
INVESTIGATION OF A COMPANY MODEL FOR THE AUSTRALIAN WILD ABALONE TRADEMARK IN CHINA

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Brisbane

2011/714 - Investigation of a company model for the Australian Wild Abalone trademark in China

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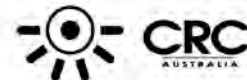


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1. SUMMARY AND RECOMMENDATIONS (NON TECHNICAL SUMMARY)

PURPOSE

This report reviews appropriate business models for the development and management of the Australian wild abalone trademark in China. Desktop data collation and analysis has been undertaken in April –July 2011 as a desk study based on available public material with limited phone contact to relevant industry experts.

Five case studies have been reviewed (Australian Wool International, Wine Australia, Meat and Livestock Australia, Australian Pork Limited and Dairy Australia) to best inform the Seafood CRC (SCRC) regarding the options to create and manage international product trademarks, and the active role for industry producers and members in the corporate management of these assets and delivery of export product to target export consumers.

KEY FINDINGS AND RECOMMENDATIONS

1. Incorporation:

The Articles of both ACA and SCRC enable creation of a new company to commercialise seafood sales in China.

Establish a new company (NewCo) in Australia to facilitate and commercialise Australian seafood market development in China/Hong Kong. Members are initially to including representatives of ACA, SCRC and participating abalone businesses which contribute product and meet the NewCo Market Program standards. Establish the new entity as an unlisted public company limited by guarantee. Seek professional advice on incorporation and registration in-market.

2. Growth Flexibility:

There are a number of Australian seafood export sectors (e.g. Lobster, and also possibly Prawn and Crab) that would be benefit from a partnership with the ACA in long term development of the greater China market

Structure the business and its related policies, strategies, financial affairs and generic brands so it can incorporate investors and export product flows from other seafood sectors in due course. Invite the early participation of the lobster industry in the venture. Closely review the strategic elements of key case studies (Wool, Wine and Meat in particular) in this report to guide seafood's strategic approach.

3. Representative Office:

Active and ongoing in-market representation is essential to seafood market facilitation and development.

Base a representative office of the new entity in China to suit market needs. This office would be responsible for initiating, managing and reporting the performance of seafood market development and communication programs, and generic brands and trade marks for participating Australian seafood sectors in China. NewCo and its representative offices would facilitate but not participate in sales transactions of Australian seafood.

4. Revenue:

Efficient, long term, an equitable industry investment is the key to building market engagement and returns.

Establish an unmatched *ad valorem* marketing levy (compulsory if possible) payable by all producers of exported seafood species regardless of Australian export or domestic sales. In-market brand and trademark licensing may add further significant revenue. Use levy and license funds to operate NewCo and fund in-market development programs. Consider including seafood sales of key species to the Hong Kong market in the levy.

5. Critical Skills:

Retain directors and staff with Asian seafood trade and market experience to run NewCo and in-market activities.

6. Governance:

Establish business and governance arrangements and procedures in 6 areas:

- a. set strategic direction through policies, goals, strategies and performance targets for the organization,
- b. make available to management the resources to achieve strategic direction,
- c. monitor the organization's performance against defined strategies, budgets and targets,
- d. ensure adequate processes are in place to comply with legal and accounting requirements,
- e. ensure risks to which the organization is exposed are clearly identified and managed, and
- f. report progress to shareholders.

2. INTRODUCTION

INDUSTRY LEADERSHIP AND INVESTMENT

The Australian Abalone Industry comprises quota holders, divers and processors based in five state fisheries across Tasmania, Victoria, New South Wales, South Australia and Western Australia. Commercial wild catch species include Greenlip, Blacklip, Brownlip and Roe's Abalone.

Wild catch industry enterprises have established the Abalone Council Australia Ltd (ACA) as a national organisation to represent and lead the wild-harvest abalone industry. One of the primary functions of the ACA is to initiate, implement and oversee strategic national investment in abalone product development and market management. The Council is working with its state members and affiliates and the Seafood CRC in this market initiative.

The Council was established in 2004 as an Australian incorporated public company limited by guarantee (ACN 108 092 271) with 5 members being the peak abalone industry organisation in each state. The company's articles (see Appendix 1) empower it to invest in and initiate market development activities but not to own or trade in abalone products.

The industry is, and has been for many years, a substantial exporter of seafood products to a number of overseas markets, especially in Asia where abalone is well established in food cultures. Acting somewhat independently, abalone harvest and supply enterprises have established a number of commercial arrangements and trade relationships, and developed trading experience.

Ongoing strong income growth in emerging consumer markets now presents the industry with opportunity to boost its long term competitiveness and returns. Single desk and collective management of supply chains and branded investments in markets are attractive options.

The Seafood CRC is a joint national Government – Industry initiative that draws industry and small to medium businesses together with researchers to develop solutions for business and industry needs. The organisation's mission is to assist end-users of its research to profitably deliver safe, high-quality, nutritious Australian seafood products to premium markets, domestically and overseas. The SCRC is an Australian public company limited by guarantee – Seafood CRC Company Ltd (ACN 126 074 048).

A core strategy of the SCRC is to identify and address opportunities for improving the skills of industry people with a view to contributing to the growth of industry participant organisations. The organisation will also develop the capacity within industry to commercialise, leverage and utilise research outputs. The scope of the CRC's research spans the entire value chain from production to consumer.

The Seafood CRC creates industry benefits and generates Intellectual Property (IP) from projects it invests in. By default ownership of project IP is retained by the SCRC on behalf of all project participants. Members and end-user participants in a project may utilise project IP and knowledge to improve their businesses without paying a levy to the CRC.

Under the current agreement, the SCRC will terminate in June 2014. As there is no certainty regarding a further term for the CRC thereafter, it is important that Members progress commercialisation of research outputs in the near term, including creation of commercial structures and procedures. ACA is a member of and significant investor in the SCRC.

THIS REPORT

The Seafood CRC wishes to investigate appropriate business models for the future development and management of the Australian Wild Abalone trademark. Ridge Partners has been retained to undertake a desktop study of at least three existing Australian trademark/brand companies that are predominantly owned by their respective industry stakeholders.

The study is to recommend a preferred model based on a comparison of:

- a. The sources of revenue,
- b. The scope of the company operations (including brand management and market development functions),
- c. Basic operations and governance provisions.

The recommended model is to incorporate potential to incorporate others seafood export sectors in due course.

The report, initially in draft form for CRC and industry review, is to also include a review of key issues and risks that would need to be resolved before the company could be established.

3. CORPORATE OBJECTS AND POWERS

ABALONE COUNCIL AUSTRALIA

The Objects of the ACA are presented in the Constitution in more detail, but do include the following terms:

- To advise on National Research and Development priorities (Object 5);
- To carry out research, gather compile and disseminate information relating to the wild catch abalone industry and assist in improving abalone fishing handling, processing, quality and marketing practices (Object 9);
- To manage and utilize funds and resources which become available to it from time to time (Object 17):
 - a. apply for available funds, grants and donations;
 - b. use funds to maximum benefit;
 - c. appoint salaried staff and officers if in its opinion these are in the best interest of the Council to do so and may determine and from time to time vary their remuneration and the conditions of employment. All such staff and officers shall perform duties as directed.;
 - d. enter into any contract considered necessary by the Council.

For the purpose of carrying out these objects, the company has Powers which include (see Appendix 1):

- To make such grants to or in aid of or to make donations or give assistance to or to make contracts with such individuals, trusts, corporations, associations, societies, institutions or other organisations or authorities whether within or outside the Commonwealth of Australia as may be necessary or desirable;
- As far as the Corporations Act 2001 will permit and subject to the provisions of any relevant statute, rule, regulation, by-Law or any licence issued in pursuance thereof to collect funds and to solicit, receive, enlist and accept financial and other aid, subscriptions, donations and bequests from individuals, trusts, companies, associations, societies, institutions and other organisations or authorities, and from governments and public bodies;

This study finds that the Objects and Powers defined in the ACA Constitution provide the broad scope and authority necessary for the ACA to undertake the proposed investment in an export marketing business and to manage financial transactions in any market, so long as these are to the benefit of its members.

SEAFOOD CRC

The Objects of the SCRC defined in its Constitution, include:

- To substantially improve the profitability and efficiency of the Australian seafood industry, from production to consumer;
- To commercialise Centre Intellectual Property (IP) in such a manner as to ensure that the maximum benefit accrues to Australia, including Australian industry and the Australian economy generally;
- To act as a trustee of Commercialisation Income in accordance with the Participants Agreement and as trustee of Project IP in accordance with any Project Agreements.

The primary activity of the company will be to invest in research and development that will increase national economic growth and the industrial and commercial growth of the Australian seafood industry. In a secondary role, the company may undertake activities such as external contracts, consultancies and for-profit training. Specialist spin-out companies may be established later for particular commercialisation purposes.

SCRC project teams have full responsibility for commercialising research outcomes through:

- Licensing IP to non-CRC partners, particularly from overseas, where this does not the harm local seafood industry;
- Forming joint ventures that allow economies of scale, access to new markets, etc.;
- Establishing new companies to focus on commercial development of strong and innovative technology.

This study finds that the Objects defined in the SCRC Constitution provide sufficient scope and authority to support members undertaking a proposed investment in an export marketing business for any seafood species, to incorporate new fit-for-purpose entities and to facilitate and oversight related financial transactions.

4. ABALONE MARKET TRENDS AND ISSUES

The nub of this task is to develop a preferred “business” model to house and undertake seafood trade and supporting transactions. But before any new investment capital is committed, it is necessary to firstly (and briefly) scan the intended business environment to assess trends, issues and investment risks. Stakeholders are already conducting export business so many of these environmental and strategic risks and trends are known, as well as some of the finer tactical and operational risks.

But dynamic markets do not stand still – they create new customers and new risks daily. As a result traditional competitive advantages come under new threats. A number of broad trends and issues must be considered to fully inform any discussion and recommendations regarding new export structures for Australian abalone or broader seafood initiatives.

UNIQUE WILD STOCKS

Australia maintains the world’s largest tradable stocks of wild abalone, with annual production of around 5,000 tonnes. A further 600 tonnes is produced by an expanding Australian abalone aquaculture sector. There is negligible risk that any substantial competitive wild abalone resource will be available to global markets in the next decade.

Around one-third of Australia’s abalone production is expected to be farmed by 2014-15 (ABARES 2010). Production of abalone through aquaculture techniques is expanding globally, year on year. Aquaculture product available in markets today is smaller in size and considered to be a supporting offer and not a direct competitor in the high-end of the market where large fish attract premium prices.

As has been experienced in the Australian industry in this decade, wild fisheries, including abalone, are at risk of biosecurity vectors. The unregulated translocation of marine material between aquaculture and wild fisheries, and between wild fisheries themselves, has been a particular risk. Increased global demand for seafood and the resulting increase in production pressure on near shore waters is likely to present further biosecurity risks.

CONCENTRATED EXPORT MARKETS

Australian abalone production is export intensive, and therefore exposed to related risks including currency volatility. Australia exports around 93% (95% of wild catch, plus 75% of aquaculture) of its abalone harvest in various product forms.

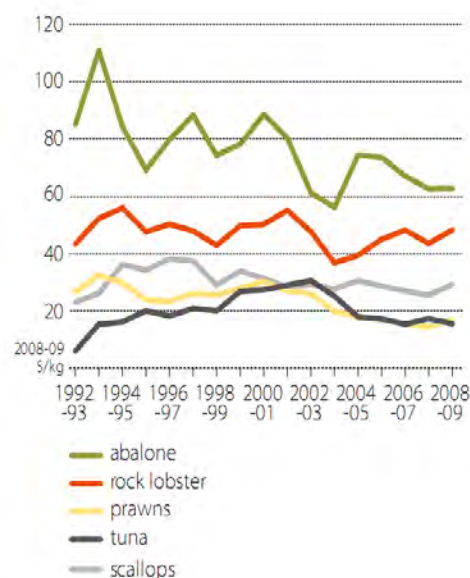
In the three years to June 2010, around 69% of total Australian export value was to the China/Hong Kong market. Other markets that collectively imported over 98% of Australia’s abalone export sales, are the USA (11%), Japan (9%), Taiwan (8%), France (1%), and Singapore (1%). Clearly the greater China market is the primary strategic opportunity.

