standard to handle large numbers in the wet season.** 90,000 head out of Darwin in a wet January is certainly has its challenges.

We got away with it this year with some very good management on a variety of fronts. Animal welfarists were here looking for trouble and we managed to come through unscathed. How we handle this situation going forward will take some thinking through. It is a macro-industry & government problem that must be addressed. Capital is needed and the return on this just to spell cattle on the way to ships may not be outstanding however, the cost of not upgrading infrastructure is usually far reaching and highly regrettable.

This situation alone is the “tip of the iceberg.” Our roads, our ports, our energy supplies, are all far too expensive. I congratulate both NT and Federal governments on efforts to date to kick start a process to achieving “globally competitive value chains.” A major undertaking to say the least when 90% of the competition for public spending comes from a population to the south of line that runs from just north of Brisbane to just north of Perth. What I am seeing up here however, is a good effort to break down restrictive “red tape” barriers to production.

I would like to see much better Government support for individuals and companies building serious public/industry infrastructure. AACo are making a massive investment in building the abattoir currently under construction. At the end of the day potentially in excess of \$100million. It will employ people who will pay taxes. AACo will pay payroll tax. There will be tax on energy etc etc. The skeptics should think the bigger picture before running to the media. If market forces are allowed to prevail and the abattoir is competitive it will prove to be pivotal for northern Australia over the near and medium terms.

Government Regulations & Red / Green Tape

The reason I bring (Government support) up is there must be a foreign delegation through Darwin every three days at the moment. Either government/sovereign wealth or private equity. I have had many discussions with these people and to a man the regulations and cost of labour is a big problem. We talk about sovereign risk in Asia in the context that we could have assets confiscated. They talk about **sovereign risk here in the context that they will have below par yields on investment, or lose money.**

Diversification Permits on Pastoral Leases comes to mind. A great initiative to encourage or allow diversification BUT....if you need a **gross margin of \$4000 per ha** to make money, real options are limited. Opiate poppies or Chia might work. As may Sandlewood plantations, or Dragon Fruit or the like. But forget about grain or fodder crops unless you can do some in market initiative that delivers unheard of prices. I believe this **can be done with scale, consistency, integration, and consistent collaboration and capability. And this includes improved infrastructure.**

In Katherine a couple of weeks ago the Chief Minister said something like “red tape is hard to find. It is intrinsically linked to other red tape. It is very difficult to undo.” Yes it is difficult. But it has to happen. The first step can at least be a freeze on any new regulation of any variety. Unless it returns \$ to the farm gate of course. We as producers need to be a bit careful here as many of us are requesting more regulation around gas exploration on Pastoral Leases whilst demanding less on the other hand.

As I said, we need to ban any new regulation that costs us money. And this includes rents, leases, or anything that we don't pay now. There needs to be policy that states this and only allows it if in the case of a miracle the new regulation actually enhances our productivity and bottom line. We only have to look at other countries to see this is imperative to global competitiveness.

I could expand on that and say get rid of half the regulators. Then they may administer the current regulations better and not be seen to be doing something by writing more regulations to justify their existence.

Our OH&S laws are “dumbing down” our workforces. Common sense and productivity is diminishing. Why aren't people & organisations rewarded for great workplace results? Rather than be averaged out as an industry, and then hit with a stick for breaches.

Our environmental laws are achieving nothing other than further encouraging proliferation of wallabies/ kangaroos/ dingos, weeds, ferals, and other pests. All insidious cancers eating away at productivity day by day.

At least now we are speaking to Governments who are hearing us and talking about improving farm gate income. This is the start of turning a massive ship around. I believe it is getting there. We need to keep up the pressure and Government need to keep up the momentum.

Market Access and Marketing

Government is to be congratulated in recent Free Trade Agreement negotiations. It is however perplexing how New Zealand has beaten us so comprehensively in the FTA space. Maybe we need to take a bit of notice of what they are doing. Their differentiation. Their delivery. Their production. Systems I would say, all most likely better than our own. Why?

I will however add that I am concerned how the management of the Indo Beef Partnership fund of \$60 set up by the Rudd Govt and the ACIAR fund of \$20m are headed. We have an opportunity here to use something like \$80m and it seems we can't get a decent round table together to do something constructive. Many good relation building programs, for example NTCA's student exchange program, and the Way Laga programs are potentially under threat. Ministers for Agriculture & Trade, I urge you to sort this out asap. So much good work has been done and could be for nothing, and so much good work could be done very quickly if a small group of the right people were put onto the job.

Although it is fantastic to see the recent recovery of Indonesia and further development of Vietnam & for those of us in the south, China, we need to ensure we do not have set backs and that we maintain the momentum going forward. Nobody in the supply chain can be complacent. We learnt what can

happen with a Government imposed shut down of a market in 2011. Even though totally out of **producers control we were hit hardest. Therefore we must participate in and, where necessary influence the supply chain discussion.**

We are now into a Senate Review of the dynamics around the grassfed levy that goes to MLA for R&D and Marketing. It is no surprise where we are at with this and the fact that the argument has been on for so many years means there is no easy solution. The fact that now many **grassfed producers terms of trade are now completely diminished means something has to be done now.**

Whatever the new industry structure looks we must, I believe, address the situation at the point in the value chain where producers, and beef and cattle exporters are diametrically opposed. This is **at the point of livestock pricing. Every dollar is fought for.**

There are two issues;

Cattle and beef exporters survive on margins. Cost of livestock is by far the largest cost therefore must be minimised. And they strategize around this;

For cattle and beef exporters a lower livestock price provides a greater global opportunity because the cost to the consumption base, is lower;

Therefore, I would argue given that \$3.66 of our transaction levy is spent on marketing the program needs to consider the costs and margins of the whole supply chain, including our productivity and cost of production. The question I ponder for hours over in the middle of the night is; **Why should grass fed levies be spent on markets that cannot afford our beef or cattle in the first place?** I would suggest identify those countries, regions, segments of markets that have economies that can afford it and spend the money there. **Let the exporters pay the cost of diversifying into B grade markets I would say.**

Industry Structures

In asking why we are at this point I think the fault lies in how industry representation and funding is structured. The antagonistically opposing perceptions and agendas of members within organisations is now too extreme & diverse.

When MLA was formed 20 odd years ago we were basically doing something like 400,000 tonnes of chilled grass and grainfed fullsets to Japan, 400,000 tonnes of frozen trimmings to the US, 400,000 tonnes of young and cull cow meat to the domestic trade, 200,000 tonnes of forequarter meat to South Korea, and offals & hides to Asia and that was 90% of the trade. Well today the trade looks nothing like that. It is larger and more complex and diverse, as you all know. And producers are still getting the same price in real terms.

Industry is clearly stating it is not satisfied with the performance of peak bodies, it is not satisfied with the selection committee process of the MLA board, and that it wants non SFO & individual representation on CCA. Frankly, I don't think anybody can say industry is wrong. And I don't think these are difficult things to achieve.

The complexity of the existing structures and arrangements, the complexity of tax law around compulsory levy collection, and the complexity in ensuring an adequate funding stream to a redesigned and fully independent CCA that clearly directs MLA where our \$3.66 & 92 cents are to be spent, are all difficult & complex aspects to deal with. But it has to be done.

The fact that at 3 weeks ago only 98 individual members have signed up is a big concern to me. The number of non SFO signatures is really disturbing.

It was recently commented in CCA that this could mean that industry is mostly satisfied or complacent. Very dangerous ground I reckon because this is not true. Clearly, in my mind, there has been insufficient lobbying of industry by CCA to join up.

The Senate enquiry currently underway, its findings, and recommendations will be interesting. I have read a few of the submissions and the quality of most of them is disappointing to say the least. There are a heap of individuals bagging all and sundry without any suggestion of a better system, there are those with just a couple of thousand meaningless words. And there are those that are not considering funding streams without SFO's. The reason being that a new model is very difficult to imagine. Maybe what we have is not too far wrong. It is just the approach we are taking. We may simply be carrying too much ancient baggage.

I think we have to fix what we have got. Firstly we have to address the three points I just raised in regard to what industry wants. Then we have to look at that area where producers and processors / exporters conflict around maximising and minimising livestock price. Then illuminate those components that allow actual, or even perceived, conflict of interest in MLA.

Grassfed producers must have 100% control over their part of the levy. CCA must have 100% control over the part of MLA that is providing that service, & MLA cannot allow that service to be compromised by other influencers in any way, shape, or form. It is a leadership, management and attitude issue.