PRICES

Australian abalone supply is predominantly export oriented. As the current minerals boom subsides, ABARES forecasts a depreciation of the A\$ dollar in the medium term, and strengthening of the Chinese and Japanese economies in parallel with abalone prices. ABARES expects an increase in both production and value of Australian abalone exports up to 2014-15.

Exchange rate movements have a significant effect on abalone export quantities, which in turn affect domestic and export prices. The attached graph of **Export Prices for Key Species** (ABARES 2010) illustrates the 45% fall in real abalone average unit prices from 2000–01 to 2008–09, following the appreciation of the Australian dollar. The total value of production in real terms decreased by 46% (\$159.7 million) over the same period.

While the quantum of exchange movement is a key risk, the short-near term volatility of exchange rates is also a risk for seafood exporters. Exchange rate (and therefore price) volatility increases contract risks but also working capital costs for traders. This causes a problem especially acute for traders of seafood commodities where profit margins are thin.



MARKET DIFFERENTIATION

Asian markets will continue to dominate Australian seafood exports in the medium term (~20-30 years). Incomes are rising toward the ~US\$15-16,000 per capita figure where a century of global experience shows that market growth changes down a gear and consumers become more sophisticated (The Economist, April 2010). Emerging consumer markets (especially greater China – PRC, HKG, TAI) will mature over coming decades inviting greater competition and consumer choice in seafood. Therefore differentiation strategies by Australian producers are critical to their long term market competitiveness and commercial sustainability. Australia's natural comparative advantage in wild catch abalone will help exporters, but these resources are already fully fished to optimum yield. The impacts of climate change on fishery yields and the related harvest cost per kg of fish are uncertain, but may be adverse and considerable.

Aquaculture is the only sector able to contribute to meet growth in consumer demand for seafood, including abalone. It is unlikely that Australia will establish or sustain any global competitive advantage in commodity aquaculture trade. Therefore high value niche markets must be the core strategy for the foreseeable future. As with world seafood trade generally, abalone is becoming increasingly traded and commoditised (i.e. a product for which there is demand, but which is supplied without qualitative differentiation across a market). This trend will continue and strengthen the case for market differentiation for wild catch abalone, while constraining any parallel opportunity for Australian aquaculture exports.

IN-MARKET INVESTMENT

With limited opportunity for wild catch yield growth, the increased returns required to fund any increased investment must come from supply chain efficiency and sales margin gain, and not sales volume growth. Any supply chain model recommended to the CRC must therefore be flexible enough to enable and support sophisticated multistage in-market initiatives, including branding and trade marking, channel and in-store promotions, and after sales customer service initiatives (e.g. training programs for chefs). First class product and supply chain integrity is mandatory.

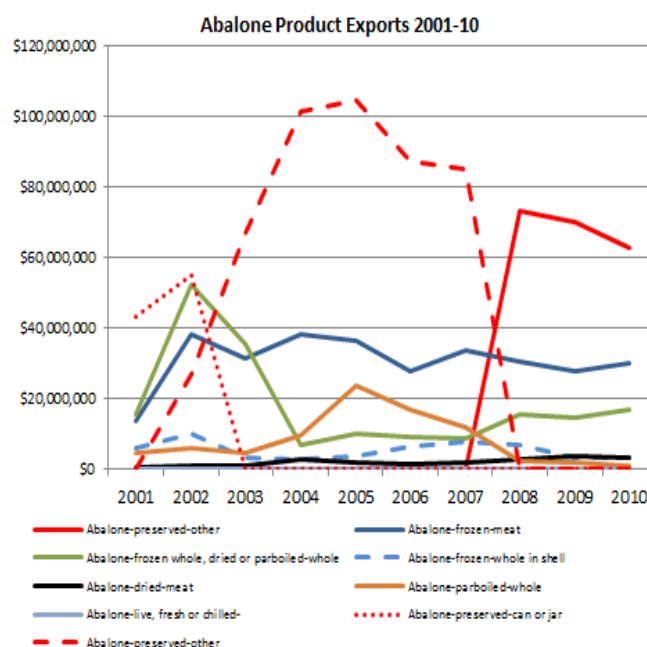
At a broader level the trade investment risks to Australian industry must be considered. These include sovereign risk for each export trade country, contract risk associated with enforceability of contract terms, currency risk, the transaction risk associated with trade through official channels or via less transparent grey channels, and the risk in dealing with disreputable agents and enterprises. Getting the product to the customer in good order is one risk, but getting paid in full on time and repatriating profits is another.

EXPANDING PRODUCT OFFER

Australian industry experience in other emerging Asian markets (e.g. wool, dairy and beef into China, Japan and South Korea) in recent decades indicates that changing consumer lifestyles offer fertile line extension opportunities for exporters. Progressive health and social awareness and values nurtured and lead by an active and open media are central to this evolution.

The accompanying chart shows that Australia's abalone export product mix has experienced gradual change over the last decade (although the largest changes appear to be the result of revised export codes, and not trade volume or value). The range of abalone products has expanded in response to consumer demand for product variety and utility. Preserved abalone (red lines) continues to be the largest export line. Frozen meat (blue lines) is a strong sales line albeit with gradually reducing export share. Parboiled abalone (orange line) peaked in 2005 and has fallen away since. Whole fish parboiled or frozen (green line) is recovering after a sudden decline in 2003-04.

Why is this relevant to the choice of an abalone/seafood supply chain model? Market access is negotiated by product lines – chilled fish carry a different bilateral trade risk to



manufactured seafood lines. Australia has a small domestic market, an export intensive seafood industry with little seafood manufacturing, and an open market economy dominated by resource exports. Therefore Australian seafood has limited leverage in bilateral trade negotiations - mining, and resources dominate the national trade agenda. But with a strong currency and few harvest or supply chain alternatives available to the seafood industry, it is trade and market access negotiations for key premium species that will offer the best near term economic outcomes for exporters. In general it is far easier for New Zealand's seafood industry (which is a similar size to Australia's) to negotiate a free trade arrangement with China than for Australia's seafood industry, as the NZ seafood industry has a central role (along with dairy) in bilateral negotiations and less risk of trade off from other sectors such as resources.

At a global trade access level Australian seafood is also exposed to the power of food safety standards and trade rules developed by large players in dominant seafood markets. China, in particular, has based many seafood trade standards on European food safety legislation and this trend is likely to continue due to a strong industry desire in China to export seafood to the large European market. The impact in Australia from these more stringent regulations would be significant especially as has been experienced in the area of naturally occurring marine biotoxins – at least two shellfish production areas in Tasmania would be closed permanently. Australian industry and scientists are monitoring the European trade negotiations regarding biotoxin issues for lower risk species such as abalone and scallops and their related fresh chilled, or processed product lines.

Any export model Australia adopts for its abalone industry must therefore be fully informed of the trade and market access issues for each product line it offers for export in a given market. At its core this means understanding the bilateral impact of fresh v's processed v's preserved products on the target market.

CHAIN CREDENCE

As prices and products become globalised and commoditised, discerning consumers and NGOs become more concerned regarding the environmental sustainability of wild fisheries and the safety and healthiness of aquaculture.

A proliferation of private certification bodies and schemes (FAO estimates around 400) has arisen to trace the origin of food products, their quality and their safety. Unsanctioned supply chains and grey trade markets (especially to China) are risky and exposed to ad hoc regulatory regimes. This risk is not compatible with any potential new investment in China and will continue to be unacceptable to large retail chains and suppliers who have invested in private branded schemes servicing discerning consumers.

The ACA has established strong Quality Management templates which will be mandatory for exporters contributing product to the China market. These trade structures will manage certification risk and establish viable and stable commercial arrangements that are attractive to private in-market partners, and endorsed by sovereign governments.

5. INDUSTRY CASE STUDIES

Five case studies are presented below for branded Australian agricultural commodities that are currently the subject of active export market development programs. Three (Australian Wool Innovation, Wine Australia, Meat and Livestock Australia) are in more detail to enable closer strategic scrutiny. All five cases have been chosen for their relevance to the China market, and to demonstrate how collective activity by industry stakeholders to invest in commercial structures can be achieved and commercially sustained.

It would be beneficial to have access to more complete information on both the structures and operations of each case, but this material is not readily accessible from desk sources. Additional questions related to these gaps have been highlighted where appropriate.

The material sourced for these case studies has been drawn primarily from desk sources including the most recent (2009-10) annual reports and strategy documents. Some personal discussions have been held with key executives where possible. Material in each case has been selected to enable the fullest response possible to the standard questions required by the Terms of Reference. In some areas additional material has been included to demonstrate the level of consumer appeal being portrayed by specific trademarks.

Some material has been summarised from a number of sources, but wherever possible text has been copied verbatim (without specific reference) from these sources to ensure accuracy.

AUSTRALIAN WOOL INNOVATION

CONTEXT

Wool is produced across a range of environments in Australia. Australian Wool Innovation (AWI) shareholders are therefore located across a broad area of the country, from the high rainfall areas, to the wheat/sheep zone, out to the drier pastoral zone.

AWI had 29,347 shareholders at 30 June 2010, a decrease of 407 shareholders over the past 12 months. There were a total of 64,728 wool levy payers at 30 June 2010.

In 2010 there were 73 million sheep in the national flock producing around 343,000 tonnes of greasy wool annually. The clean wool price in 2010 averaged \$8.72 per kilo, up from \$7.93 in the previous year. (<http://www.wool.com/About-AWI.htm>).

STRUCTURE AND AIMS

Australian Wool Innovation Limited (AWI) is a fully independent public company (ACN 095 165 558) limited by shares and owned by 29,347 (at June 2010) Australian woolgrowers who are its shareholders. First established as a subsidiary of Australian Wool Services in 2001, AWI Ltd became a fully independent public company in 2002.

AWI initiates, commissions and delivers research and development to Australian woolgrowers and provides trade development and market intelligence services. Operating as a Not-for-Profit company AWI works through alliances and contracts and, where possible, commercialises R&D outcomes.

The company's mission is to

- Enhance the profitability, international competitiveness and sustainability of the Australian wool industry; and
- Increase demand and market access for Australian wool.



Current China Business

AWI has undertaken the largest ever wool education program in China, aimed at the country's rapidly growing domestic consumer market for luxury goods.

AWI's **Gold Woolmark** campaign successfully positioned AWI's European fabric partners in the Chinese luxury market resulting in premium value sales of Merino fabric. The campaign achieved valuable returns from the amount invested in it.

The campaign educated consumers about Merino wool, from the Australian environment in which it is grown to the skillful tailors that complete its journey at retail.

Luxury European fabric and tailoring brands united under a common banner for the first time in a century to help sell the campaign's message.

This story and heritage of Merino wool as a premium natural fibre was told through a co-ordinated media and retail campaign, including nine, half hour-long television episodes shown on China's luxury lifestyle channel China Business Network (CBN) Style Focus.

CBN General Manager Qin Shuo said *The Perfect Gentlemen* program on the Style Focus channel was a unique program aimed at the increasing number of Chinese with an affluent lifestyle. "The television program attracted strong attention from all social sectors when it was on air, but it especially caught the eye of the elite class,"

<http://www.wool.com/About-AWI.htm>

The company also collates and provides trade development and market intelligence services on behalf of Australian woolgrowers, and provides government with economic and social data to support Australian representations to other nations.

SCOPE OF OPERATIONS

The nine objectives declared for AWI in the company constitution (AWI, 27 Nov 2009) are to, for the benefit of Australian woolgrowers:

1. Receive funds from the Commonwealth of Australia comprising proceeds from the Wool Levy and contributions by the Government to research and development in relation to the wool industry and account to the Government and Parliament of the Commonwealth of Australia for the expenditure of such funds;
2. Seek funds from other persons for research and development, innovation and other activities for the benefit of Australian woolgrowers;
3. Manage funds the Company receives and risks related to the Company's ongoing expenditure and funding;
4. Investigate and evaluate the requirements for research and development and innovation in relation to the wool industry;
5. Provide funds for research and development and innovation activities in relation to the wool industry;
6. Facilitate the dissemination, adoption and commercialisation of the results of research and development and innovation in relation to the wool industry;
7. Manage, develop and exploit intellectual property from research and development activities, and to receive the proceeds of such development and exploitation;
8. Provide services to Australian woolgrowers in the interests of the Australian wool industry; and
9. Engage in any other activities in the interests of the Australian wool industry.

AWI's offices are strategically located to develop direct business relationships with global brands/retailers, textile manufacturers and fashion designers in key markets across Asia, Europe and the Americas.

INVESTMENT PRIORITIES 2010

Priorities for investment listed in AWI's 2004-2009 Investment Vision recognise the need for the Australian wool industry to achieve substantial change through to 2014. Key marketplace messages identified indicate investment in R&D should aim to (NSW Life Science Directory <http://www.biotechnology.nsw.gov.au/alphabetical.aspx?letter=a&companyid=1411>):

- a. Build the demand for wool by creating exciting market-oriented fashion concepts
- b. Develop new wool products wanted by the market and ensure they become commercial successes
- c. Work with Government and the industry to improve global trade access for Australian wool
- d. Improve wool processing competitiveness against other fibres
- e. Develop genetic tools for use by woolgrowers
- f. Overcome long-standing animal health and welfare issues, such as blowfly strike, lice and mulesing
- g. Lower average Australian wool production costs per unit of raw wool
- h. Address the critical shortage of shearers and shed hands and improve the OH&S environment
- i. Research techniques and tools to manage price volatility.

REVENUE GENERATION

AWI receives revenues from 3 sources (AWI Annual Report 2010) :

1. A wool levy paid by woolgrower, currently set at 2% of the sales price received for their shorn greasy wool. Woolgrowers vote every three years on this percentage and the allocation of these funds at three levels of investment:
 - a. R&D or marketing;
 - b. on-farm Vs off-farm for each of R&D and marketing, and
 - c. support activities for each of R&D and marketing.
 In the most recent vote (WoolPoll 2009), 73% of votes cast were in favour of a levy of 2% or more.
2. Matching contributions for the levy, from the Australian Government for eligible R&D activities, capped at 0.5% of the value of gross national value of wool production.
3. License fees for worldwide usage of the Woolmark label (described in company literature as the world's best known fibre textile brand), which was acquired by AWI from another Australian wool industry entity in 2007.

The following table summarises the composition of revenues for the entity.

INCOME STATEMENT \$'000	2008-09	2009-10	2009-10
AWI Revenue			% of total revenue
Wool levy	34,307	35,319	57%
Government contributions	11,395	10,483	17%
License fees	9,134	10,606	17%
Interest	3,267	2,713	4%
Sales of Goods and Services	1,531	1,253	2%
Royalties	1,805	1,300	2%
Rents and sub-lease rentals	0	74	0%
Other operating revenue	277	92	0%
Other income	0	597	1%
Total Revenue	61,716	62,437	100%
AWI Expenditure			% of total expenditure
International Network	23,359	16,893	37%
Global Marketing	11,757	6,569	14%
Off-farm R&D	10,729	5,447	12%
On-farm R&D	17,444	9,551	21%
Corporate Services	15,288	7,227	16%
Total Expenditure	78,577	45,687	100%
AWI Surplus	(16,861)	16,750	
AWI Accumulated Reserves	54,457	71,207	

GOVERNANCE AND BASIC OPERATIONS

Leadership and Shareholder Input

AWI shareholders are able to consider and shape the decisions of the company via access to AWI information and their right to vote at Annual General Meetings. AWI shareholders are entitled to one vote for every \$100 of wool levy paid in the three financial years before any vote. A share in AWI is not tradeable and is of no capital value. Payment of wool levies does not automatically make the levy payer a shareholder – having met the requirements growers must opt in to become a shareholder.

AWI is led by a Chairman plus 6 experienced board members. The board members maintain 3 committees – Finance and Audit Committee; Remuneration and Appointments Committee; and On-farm RDI Scientific and Welfare Committee. The board is supported by a CEO to whom most responsibilities are delegated, and an experienced company secretary.

The board is committed to governance systems that enhance performance and ensure AWI operates according to accountability provisions required by various Government Acts, ASIC Regulations and Guidelines and the Statutory Funding Agreement. The key board functions are:

- Establishing goals, setting strategic direction, approving the annual budget and approving key expenditures;
- Approving Strategic Plans, Wool Polls, R&D Priorities; an Annual Operational Plan, Budget and Annual Report;
- Establishing and approving policies for the operation of AWI;
- Ensuring that risk assessment and management frameworks are in place to minimise business and financial risk;
- Ensuring that R&D and Marketing resources are allocated to address priority issues effectively;
- Ensuring compliance with applicable laws and provisions of Commonwealth Authorities and Companies Act 1997;
- Ensuring that Directors and staff maintain the highest ethical standards in accordance with the Code of Conduct
- Appointing, appraising, and setting the level of remuneration for the Chief Executive Officer;
- Evaluating its own performance and that of its committees against agreed indicators.

Risk Management Policy and Framework

There are expectations by key stakeholders, including key business partners and financiers, that risk is being managed efficiently and effectively. In addition the Department of Agriculture, Fisheries and Forestry (DAFF) requires AWI to have a Risk Management Plan and a Fraud Control Plan as a condition under the Statutory Funding Agreement. More

importantly, a more formal approach to risk and opportunity management serves to enhance the quality of business decision making and acts as another form of assurance of the quality of our operations and services. AWI's board and management recognise risk management is everyone's business, however, it is also recognised that responsibility for driving a strong risk management culture throughout an organisation requires management focus.

A number of Corporate Governance documents are maintained by AWI as part of its governance and risk management regime (at www.wool.com) and include: AWI's Constitution; Statutory Funding Agreement; Corporate Governance Policy; Code of Conduct – Obligations to Stakeholders; Board Charter; Code of Conduct – Directors and Officers; Charters of the Committees of the Board; Conflicts of Interest Policy; and Rules and Procedures Governing Election of Directors.

Collaboration and Gearing

Collaborative gearing of projects is important to AWI. Almost 20% of AWI's 2009-10 R&D Expenditure was directed at projects involving at least one other R&D Corporation. During the year AWI also collaborated with a number of research bodies including RDCs, government departments, industry organisations, CSIRO, universities and commercial partners. AWI Strategic planning ensures that its investment priorities are aligned with Australia's National Research Priorities.

MARKET MANAGEMENT

As a consumer lifestyle fibre, wool must appeal in ways other than food products. AWI is investing a substantial portion of its budget in products, and brands related to social and sustainability issues that are important to sophisticated consumers. Consuming with a conscience has never been more topical. After years of rampant consumerism, active and informed consumers are insisting on greater integrity and authenticity in the products they buy. AWI has identified three key drivers that will guide the development of its market offer and proprietary brands http://www.wool.com/Design-and-Market_Consumer-Insights_Conscious.htm.



Wool: the natural fibre solution



- Greater access to information and sharing means informed and empowered consumers,
- First-hand experience of climate change creates demand for eco-friendly products,
- Reduced trust in governments and corporations means consumers are seeking greater social responsibility from companies and products.

AWI says:

Wool has excellent 'natural' credentials - it is a renewable, biodegradable protein, and more than 99% is produced in extensive grassland terrain. In comparison to most textile fibres, Australian Merino is natural, renewable and biodegradable. It is produced by specially selected sheep grazing in extensive grassland ecosystems. In this sense, Merino fibre is made from the combination of sunlight, water and grass.

A growing number of brands are using renewable ingredients rather than depleting natural resources to increase their corporate image and credibility. Products already using renewable raw ingredients have a distinct advantage. The swing towards eco-friendly products brings with it challenges and opportunities for the global textile industry, and for their part, Australian woolgrowers. Australia produces a significant proportion of the world's certified organic apparel.

Companies are moving ahead by providing in-depth knowledge desired by consumers. Effective tactics include:

- Products donating a percentage of sales towards a 'good cause';
- Eco/Organic accreditations;
- Country of origin markings;
- Authentic and honest brands;
- Corporate governance policies;
- Clothing ranges that are 'green accredited'.

For example, Fairtrade organisations globally have begun initiatives to provide consumers with the assurance that products have been made under fair conditions. In the UK, Fairtrade produce has expanded into fresh fruits, cereals and biscuits, beer and wine, and over 1,000 different product lines. Celebrities are now seen modeling products made entirely from fabric produced by Fairtrade workers. In Australia the value of retail sales of Fairtrade certified products has gone from \$1.5million in 2004 to \$10 million today – branded Fairtrade coffee, tea and chocolate are now available at Coles supermarkets.

WINE AUSTRALIA

CONTEXT

Australia has approximately 2,300 wine companies. There are 172,676 hectares under vine. The total grape crush in 2008 was 1.831 million tonnes with 14 winemakers accounting for 70% of the total crush. Wine is fourth on the list of Australian farm exports after beef, wheat, wool and dairy. In 2007/08 Australian domestic wine sales of 426 million litres were recorded with a wholesale value of A\$2 Bn. (Wine facts Australia Industry Overview 2008)



Australia is the world's sixth largest wine producer, as at 2006 (behind France, Italy, Spain, US and Argentina) and the fourth largest exporter. Australian wine is enjoyed in more than 120 countries. Exports reached a record A\$3.02 Bn in 2007. Australia's top five export growth markets in 2008 were, in order, China, Denmark, Hong Kong, UAE, and Japan.

China was the clear stand-out in 2008 with the value of exports to the market increasing by 32% (A\$18 million) to A\$74 million. This ranked China as Australia's fifth largest market by value but first in value growth.

STRUCTURE AND AIMS

The Australian Wine and Brandy Corporation (AWBC) is an Australian Government statutory authority established in 1981 to provide strategic support to the Australian wine sector. The AWBC takes the lead role in the strategic marketing of the Australian wine category, including the implementation of strategies and activities in key markets and the identification of new markets.

The AWBC subsidiary **Wine Australia Pty Ltd** (ACN 065 218 902) is an Australian company limited by shares, responsible for the implementation of AWBC's overseas market development activities.

Wine Australia's (WA) mission is to enhance the operating environment for the benefit of the Australian wine industry by providing the leading role in market development; knowledge development; compliance; and trade.

Wine Australia's primary stakeholder is the Australian Government. Other principal stakeholders are wine and brandy producers, and exporters.

Wine Australia's objects, functions and powers are set out in the Wine Australia Corporation Act, 1980 and associated Regulations. The Act gives Wine Australia the power to do all things necessary to be done in connection with the performance of its functions. The objects specified in the Act are (Wine Australia AWBC Corporate Plan 2009-14):

1. To promote and control the export of grape products from Australia;
2. To promote and control the sale and distribution, after export, of Australian grape products;
3. To promote trade and commerce in grape products among the States, between States and Territories and within the Territories;
4. To improve the production of grape products, and encourage the consumption of grape products, in the Territories;
5. To enable Australia to fulfil its obligations under prescribed wine-trading agreements;
6. For the purpose of achieving any of the objects set out in the preceding paragraphs:
 - to determine the boundaries of the various regions and localities in Australia in which wine is produced;
 - to give identifying names to those regions and localities;
 - to determine the varieties of grapes that may be used in the manufacture of wine in Australia.

China Business

While there have been commercial wineries in China since the end of the 19th Century, production has only evolved into a serious industry in the past two decades. There are now an estimated 450 wineries, although the largest four hold around 50% of market share.