Transparency then comes to mind.

There should and can be no reason why MLA cannot prove that any part of the grassfed levy was not spent as instructed.

There has been quite a bit in the press lately in regards to a more transparent declaration of prices achieved by processors and exporters. There is naturally resistance to providing information that competitors could benefit from in these camps in this regard, but if we are to move forward in this industry we can and need to disclose certain things better than we do and not necessarily others.

Beef & cattle exporters have a good understanding of the producer model, however producers mostly don't understand processing and exporting. I have worked in the processing game and when I hear producers calling for processors to share profits more equitably I shudder. The losses these guys make in good seasons are bloody terrifying sometimes and I know producers would not be sharing their profits, no matter how high they were. Better understanding would certainly save a hell of a lot of time and energy wasted on debating and rectifying this issue.

Commenting on the next 30 years.

The next three are so so important in order to be in a good position in 30years. This I see is the next NTCA battleground. If we "trajectorize" in our

imagination the current internal dynamics and external influences of our businesses we are in big trouble. Herein is the opportunity however.

I have said it verbally over the past year or so (and been laughed at by exporters) but will now put it on the record.....**the grass fed cattle industry of Australia needs to average close to \$3 per kg live weight in order to provide a competitive return for our investors, cover our operating costs, provide adequate funding for marketing and productivity R&D, and maintain and improve our social license.**

This means that we have to minimise waste wherever possible, lobby all and sundry against any new costs and freeze or reduce adverse regulations.

And then in the market we find those segments, within segments, within segments, within a market that can deliver these premiums. We have to differentiate Australia and utilise our advantages which are unique and many. We cannot go head to head with those countries with lower cost bases any more

The middle class of Asia is developing at an astounding rate. It is said there will be 6x the number of them in 20 years as that of today. Within this demographic is the \$3 market. We can provide clean, green, high quality, certified, socially licensed products that they demand. Whether live cattle or beef is exported from here is irrelevant. It will certainly be a mix for quite a few years yet. The verifiable, high quality, physical process to the identified Asian consumer is what counts.

The duopoly that exists on our domestic market and their supposed consumer focussed strategies adds another complex issue. As well, the conflict that arises with foreign ownership of beef and cattle exporters. It is quite conceivable that it is not in their interests to see Australia differentiate itself and do better than the rest.

We, NTCA members firstly, and as an industry, need to understand very clearly where we are, what our productivity is, what we produce, cost of that production & basically every dynamic of the entire value chain. And then we need to understand the external influences on that Value Chain. And only then can a good achievable Strategic Plan could be rolled out. I seriously don't

believe industry has that knowledge at the moment. Hopefully the Agricultural Competitiveness White Paper currently being developed will head towards this.

Thanks

I would like to thank the members of the Executive Committee for their efforts and contributions over the last 12 months. Particularly Tom Stockwell, our rep on Cattle Council and Tracey Hayes our rep on NFF. These two do a lot of work in these organisations.

I would also like to thank those life members who continue to participate in overseeing the wellbeing of NTCA now that we have entered the 2nd generation of executives. As expected we will never do as good a job as the old fellas in the olden days so please keep an eye on us.

Thanks to all NTCA staff based in Darwin, Katherine, & Alice Springs.

And particular thanks to members and those who have supported me and especially my wife Gina.

I hope you all have a great conference and thanks for coming. The biggest for NTCA yet with close to 600 in attendance. I will ask one thing..... I have been to a heap of these sorts of things over the past few years and actions coming out of them are minimal to say the least. We need to get ideas and convert them to plans for real actions with outcomes. And then take action! Just do it!

Lastly, as we all know today is Luke Bowen's last day. Luke's contribution to NTCA has been nothing other than astounding. Particularly following the live trade shutdown in 2011. There was a massive void that industry was not prepared to fill and NTCA and Luke, flying by the seat of our pants, I might add, managed to fill that void in a time of need at very short notice.

The past 30 years of NTCA provided that solid platform, and Luke did the rest. Tonight you will hear a lot more about Luke so I will not dwell.

Sincerely and on behalf of everybody here thanks Luke. Chief Minister we are hearing rumours that Luke maybe headed your way. I will make one suggestion. Pay him stuff all and attach all KPIs to him answering his phone.