Imported wine reached the height of its popularity in 1996 when it occupied half of the Chinese market. When China moved to restrict wine imports with quotas and high tariffs, domestically produced wine increased its dominance in low and medium end markets. The reduction in import tariffs in January 2004 has since sparked the increase in imported wine.

Chinese wine consumers are generally found in the economic growth regions - Beijing, Guangzhou, and Shanghai - because consumption of wine, especially imported wine, is closely related to consumer purchasing power. If the population of wine consumers was confined to just the economic growth regions, the consumption per capita would be around 2.7 litres compared to 0.3 litres for the total population. Australia consumes around 22 litres per capita.

94% of the wine consumed is red wine. This is often attributed to health benefits, the similarity between red wine tannins and those found in tea, and the fact that the colour red stands for happiness and celebration in Chinese symbolism. Tea is the number one beverage in China with around 50 billion litres consumed each year. Better quality wine is largely limited to hotels and restaurants and drunk mostly by visitors. Specialty wine shops are now beginning to emerge in the growing coastal regions.

7. To advance the objects of the Act by helping to ensure the truth, and the reputation for truthfulness, of statements made on wine labels, or made for commercial purposes in other ways, about the vintage, variety or geographical indication of wine manufactured in Australia;
8. To regulate the sale, export and import of wine:
 - o for the purpose of enabling Australia to fulfil its obligations under prescribed wine-trading agreements;
 - o for certain other purposes for which the Parliament has power to make laws.

SCOPE OF OPERATIONS

Wine Australia has its head office in Adelaide and a network of Wine Australia offices in the UK and Ireland, the United States, Canada and Japan. Wine Australia's core responsibilities include:

- Export regulation and compliance;
- Domestic and international wine promotion;
- Wine sector information and analysis;
- Maintaining the integrity of Australia's wine labels and winemaking practices;
- Defining the boundaries of Australia's wine producing areas; and
- Assisting with negotiations with other countries to reduce trade barriers.

INVESTMENT PRIORITIES 2010-12

- Market Development - to create a market environment that acknowledges and responds positively to Australian branded wine as a premium product;
- Knowledge Development - to support the competitiveness of the Australian wine sector through the collection, interpretation and dissemination of global wine sector intelligence;
- Compliance - to protect and enhance the international reputation of Australian wine;
- Trade - to contribute to the achievement of an international trading environment free of distortions that allows unimpeded access to Australian wine.

REVENUE GENERATION

Grape producer and processor levies are paid to both the Grape and Wine RDC (vineyard and winery), and the AWBC (marketing and export). AWBC / Wine Australia receive the marketing component of any production levy as follows:

1. Funds from industry members in five streams: (Wine Australia Annual Report 2009-10)
 - a. a compulsory *wine grapes levy* from all wine and brandy producers;
 - b. a compulsory *wine export charge* from wine exporters;
 - c. user pay promotions;
 - d. program memberships;
 - e. export partner sponsorships;
2. Funds from government, including:
 - a. matching contributions for levies from the Australian Government for eligible R&D activities;
 - b. export market development grants from DFAT.

The *Wine Grape Levy*, imposed by the primary Industries (excise) Act 1999 in respect of any prescribed goods (via fresh grapes, dried grapes and grape juice) used in the manufacture of wine, is collected by DAFF and the marketing component of the levy is paid to AWBC under the Australian Wine and Brandy Corporation Act, 1980.

The *Wine Export Charge*, a levy imposed by the primary Industries (Customs) Charges Act 1999 in respect of the 'free on board' value of wine exported, is collected by the Department of Agriculture, Fisheries & Forestry and is paid to the Australian Wine and Brandy Corporation under the Australian Wine and Brandy Corporation Act, 1980.

The following table summarises the composition of revenues for the entity.

INCOME STATEMENT	2008-09	2009-10	2009-10
AWBC Revenue			% of total revenue
Wine Grape Levy	3,545	3,162	22%
Wine Export Charge (a levy)	2,611	2,430	17%
User pay promotions	266	483	3%
Program memberships	1,871	1,676	12%
Export partner sponsorships	215	235	2%
Provision of Goods and Services	5,947	6,055	42%
Interest	177	197	1%
Rental income	68	62	0%
Other Revenue from DAFF and DFAT	160	177	1%
Other	160	26	0%
Total Revenue	15,020	14,501	100%
AWBC Expenditure			% of total expenditure
Employee salaries and benefits	4,535	4,687	33%
Supplier expenses	8,931	8,965	64%
Depreciation and Amortisation	387	296	2%
Asset write down and impairment	625	4	0%
Foreign exchange losses	0	172	1%
Losses from Asset sales	16	0	0%
Total Expenditure	14,494	14,124	100%
AWBC Surplus	526	377	
AWBC Accumulated Reserves	3,722	4,099	

GOVERNANCE AND BASIC OPERATIONS

Leadership and Shareholder Input

A Corporate Governance Statement sets out the governance framework designed to ensure the AWBC fulfills its functions with efficiency and integrity. This framework includes a range of policies and procedures covering the conduct of members and staff and various aspects of the AWBC's operations.

The 8 Members of the AWBC (who also form the board) are appointed by the Minister (DAFF) from a joint industry – government selection process on the basis of expertise in winemaking, grape growing, marketing, finance, business management and administration or government policy processes and public administration. The Members are accountable to the Minister and to Parliament, for the operations of the Corporation. The board is responsible for the AWBC's overall strategic direction and directs its functions and the achievement of its objectives by a process of policy decisions. The board appoints the CEO and delegates most of its operational responsibilities to that position.

The board is supported by 5 Committees - Audit and Finance Committee, Market Development and Advisory Committee, Geographical Indications Committee, Knowledge Development Advisory Committee, and Legislation Review Committee.

Members are bound by a Code of Conduct and policies have been adopted providing for an annual review of their performance and establishing their right to access independent professional advice if required.

Risk Factors

The AWBC's operations are financially dependent on the prosperity of the Australian wine sector. The principal source of revenue is from wine producers and exporters in the form of levies, export charges, voluntary contributions to overseas promotional programs and fees paid for export approval inspections and documents.

A reduction in revenue as a result of a downturn in wine production or wine exports is a risk to the AWBC. To manage this risk, the AWBC maintains financial reserves and monitors the situation to tailor the level of activities undertaken to the amount of revenue anticipated.

MARKET MANAGEMENT

Wine Australia's strategy for China remains to focus on the following key areas. (<http://www.wineaustralia.com/australia>.)

Landmark Australia: This year hosted a Landmark Australia master-class during May 2011 along with another initiative of **A+ Business Conference**. The master-class engaged 70-100 VIP trade, media and educators in China. The objective of the tasting was to continue to raise awareness of Australia's fine wine.

Regional Heroes: Wine Australia provides translated educational material and conducts varietal tastings in partnership with local educators, using member wines throughout the year. In addition, the following activities help define and promote Australia's regionally distinct wines.

A+ Australian Wine, Roadshow, July 2010: Following the launch of the **A+** brand, a delegation of 10 winemakers conducted VIP trade/media/consumer events in Shanghai, Beijing, Guangzhou and Hong Kong, to raise awareness and adoption of Australian wine. Wine Australia says:

Just being 'good' and saying 'Australia' on the label is no longer enough to tell the true story of Australian wine. Ours is a hugely diverse wine community and our best wines are regionally distinct and made by people with great stories to tell. We need to share the characters and places that give our wines distinctive personalities and make them uniquely Australian. A+ Australian Wine celebrates the people and places that give Australian wine a distinct voice and we'd love your involvement. We're pretty sure wine consumers worldwide have great Australian stories to share – and we want to hear them.

Join the new conversation about Australian wine and be part of our global Australian wine community – tell us what you are drinking, what you enjoy, who you have met and any other stories you have about Australian wine. We're aiming to be the most engaging wine country in the world – and we want you to be a part of it.



Victorian 'Regional Heroes, July/August 2010: Through the generous support of Regional Development Victoria, several restaurants in China ran a Victorian wine promotion that including staff training, consumer dinners and PR.

Tasmania Tasting, Nov2010: Wine Australia worked with the DEDTasmania to do a small scale wine dinner inviting a group of local media & educators in Shanghai to showcase the regional distinctness of Tasmania.

Education: Providing information about wine and making it accessible to the Chinese population forms the basis of activities in China. Wine Australia supports local market educators through the provision of support material, wine samples and incentive programs. In addition, Wine Australia continues to target leading educators and sommeliers with specialist tastings and course material. Other initiatives include:

- **Wine Australia Travel Scholarship** in collaboration with travel partners will see 3 people from the Asian region travel to Australia.
- **On-line/social Media/Apps iPhone App:** Wine Australia developed a Chinese language iPhone App for Australian wine, to expand the knowledge and public image of Australia and Australian wines in all Chinese speaking communities, regions and countries. The organisation also uses this tool to promote program member wines/wineries. This is a cost effective solution to provide educational information to one of Wine Australia's key target audiences in China. Creating social media/blog/YouTube equivalent accounts to promote members. Regular updates are conducted of the Wine Australia Chinese website.
- **A+ Australian Wine School (ongoing)** Throughout the year, Wine Australia identifies and supports local market wine educators to deliver courses on Australian wine tailored for trade and consumers in 1st and 2nd tier cities. They offer wine samples, incentives and education material.

Communication and PR: Wine Australia continues to communicate with local trade and lifestyle media, as well as hosting regular importer network meetings (CAWIN) in Beijing, Shanghai, Guangzhou and Hong Kong (HAWIN). Initiatives include:

- **Vintage Trip, March 2011** – media/educator/trade visit to wine regions in Australia (Target: 100 pax) in order to create a comprehensive network of A+ ambassadors across China. Media coverage before, during /after the trip.

Category Promotion:

- F&B event at World Expo, 2010 – retail and restaurants In conjunction with Austrade, Wine Australia assisted with the promotion of a VIP area set up with food and beverage products suitable for the retail sector and assist with the supply of wines for a hosted dinner at the Australia Pavilion.
- A+ Business Conference, Shanghai, May 2011 Trade and Media category tasting (Target: 500 attendees). - Educational workshops were held on varietal tasting, wine faults, flagship (Target 200 invited guests/landmark tasting, brand building, wine lists/service, closures, etc, to include trade, importers and media).

The Wine Australia Program is open to bottled, branded Australian wines that have been bottled in country of origin. Companies must have existing distribution in Shanghai and/or Beijing and membership is restricted to Australian wine producers with an Australian Business Number. The Program is not open to private label brands.

MEAT AND LIVESTOCK AUSTRALIA

CONTEXT

Meat and Livestock Australia (MLA) leads and supports livestock producers across Australia in the grassfed beef (40,224 members at June 2010), grain fed (5,140 members), sheep and lambs (27,355 members), and goat (2,287 members) sectors. The organisation's 247 staff support an industry that exports around \$6Bn of product annually from a beef herd of 28 million head and a sheep flock of 73 million head. Goats are harvested from the wild.



Australia is the second largest global exporter of both beef and sheep meats, by volume. (MLA Annual Report 2010)

STRUCTURE AND AIMS

Meat & Livestock Australia Limited (MLA) is an Australian public company limited by guarantee (ACN 081 678 364). The producer owned company provides services and solutions to the red meat industry – cattle, sheep and goats. Incorporated in 1998, MLA has over 47,000 producer members who have stakeholder entitlements in the company.

The company's mission is to deliver world-class services and solutions in partnership with industry and government.

A. Improving market access

MLA has three objectives to address improving market access:

- Enhancing product integrity;
- Ensuring a whole-of-industry approach to maintaining and liberalising access to world meat markets;
- Maximising market options for producers and exporters in the livestock export trade.

B. Growing demand

MLA's five objectives to assist industry with growing demand are:

- Achieving consistent eating quality;
- Enhancing the nutritional reputation of red meat;
- Developing new products;
- Aggressive promotion in the domestic market;
- Aggressive promotion in the export market.

C. Increasing productivity across the supply chain

MLA's four objective to achieve this are:

- Increasing productivity on-farm;
- Increasing productivity off-farm;
- Improving supply chain and market information;
- Improving biosecurity and animal health.

D. Promoting industry integrity and sustainability

China Business

In key markets in northern Asia, consumer loyalty to Australian red meat was encouraged through point-of-sale materials (including use of the Aussie Beef and Hojo Chung Jung Woo – Australian beef, clean and safe – logos in Japan and Korea), print advertising, PR, and supermarket sampling – with key messages incorporating the health benefits, safety and integrity of Australian meat.

Supermarket sampling continued to be used to raise consumers' awareness of the attributes of Australian meat and allow them to experience its delicious flavour first-hand. The equivalent of 28,000 in-store sampling days were carried out in retail stores across Japan and Korea to encourage purchasing of Australian beef, while an additional 800 sampling days were held in Japan for lamb.

In the South East Asia/Greater China region, Australian beef appeared on the shelves for the first time in 127 retail outlets in the emerging markets of China, Indonesia and Philippines. Retail shelf space held steady in established markets in the region while it grew an average of 15 per cent in emerging markets. During the year 12 new retail outlets in China, Philippines and Malaysia commenced selling Australian sheepmeat in their stores, including premium Australian branded sheepmeat 'hot pot' product.

MLA's role is to manage a research portfolio that can provide information, tools and innovative technologies to fill existing and emerging gaps in scientific knowledge, and to provide a platform for the distribution of messages to community and government opinion leaders.

E. Increasing industry and people capability

The four overarching objectives are:

- Increasing adoption of R&D outcomes;
- Attracting, developing and retaining world-class people;
- Building industry innovation capability across the value chain;
- Supporting industry with research policy.

SCOPE OF OPERATIONS

MLA provides 7 core services to its members:

1. *Client and Innovation Services:* - Fosters an industry-wide culture of continuous improvement, innovation and increased professionalism by partnering with processors and other value chain participants to develop and implement effective innovation and R&D strategies.
2. *Communications:* - Aims to ensure industry stakeholders are aware of MLA's role in the red meat and livestock industry, the opportunities created by MLA's programs and their potential benefits to industry - as well as the integrity of the industry to the broader community.
3. *Corporate Services:* - Provides support services, risk management, corporate governance, budget, planning and financial reporting to MLA management and stakeholders.
4. *Industry Systems:* - Underpins Australia's reputation as a supplier of safe, quality red meat with the management, communication and development of industry systems.
5. *Marketing:* - Grows demand and promotes the quality, safety and nutritional value of Australian red meat in the domestic market.
6. *International Markets and Economic Services:* - Works with industry and government to protect and increase access to international markets and provides market information and analysis that supports the Australian red meat and livestock industry. Includes the overseas regional offices whose activities support the development of strong supply chains and customer loyalty to Australian red meat and livestock by promoting its quality, safety and nutritional value in international markets.
7. *Livestock Production Innovation:* - Conducts R&D targeted at improving on-farm practices to develop a competitive advantage for the red meat industry and delivers programs to extend the results of R&D to industry, creating opportunities for profitable and sustainable red meat production.

The company maintains international offices in key export markets including Beijing, Taiwan, Philippines, Malaysia, Indonesia, Bahrain, Seoul, Tokyo, Moscow, Brussels, and Washington.

REVENUE GENERATION

MLA is primarily funded by transaction levies paid on livestock sales by producers. Transaction levies are charged on the sale of livestock (cattle, sheep and goats). The money raised is invested back into the industry to assist in research and development, marketing and market access activities.

The Australian Government also contributes a matching dollar for each dollar MLA spends in R&D. This is supplemented by cooperative contributions from individual processors, wholesalers, foodservice operators and retailers. Processors and live animal exporters also pay levies under contract to MLA.

MLA is not the only beneficiary of transaction levies - it is one of three organisations, including Animal Health Australia and the National Residue Survey, that receive a proportion of the funds.

Levies are:

- Cattle = \$5.00 per head
- Bobby calves = \$0.90 per head
- Sheep and Lambs - charges occur when the sale price is greater than \$5.00
 - Sheep 2% of sale price (maximum 20c)
 - Lambs 2% of sale price (maximum \$1.50)

- Where there is no defined sale price, Sheep are 20c per head and Lambs 80c per head.

The following table summarises the composition of revenues for the entity.

INCOME STATEMENT	2008-09	2009-10	2009-10
MLA Revenue			% of total revenue
Transaction levies paid by producers	98,068	96,362	56%
R&D matching grants from government	31,443	38,094	22%
R&D grants (unmatched)	3,753	6,156	4%
Processor contributions	10,554	9,733	6%
Live export contributions	1,963	1,846	1%
Co-operative funding	3,220	1,174	1%
R&D partnership income	8,279	12,094	7%
Sales of products and services	2,133	1,780	1%
Other	1,033	1,570	1%
Bank Interest	2,941	2,979	2%
Total Revenue	163,387	171,788	100%
MLA Expenditure			% of total expenditure
Increasing market access	22,791	21,217	12%
Growing demand	56,717	66,334	39%
Enhancing competitiveness and sustainability	29,580	37,349	22%
Increasing industry capability	8,683	8,239	5%
Communications	3,772	3,991	2%
Other	650	575	0%
R&D partnerships	15,232	22,865	13%
Corporate costs	9,416	10,105	6%
Total Expenditure	146,841	170,675	100%
MLA Surplus on operations	16,546	1,113	
MLA Accumulated Reserves	54,420	55,533	

GOVERNANCE AND BASIC OPERATIONS

MLA's corporate governance practices are based on the Australian Stock Exchange's (ASX) *Principles of Good Corporate Governance and Best Practice Recommendations*.

Leadership and Shareholder Input

The MLA Board currently comprises 10 directors, with the Managing Director the only executive director. The board is a skills-based board with directors appointed by a joint industry – government selection process for a maximum three-year term, after which time a director may reapply for a position on the board in the same way as other candidates. The board has the appropriate range of skills, knowledge and experience necessary to govern the Company, and they provide input into the selection process for directors through the Selection Committee. The board is supported by:

- An *Audit Committee* that addresses, internal control structure. Risk management. Appointing, assessing and ensuring the independence of external auditors and internal audit functions. Receiving complaints in relation to controls and accounting matters. and Receiving reports in connection with breaches of the Corporations Act.
- A *Remuneration Committee* comprising three non-executive Directors that reviews procedures for establishing compensation levels for all staff.
- A *Board Selection Committee* that endorses candidates for election to the board based on skills, experience and industry knowledge. The Selection Committee comprises three members elected by producers, three members appointed by industry and peak councils, and three MLA Directors.

Each year, the MLA Board's performance is evaluated through Self-assessment, Peer Review, and Individual Assessment by the chairman. Directors are also interviewed by an external advisor and feedback is provided to the individual Director, the MLA Chairman and the board as a whole. New directors are given an induction and the board has access to continuing education in relation to board responsibilities, as well as to independent advice.

The board's responsibilities include:

- Providing input into and approving management strategies, budgets, programs and policies;
- Appointing and removing the Managing Director;
- Assessing performance against strategies to monitor both the performance of management as well as the continuing suitability of strategies;
- Overseeing the Company and reviewing operating information;
- Approving and monitoring significant capital expenditure and significant commitments under agreed programs;
- Ensuring the Company operates with an appropriate corporate governance structure;
- Ensuring the Company operates in accordance with its objects and the Industry Memorandum of Understanding;
- Ensuring the Company meets its obligations under the MLA/Commonwealth Deed of Agreement.

Levy payments entitle the payer to votes in the Company AGM, according to the following formula.

- Levies paid = \$0-25,464 One vote for each \$1.00 received by MLA;
- Levies paid = \$25,465-76,390 25,464 votes + 0.75 votes for each \$1.00 received in excess of \$25,464;
- Levies paid = \$76,391 or more 63,659 votes + 0.5 votes for each \$1.00 received in excess of \$76,390.

Levies paid to LiveCorp and Australian Meat Processor Corporation are not included in calculating voting entitlements.

MLA membership is free to levy-paying producers of grass or grainfed cattle, sheep, lambs and/or goats. The range of benefits associated with MLA membership include:

- Free market information;
- Discounted entry into MLA events;
- Free or discounted publications and information tools;
- Free subscriptions to MLA's member magazines **feedback**, **Prograzier**, **Frontier** and DVD series feedbackTV;
- The opportunity to get more involved in the industry and make the most of your levies.

Becoming a member of MLA is easy and free for a levy-paying producer of cattle, sheep and/or goats.

Risk Management

MLA maintains a Board Charter and Code of Business Conduct and Ethics. All MLA management and employees are required to confirm their knowledge of and compliance with the code annually.

The Company's specific risk management policies and assessments are documented in the Risk Management Plan. The Plan outlines the process followed to identify risks and categorises risks as 'strategic risks' or 'operational risks'. Individual risks have been identified, assessed, categorised and entered into a Business Risk Register, which forms part of the Plan. The Audit & Risk Committee receives reports once a year on compliance with the Plan and conducts an annual review of the Plan. Other key risk management activities undertaken through the year included:

- External review of internal fraud controls;
- Review of year end processes for the Japan Office;
- Introduction of an R&D Aggregation Policy and Guidelines.

The Audit & Risk Committee oversees the Company's risk program and has oversight responsibility of the Company's financial reporting, internal control structure, risk management and the internal and external audit functions. In keeping with community expectations, the chair of the committee is not the Chairman of the Board. The Audit & Risk Committee is required to meet at least three times a year and meets separately with the external auditor at least once each year. The Audit & Risk Committee is responsible for making recommendations to the board for the approval of:

- The annual audit plan;
- Annual financial statements;
- The external auditor's report on the annual financial statements;
- The external auditor's report on the Company's compliance with the Commonwealth Deed of Agreement;
- The appointment of the Company's auditors.

The Audit & Risk Committee reviews the adequacy and effectiveness of internal controls, including the Company's policies and procedures, to assess, monitor and manage business risk and legal and ethical compliance programs. This review includes monitoring the implementation of the Company's Risk Management Plan, Fraud Control Plan and Intellectual

Property Plan. It also reviews the Company's foreign exchange and treasury management and oversees the Company's risk management program.

Communicating with members

MLA implements a member communications strategy that seeks to create awareness of MLA and its activities among MLA members; demonstrate the relevance and value of the Company and its programs; and proactively engage members to take advantage of the opportunities created by the Company in partnership with industry and government.

MLA employs a variety of communications tactics including radio and print media, magazines and publications, the corporate website, events and feedback DVDs. The success of these efforts is measured through member surveys, media and website monitoring, publication orders and increases in membership. MLA rotates its AGM location around the nation. Events play an important role in giving members information and the direct opportunity to contribute to the direction of the company.

AUSTRALIAN PORK LIMITED

CONTEXT

Australian Pork Ltd (APL) leads and supports 319 piggery operators across Australia who collectively slaughter 4.6 million pigs per year. The producer owned organisation has a unique charter, combining policy, R&D, marketing and export under one organisational roof. Representing 92% of production, member businesses include a wide range of sizes and locations.

The top 150 piggeries provide 85% of total industry production. APL also offers associate and affiliate memberships.

The organisation's 15 staff support an industry that producers around \$1 Billion of farm gate value, exports around 50,000 tonnes pa (15% of production), and competes against imports of 250,000 tonnes pa (46% of domestic demand).



STRUCTURE AND AIMS

APL is a public company limited by guarantee. The accompanying figure identifies APL's Core Objectives and Strategies, detailed in the current Strategic Plan 2010-15.

REVENUE GENERATION

APL is funded by three transaction levies paid on livestock slaughtering by producers:

- Marketing Levy of \$1.35 per carcass
- R&D Levy of \$1.00 per carcass
- National Residue Service Levy of \$0.175 per carcass.

Money raised by levies is invested back into the industry to assist in research and development, marketing and market access activities. The Australian Government contributes a matching dollar for each dollar APL dollar raised from the R&D levy. This is supplemented by cooperative contributions from individual processors, wholesalers, foodservice operators and retailers. Processors and

Core Objective	Build Consumer Demand	Viable Productive farms	Efficient Value Chains	Leadership, Preparedness, Stewardship	Industry Cohesion & Responsiveness
Objective Champion	General Manager Marketing	General Manager Research & Innovation	General Manager Research & Innovation	General Manager Policy	General Manager Communication
Key Stakeholder	Consumer	Producers	Supply Chain	Community, Producers, External Stakeholders	Industry People
Scope	Domestic & International meat, fresh & processed	Farm efficiency	Links between layers of the supply chain	Managing risks & capturing opportunities	Information, knowledge, communication, internal operations
Strategy 1	Assuring eating quality	Reduce input costs	Create & capture value improvements	Address changing expectations & standards for food production	Engage & connect the industry
Strategy 2	Increasing frequency of use	Improve process efficiency	Enhance linkages between the value chain partners	Manage the impact of regulatory shifts	Facilitate rapid uptake of information & technology
Strategy 3	Improving the image of fresh pork	Build skills & capability	Optimise value chain efficiency & quality	Government policy & compliance requirements	Enhance the reputation & effectiveness of APL
Strategy 4	Promoting "Australian"				

live animal exporters also pay levies under contract to MLA.

The following table summarises the composition of revenues for the entity.

INCOME STATEMENT \$ million	2009-10	2009-10
APL Revenue		% of total revenue
Slaughter levies paid by producers	11	63%
R&D matching grants from government	4.3	25%
R&D grants (unmatched)	0.5	3%
Other income	1.6	9%
Total Revenue	17.4	100%
APL Expenditure		% of total expenditure
Marketing	8.4	49%
Value Chains	0.49	3%
Farming R&D	3.0	17%
Food Safety, Animal Welfare, Stewardship	3.0	17%
Corporate costs	2.3	14%
Total Expenditure	17.2	100%
MLA Surplus on operations	0.2	
MLA Accumulated Reserves	4.5	

GOVERNANCE AND BASIC OPERATIONS

The organisation's constitution and articles specify the intent and powers of the board and members. Members are empowered to vote at Annual General Meetings based on 1 vote for every dollar of slaughter levy paid. The board comprises 9 directors – 5 producers and 4 specialists. Directors are appointed jointly by members and the Federal Government for 3 year terms. Specialist board committees include Audit and Remuneration, Selection, plus others established from time to time as necessary. APL also maintains an annual budget and a current Five Year Plan.

Communicating with members

APL maintains close liaison and an ongoing dialogue with its members, delegates, levy payers, the Australian Government, the pork industry generally and other key stakeholders in the future development and review of its strategic plan. The company's strategies are designed to actively support the needs and aspirations of both the industry and the Australian community. All final reports, training programs and manuals are available free of charge from the organisation's website. A free-call phone number is available for levy payers and others to make free contact from around Australia.

DAIRY AUSTRALIA

CONTEXT

Dairy Australia (DA) leads and supports an industry comprising 7,200 farms and 1.6 million cows across Australia. The organisation is supported by a network of regional and state industry and agency bodies directly and indirectly supporting milk producing farms. The number of dairy farms has fallen by two thirds in the last three decades from 22,000 in 1980.

The industry has a farm gate value of \$3.4 billion. Domestic demand consumes 425,000 tonnes of domestically produced dairy foods, with major export markets including Japan (116,000t), Singapore (87,000t), and China (65,000t). One of the world's largest exporters, the Australian industry has export sales of \$2.4 billion – 10% of world trade.



STRUCTURE AND AIMS

DA is a producer and processor owned company limited by guarantee that is the national investment and services body for dairy farmers and industry. The organisation's role is to help farmers adapt to a changing operating environment, and achieve a profitable, sustainable dairy industry.

DA invests across the dairy supply chain, identifying the best opportunities for collective action - the activities that farmers and companies cannot do efficiently themselves. DA has four strategic priorities:

- Enhance the adaptive capability of the dairy supply chain to improve farm margins and growth opportunities.
- Proactively promote and protect dairy's value propositions.
- Co-ordinate an integrated supply chain response to climate change and natural resource management.
- Grow capability and skills.

REVENUE GENERATION

DA generates revenue from a farm gate milk levy paid by producers, and external contributions and income. Levy funds are matched by the Federal Government and polled funds reinvested in R&D projects and industry initiatives.

The following table summarises the composition of revenues for the entity.

INCOME STATEMENT \$ million	2009-10	2009-10
DA Revenue		% of total revenue
Transaction levies paid by producers	28	54%
R&D matching grants from government	20	37%
External contributions (unmatched)	1	2%
Other income	3	7%
Total Revenue	52	100%
DA Expenditure		% of total expenditure
Marketing	8.6	17%
Trade Strategy	5.5	11%
Value Chains and Innovation	6.4	12%
Farm R&D	20	38%
Other	4.8	9%
Business Performance	6.6	13%
Total Expenditure	51.9	100%
MLA Surplus on operations	0.1	
MLA Accumulated Reserves	25.4	

GOVERNANCE AND BASIC OPERATIONS

DA maintains a constitution and articles of association to specify the intent and powers of the board and members. Annual Reports, Budgets and Strategic Plans are established to ensure current performance and future planning and oversight by members and external stakeholders.

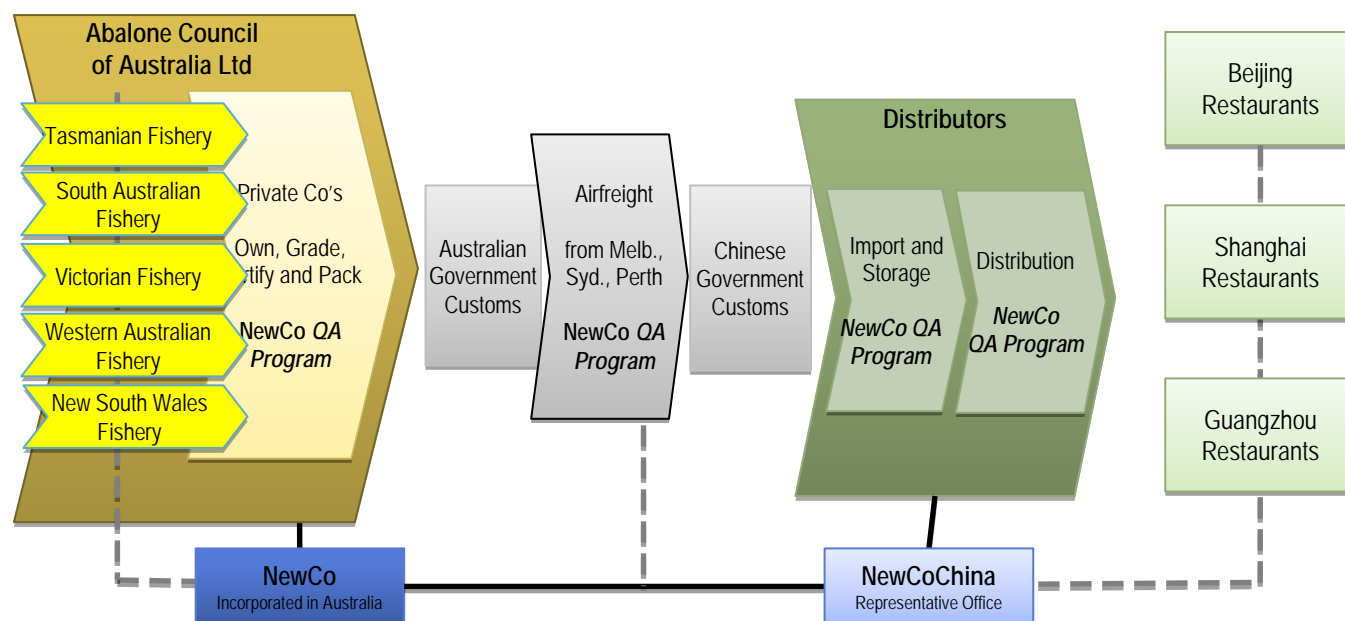
The board comprises 8 non-executive directors (minimum of 3) plus a Managing Director. Non-executive directors are appointed jointly for 3 year terms by members (farmers and processors) and the Federal Government on the basis of relevant experience. DA maintains 2 permanent board committees (Audit and Risk Management; Human Resources), and appoints others as and when necessary.

Communicating with members

Throughout the year, Dairy Australia reports to its key stakeholders in a variety of ways, including by letter to members, through presentations to farmer conferences and meetings, in an Annual General Meeting, in an Annual Report, and through quarterly reports to the Australian Government.

6. PRODUCT AND FINANCIAL FLOWS

The product and financial flows proposed for the new business are as illustrated below.



TRANSACTION ACTIVITY	RELEVANT TERMS AND CONDITIONS
1. Chinese restaurant submits supply order to China based distributor	<ul style="list-style-type: none"> Supply agreement between Distributor and its restaurant clients Agreement includes terms to use branded certified ACA product according to NewCo QA Program
2. Distributor emails product order to NewCoChina (representative office in China).	<ul style="list-style-type: none"> Order specification based on general terms specified in Abalone Supply Contract between Abalone Council of Australia, Seafood CRC Co, and Distributor. Supply chain QA Program
3. NewCoChina office negotiates/confirms abalone price and confirms sales contract to Distributor.	<ul style="list-style-type: none"> Price basis subject to terms on Abalone Supply Contract ACA/ SCRC / NewCo / Supplier Agreement
4. NewCoChina confirms to ACA and NewCo the gross order price, R&D contribution, NewCo license fees, and net price	<ul style="list-style-type: none"> NewCo license agreements for QA Program, branding, etc ACA/ SCRC / NewCo / Supplier Agreement
5. ACA contacts certified abalone suppliers and arranges supply to meet NewCoChina order and specification	<ul style="list-style-type: none"> Abalone Supply Contract identifies abalone fishers accredited to the NewCo QA Program
6. Abalone suppliers process export documents, product clears customs and is shipped per NewCo QA Program	<ul style="list-style-type: none"> NewCo QA Program
7. Abalone supplier invoices NewCoChina for product shipment at agreed net price (excluding marketing fee component) and sends copy to NewCo/NewCoChina	<ul style="list-style-type: none"> Per NewCoChina contracts with selected Distributors
8. Distributor clears customs and stores or distributes product to retailers/restaurants per QA Program	<ul style="list-style-type: none"> NewCo QA Program
9. NewCoChina confirms product integrity and distributor expectations are met	<ul style="list-style-type: none"> NewCo QA Program
10. NewCoChina invoices Distributor for gross value of product received plus charges as per sales contract	<ul style="list-style-type: none"> Sales Contract with Distributor
11. NewCo receives payment and promptly remits net returns to abalone supplier and copy to ACA	<ul style="list-style-type: none"> ACA/ SCRC / NewCo / Supplier Agreement
12. NewCo / NewCoChina retain net funds as a proxy levy for use in market development activities	<ul style="list-style-type: none"> ACA/ SCRC / NewCo / Supplier Agreement

7. ASSESSING MODEL OPTIONS

STRUCTURES AND ENTITIES

Four of the case entities assessed above are **unlisted public companies limited by guarantee** and one is a “small” **private company**. Both public and private companies are regulated by the Australian Securities and Investments Commission (ASIC). It is useful to briefly outline the corporate requirements for each structure.

UNLISTED PUBLIC COMPANY LIMITED BY GUARANTEE

Unlisted public companies can offer shares to the public. However, in contrast to a listed public company, their shares will not be included on the official list of a securities exchange (i.e. stock exchange). This “unlisted” category includes:

- public companies limited by shares (not listed);
- unlimited public companies; and
- unlisted no liability companies (mining companies).

“**Unlisted**” status means the entity is owned by a prescribed smaller public (i.e. the population of Australian dairy or meat etc. producers in their respective sectors) and it does not have to comply with the onerous public reporting standards and costs of public firms listed on the stock exchange. All unlisted public companies registered under the Corporations Act must have at least 3 directors, 2 of whom must be Australian residents.

A company “**limited by guarantee**” is a company formed on the principle of having the liability of its members limited to the respective amounts that the members undertake to contribute to the property of the company if it is wound up. The extent of this limit is typically a nominal amount prescribed in the company’s constitution – e.g. full payment of annual membership subscriptions and compulsory levies. In a company “**limited by shares**” the liability of the shareholders to creditors of the company is limited to the capital originally invested, i.e. the nominal value of the shares and any premium paid in return for the issue of the shares by the company.

An **unlisted public company limited by guarantee** is a common structure for a not-for-profit or charitable organisation that reinvests any surplus (profit) to serve its primary purpose. As public companies limited by guarantee are registered under the Corporations Act, directors of not-for-profits (which have this structure) generally have the same legal duties, responsibilities and liabilities as directors of commercial entities that are public companies registered under the Act.

PRIVATE COMPANY

A private company is a company that is registered as, or converts to, a proprietary company under the *Corporations Act 2001* (C’th). Under the Act a proprietary company must: be limited by shares or be an unlimited company with a share capital; have no more than 50 non-employee shareholders; not do anything that would require disclosure to investors under Chapter 6D of the Act; and have at least 1 director.

Proprietary companies cannot sell shares to the public. Each year a private company must assess whether it is a “small” or “large” proprietary company under the Act - small companies enjoy less onerous reporting requirements. A small private firm must comply with at least two of the following three conditions: have consolidated revenue less than \$25 million/yr; have less than \$12.5 million in consolidated gross assets at year end, and have less than 50 employees. Wine Australia Pty Ltd (WA) is a private export marketing company and therefore its capital access, reporting remit and budget are both limited and proprietary.

CONCLUSION

From this initial review the **unlisted public company limited by guarantee** structure seems most appropriate for the seafood industry structure as the number of shareholders may grow to exceed 50, and its intent is primarily as a not-for-profit service entity for industry expanded seafood industry use.

REVENUE SOURCES

Corporate structure has a direct and substantial impact on the motivation and capacity for revenue creation in competitive markets, and cost management. Other matters also contribute to revenue including scale and scope,

management capability, value chain structure (are there any processors or downstream traders who can contribute to and benefit from levies?), etc.

INDICATORS BASED ON CASE STUDIES

The 5 case studies discussed present a range of structural options. AWI, MLA, and DA are effectively unlisted public companies owned by producers, which manage substantial export and trade market activity directly as an international “division”. APL is a hybrid - an unlisted public company which has a domestic market focus that combines policy, R&D, and marketing under a single structure. Wine Australia (WA) is a stand-alone proprietary company which is the international marketing arm of the parent AWBC, a statutory authority. The WA setup is export focused and structured to be more commercial and flexible in its dealings with markets, supply chains and individual enterprises in its constituency.

The following table confirms that the unlisted company structure is commonly used, and receives a high proportion of revenues (74-91%) from compulsory levies. Also of interest to the abalone case is that the three large export focused entities (AWI, MLA, DA) expend a relatively high proportion of matched levy funds (28-51%) on export market strategies for the benefit of members.

INCOME STATEMENT	Corporate Structure	2009-10 \$ million	2009-10 % of total revenue
Revenue from Members Matched Levies			
Australian Wool Innovation	Unlisted public company limited by shares	46	74%
Wine Australia/AWBC	Private company limited by shares, owned by a Statutory Authority	6	39%
Meat and Livestock Australia	Unlisted public company limited by guarantee	134	78%
Australian Pork Ltd	Unlisted public company limited by guarantee	15	88%
Dairy Australia	Unlisted public company limited by guarantee	48	91%
Expenditure on Trade and Marketing			
Australian Wool Innovation		24	51%
Wine Australia/AWBC		N/a	N/a
Meat and Livestock Australia		88	51%
Australian Pork Ltd		8	49%
Dairy Australia		14	28%

Each of the 5 companies has an agreement with the Federal Government for the compulsory collection of levies from producers. In each case the Government provides matching funds under a capped formula to create a pool of revenue for use by the respective company in R&D activities. APL’s structure enables greatest scope to manage these funds under the single organisational structure – the structure is not likely to be replicated by government.

In 2009-10, AWI, APL and DA drew levies from producers¹ alone, while WA and MLA drew levies from along their supply chains - WA (grape growers, wine makers, and exporters) and MLA (livestock producers, meat processors and live exporters). There are industry specific reasons for the obvious variances, including:

- AWI (65,000 levy payers) and MLA (75,000 levy payers) have far more levy paying members than DA (7,200 members), AWBC/WA (2,300 wine companies, 14 of whom provide over 70% of volume) or APL (319 members).
- The intentional choice of the producers/processors/exporters who set the levy rates at a ballot or AGM process, subject to respective drought, market competition, and other industry pressures and opportunities at the time;
- The nature of value creation and role of investors in the downstream chain. For example the wine, dairy and beef industries have substantial foreign corporate participation in their domestic downstream chains, whereas the local wool and pork industries do limited value adding or have minimal overseas corporate investment. Clearly it is not possible for AWI to levy its downstream supply chain as these are overseas based foreign enterprises.
- The annual revenues and accumulated reserves of the industry organisations vary greatly:
 - MLA - \$172 million and \$56 million respectively,
 - AWI - \$62 million, and \$71 million respectively,

¹ Note that this statement ignores some minor ancillary levies and voluntary contributions (e.g. regional dairy associations or state agencies) that are received by industry organisations, some part or all of which may be matched by Federal agencies.

- Wine Australia - \$15 million and \$4 million respectively,
- APL - \$17 million and \$5 million respectively,
- DA - \$52 million and \$25 million respectively.

This points to the relative scale of the industries (wool, meat, and dairy are large), the relative longevity of their respective investment programs (wine is a relatively recent exporter), and the economies of scale that are potentially available in market programs and support.

- Significant revenue streams may accrue in-market from licensing of brands and trademarks to eligible exporters and chain partners. Further funding is available from Austrade under the Export Market Development Grants Scheme.
- The GVP of Abalone is in the order of \$120 million, and \$2.2 Bn for all of Australian seafood (including pearls). This contrast with the GVP for wool (\$3 Bn), wine (\$5 Bn) red meat (\$10 Bn), pork (\$1 Bn) and Dairy (\$4 Bn).
- Active communication programs (to market participants and industry investors) are a core component of China market strategies. These may involve joint in-market investments or promotions with other Australian products.

The proprietary structure and business model operated by Wine Australia appears, on the surface, to offer an attractive model for a seafood market support business. From a revenue perspective at least, it demonstrates greater operational flexibility and commercial focus. The independent governance arrangements of such an arms-length entity will also be attractive in a seafood/fishing industry that has repeatedly failed to attract broad stakeholder support for investment in peak industry bodies.

However there are a number of factors recommending against a private company structure for seafood exports. The cap on the number of members (50) for a private company is a real limit to the long term role of the entity, as additional seafood export sectors are potentially added. The relative business practice and chain immaturity², and disparate production systems and culture of wild catch and aquaculture enterprises, suggest that there would be little support from levy payers to jointly contribute funds to a private entity.

In the absence of private investment the only option is debt finance (very unlikely), or industry based levies. A further matter related to levies is the prescribed entity responsible for levy collection. The Pty Ltd entity structure works well for wine industry as they have an existing industry based statutory “responsible levying entity” to act as the holding company – the seafood industry has no equivalent entity. The Seafood CRC which is the current sponsor for the market levy concept, may well cease to exist in the next 3-5 years.

As in the pork and dairy industry case studies, the stand alone “unlisted public company limited by guarantee” structure is therefore best positioned to flexibly and cost effectively service a modest not-for-profit service export requirement where the number of producer members (to be determined as individuals, sectors or other) is ultimately likely to exceed 50. The appointment of experience seafood trade executives to its management team will provide the commercial culture required for a lean and effective export service company.

The **unlisted public company limited by guarantee** structure seems most appropriate for the Abalone export industry.

INDICATORS BASED ON SEAFOOD EXPORTS TO CHINA

The wildcatch Abalone industry has modest stakeholder base and far fewer potential members – being quota holders, divers, processors, and exporters. Any market support levy developed by the industry could be equitably set based on a rate per kg, or volumetric base. The levy would be payable by all producers regardless of their participation in exports, as product moved off the domestic market would boost domestic sale prices as well.

Revenues created by the export sales of branded abalone will remain the property of the exporter/processor/quota holder. Neither the ACA nor the SCRC has the balance sheet strength, trading skills or the risk tolerance to be a trader in abalone products to export markets. However these limitations do not constrain the opportunity to secure the collective benefits of a “single desk” export arrangement. A stand-alone company supported by the ACA and owned by the exporter/processor/quota holder members of SCRC can best act as a facilitator of export marketing and sales. Rather than “owning” revenues as a trader, it would charge a contracted service based on sales outcomes. Such a fee would be received directly from the sales remittance as a proxy levy from the shareholder members.

² The level of immaturity in business practices, trade networks, corporate structures and supply chains across Australia’s seafood sector was highlighted in a report by Ernst and Young in a report to the Seafood Ministerial Task force, Sept 2010.

But what is the scale of Australian export seafood to China if other species such as Lobster and prawns are added? What are the implications if export trade to Hong Kong is included?

Adding additional species to the market development role for the proposed company would immediately raise the issue of equity of contributions by each seafood sector. As the beach price per species varies, a volumetric levy based on beach weight (of production or sales) would penalise export species with a low beach value per kg. An *ad valorem* levy based on sales value is therefore the best way to achieve and maintain equity between levy payers across all species.

The table below presents Australia's seafood export trade value (China and Hong Kong) for 2009-10. The data are listed in descending order of sales by species direct to China. Each species may have sales across multiple HS Codes. It is clear from this single year of data that the trade to Hong Kong in 2009-10 was nearly 12 times that sent direct to China.

If we assume Abalone export sales contribute to an *ad valorem* China market levy (unmatched) of 0.5%³ of the AQIS declared trade value the potential levy contributions raised (after deducting estimated collection costs) are in the order of \$217,000 per year.

If the scope of the market support program is expanded to include both more export species and sales to Hong Kong, the unmatched funds pool rises considerably, based on the raw numbers. For example a modest *ad valorem* levy of 0.5% of AQIS trade value on Abalone and Lobster export sales will accrue around \$150,000 unmatched in China, but will achieve \$2.1 million unmatched if the Hong Kong market is included. Other potential species to include are prawns, crabs and scallops, subject to agreement that export of these species benefits all producers who would be required to pay the levy. (Where a species is largely targeting the domestic market a compulsory levy on all producers may lead to inequities as specified by the 12 principles established by DAFF / Levies Revenue Service.)

AUSTRALIAN SEAFOOD EXPORT SALES	Number of HS Codes for exports in 2009-10 Trade	2009-10 \$ Export Sales	Estimated Net <i>Ad Valorem</i> levy at 0.5% rate
To China			
Abalone	6	29,208,819	146,000
Shrimp/prawn	4	5,664,287	28,000
Crabs	2	4,267,842	21,000
Whiting / Finfish	5	2,055,082	10,000
Salmon	1	1,031,789	5,000
Oysters	1	609,401	3,000
Scallops	1	142,595	1,000
Lobster	3	85,871	1,000
Other		432,479	2,000
Subtotal		43,498,165	217,000
To Hong Kong			
Abalone	7	131,589,821	658,000
Shrimp/prawn	5	9,604,792	48,000
Crabs	3	2,836,241	14,000
Whiting / Finfish	9	35,675,515	178,000
Salmon	4	4,067,157	20,000
Oysters	1	1,188,792	6,000
Scallops	2	18,644,248	93,000
Lobster	7	305,908,154	1,530,000
Other		20,582,762	103,000
Subtotal		530,097,482	2,650,000
TOTAL to China and Hong Kong		573,595,647	2,867,000

A further factor noted above is the uncertain future of the SCRC. Formation of an independent entity controlled initially by the SCRC's Abalone members resolves this risk at the outset. While it existed the SCRC would still maintain an IP interest in the new entity and have an oversight role.

³ The SCRC is currently considering (draft letter from Len Stephens) a number of China Market levy options for the Abalone model – ranging from 17c/kg to 56c/kg. At a beach price of \$35/kg these levies equate to 0.5% and 1.6% of the beach price.

Questions that require more specific advice beyond the scope of this initial report include:

- Tax issues related to treatment of revenues earned by an Australian company doing work in Asia etc,
- Tax issues related to the potential repatriation of net revenues to Australia by NewCo,
- Levy management mechanisms and impacts for new sectors and members joining the company in later years.

SCOPE OF COMPANY OPERATIONS

Understanding the scope of the task to facilitate and commercialise the export development of abalone exports must be the starting point for any discussion about the appropriateness of a business model. We need to fit the structure to the strategy, and not the other way around.

The basis of the strategy being pursued by the ACA/ SCRC is to:

- Move the current sales process for Australian export Abalone into the China/HKG market to a more sophisticated and consumer driven marketing program supported by a range of in-market, brands, promotions and initiatives;
- Increase sales of Australian abalone products through improved margins rather than through increased volume;
- Enhance the productivity and performance of the abalone harvest sector and related supply chains to the China/HKG market in such a way that every kilo of fish harvested achieves its full export market potential.

Looked at in this way it is clear that the business model must include all business and support operations necessary to achieve these broad objectives, in a staged and methodical way. It will be a marketing company and as such should have very limited responsibilities in any non-marketing role.

MARKETING OPERATIONS AND TASKS TO BE WITHIN THE SCOPE OF NEWCO
1. Maintain and Report to the board re progress against Marketing Plans and Budget and line items, and selected KPIs
2. Undertake periodic competitor analyses, market intelligence and other market development activities to increase demand for and profitability of Australian Abalone
3. Establish, manage, license and promote all brands and marks for Australian Abalone to achieve market awareness sales potential
4. Identify opportunities and implement licence agreements for 3 rd party use of the company's brands
5. Collaborate and co-invest with other in-market or Australian organisations (e.g. Austrade) to promote the company's interests
6. Establish a thru-chain proprietary QA System that has support from markets, suppliers and all chain participants
7. Manage all market support initiatives (e.g. training, distributor awareness etc) and consumer touch points
8. Negotiate with in-market distributors and third parties for the sale of shipments of Australian Abalone
9. Verify the integrity of abalone product supplied to customers and manage rejected shipments or out-of-spec product
10. Report weekly to ACA/SCRC/industry on market outcomes, sentiment, trends and upcoming requirements, options and risks
11. Manage in-market media relations to support the Marketing Plan
12. Identify and working with distributors, market intermediaries and market specialists to develop and implement marketing programs
13. Employ, manage and periodically evaluate performance of the in-market staff
14. Secure board approval for annual Marketing Plans and Financial Budgets
15. Manage business cash flow by remitting surplus funds to Australian Office, requesting funds and holding local funds, when necessary
16. Represent the Company to industry, stakeholders, regulators and third parties at a professional standard
17. Manage accounting, financial activities and responsibilities of the company and periodically report financial progress against budgets, forecasts and plans
18. Prepare and present formal reports for the board and implementing resolutions
19. Manage a process to periodically meet with all supply chain partners to review market performance and identify market and product opportunities
20. Monitor and report to board on market access and trade issues relevant to Australian Abalone export, including biosecurity and animal health
21. Identify and implement tools to reduce price and market volatility and enhance market performance
22. Identify and report to board re opportunities for additional R&D investment by industry/ACA/SCRC

BASIC OPERATIONS AND GOVERNANCE

The forgoing discussion has noted attractive “business focused” aspects of the proprietary structure and business model operated by Wine Australia. However mitigating factors discussed indicate that the flexibility of the **unlisted public company limited by guarantee** is the preferred structure over the long term. The “business focus” will come from retaining experienced seafood marketers on the entity’s executive team.

The independent governance arrangements of such an arms-length entity will also be more attractive in a seafood/fishing industry that has repeatedly failed to attract broad stakeholder support for investment in peak industry bodies.

GOVERNANCE AND BASIC OPERATIONS AND TASKS TO BE WITHIN THE SCOPE OF NEWCO	
1.	Structure: Confirm the <i>unlisted public company limited by guarantee</i> as the preferred structure based on further analysis of the levy evolution and tax treatment issues identified above.
2.	Constitution: Design a constitution and establish a corporate entity whose initial members include ACA, SCRC, and experienced industry and independent directors. Directors will be required to perform 6 essential functions: <ol style="list-style-type: none"> setting strategic direction through policies, goals, strategies and performance targets for the organization, make available to management resources to achieve strategic direction, monitor the organization’s performance against strategies, budgets and targets, ensure adequate processes in place to comply with legal and accounting requirements, ensure risks to which the organization is exposed are clearly identified and managed, report progress to shareholders.
3.	Board: Establish a selection panel to identify and appoint 5-7 experienced candidates to the Board of Directors. The Board should be majority non-executive in structure to optimise external skills – and include a mix of levy payers and skilled external directors.. Ensure appointments provide Board coverage across key areas (industry, legal, finance, regulatory, technical, markets and species, compliance, human resources). Appoint directors for a 3 year term – possibly 50% retiring every 18 months. Ensure all new directors undertake a formal induction process. The Chairman to be elected by the Board members every year. Prepare a Board Charter and Statement of Board Responsibilities. Establish a Governance Review and Board Performance process - implement annually. Establish Board Committees as necessary from time to time.
4.	Strategy: Establish corporate goals and set direction for the business for initial 1-3 years. Establish operating and reporting policies and procedures for day to day operations of the company. Ensure all strategy and policy documents are appropriate for additional species to be added in due course.
5.	CEO: Appoint a CEO and work with that person to build an effective management team
6.	Secretary: Appoint a Company Secretary to ensure to manage Board and Corporate affairs and ensure the business complies with the Boards Charter, Statement of Governance Standards and other relevant legal, accounting and corporate documents
7.	Auditor: Appoint an external Auditor, with experience in the entities relevant industries and markets
8.	Compliance: Ensure registration of the entity in each market as necessary for regulatory or tax purposes
9.	Finance: Subject to investor / stakeholder agreement, confirm and implement a voluntary marketing levy. Arrange interim finance as necessary.
10.	Risk Management: Use a risk assessment process to establish a Risk Management Plan and Audit & Risk Committee, that will include people with in-market experience. Establish financial authority thresholds for the Board, Chairman, and CEO.
11.	Code of Conduct: Establish a Code of Conduct to ensure all staff, directors and industry stakeholders representing the business conduct themselves according to high ethical standards and market expectations
12.	Conflict of Interest: Establish a Conflicts of Interests Policy for all directors and officers of the company that includes internal and external fraud controls
13.	Performance: Establish a periodic (weekly or monthly for critical items; half yearly or annually for others) business and staff performance review process that includes experienced independent views.

KEY RISKS TO BE ADDRESSED

The following table identifies the major risks to be addressed prior to establishment of the company, and those that are likely to exist on an ongoing basis thereafter.

RISK TO NEWCO	APPROACH TO RESOLVE RISK
To be Resolved Prior to Incorporation	
1. Viability of the recommended Business Model	o Undertake a thorough analysis of the market and financial flows for the business
2. Capacity of the key proponents in the venture	o Undertake due diligence of ACA and SCRC as proponents of the new venture. Ensure they and all future suppliers meet and agree to comply with NewCo QA specifications
3. Format of sales contracts to be agreed with market	o ACA and Industry discussion and agreement
4. Mechanism proposed for payment for Abalone shipments that will be received from Australian industry	o ACA and Industry discussion and agreement
5. Type of corporate entity to be established – unlisted company limited by guarantee recommended	o May need legal and accounting input to ensure tax and trade risks are minimised
6. Sound out and secure industry agreement on proposed structure, membership, board members, participants and corporate goals	o ACA and Industry discussion and agreement
7. Availability of startup capital and supply commitments to support the company	o ACA and Industry discussion and agreement
8. Design and implementation pathway for seafood marketing levy	o Industry discussion based on SCRC input and resolution at AGM
Ongoing After Incorporation	
9. Lack of product supply within spec or adverse seasonality of supply	o ACA and Industry discussion and agreement for supply within agreed QA and spec based on market positioning
10. Quantum, equity and compliance with marketing levy	o ACA/Other sectors and industry discussions
11. Adverse \$A exchange rate movements	o Incorporate risks into supply and market contract terms
12. Poor and inconsistent quality and performance of product supplied by Australian industry	o ACA and Industry discussion and agreement for supply within agreed QA and spec based on market positioning
13. Gross revenue volatility	o Contract Terms, and cash flow and budget forecasting
14. High and uncontrollable transaction costs	o Management and Board oversight
15. High and uncontrollable overhead costs	o Management and Board oversight
16. Limited recognition and support from market operators	o Active market development program
17. Lack of Working Capital	o Management and Board oversight
18. Lack of skilled staff and managers	o Management and Board oversight
19. Corruption of in-market representatives and managers	o Conflict of Interest Policy, fraud management and Board oversight
20. Inappropriate governance arrangements	o Management and Board oversight

APPENDIX 1.

OBJECTS OF ABALONE COUNCIL AUSTRALIA LTD

- i. To act as a peak national body, representing the collective interests of all five wild harvest abalone producing states; New South Wales, South Australia, Tasmania, Victoria, and Western Australia, represented by the Peak State bodies.
- ii. To provide a forum for communication between the five wild harvest abalone producing states;
- iii. To acknowledge and support the authority of the state abalone organisations;
- iv. To provide assistance to the state abalone organisations when requested;
- v. **To advise on National Research and Development priorities;**
- vi. To protect and sustain the long term viability of the Australian wild catch abalone industry;
- vii. To promote the interests of the Australian wild catch abalone industry;
- viii. To advance the awareness of the public and to foster public understanding of the Australian wild catch abalone industry;
- ix. **To carry out research , gather compile and disseminate information relating to the wild catch abalone industry and assist in improving abalone fishing handling, processing, quality and marketing practices;**
- x. To consider promote and advocate policies and legislation beneficial to the wild catch abalone industry including making submissions with respect to legislation relating to the abalone industry;
- xi. To promote the Australian wild catch abalone industry by all appropriate means;
- xii. To liaise and work in conjunction with governments statutory and similar authorities and other bodies in relation to the wild catch abalone industry;
- xiii. To convene and hold seminars discussions lectures and conferences at such times and places as the Council may determine;
- xiv. To publish and distribute journals books papers bulletins and newsletters of interest to the members of the Council and the State bodies
- xv. To promote social activities amongst members and persons interested in the objects of the Council;
- xvi. To examine means of and encourage and assist in improving procedures for the efficient disposal of disputes in the wild catch abalone industry;
- xvii. **To manage and utilize funds and resources which become available to it from time to time:**
 - e. **Apply for available funds, grants and donations;**
 - f. **Use funds to maximum benefit;**
 - g. **Appoint salaried staff and officers if in its opinion is in the best interest of the Council to do so and may determine and from time to time vary their remuneration and the conditions of employment. All such staff and officers shall perform duties as directed;**
 - h. **Enter into any contract considered necessary by the Council.**

POWERS OF ABALONE COUNCIL AUSTRALIA

Solely for the purpose of carrying out the objects in Clause 3(d) and not otherwise, the company shall have the following powers:

- (a) **to make such grants to or in aid of or to make donations or give assistance to or to make contracts with such individuals, trusts, corporations, associations, societies, institutions or other organisations or authorities whether within or outside the Commonwealth of Australia as may be necessary or desirable;**
- (b) to print, publish and distribute any papers, journals and other publications that the company may think desirable for the promotion of its objects;
- (c) **as far as the Corporations Act 2001 will permit and subject to the provisions of any relevant statute, rule, regulation, by-Law or any licence issued in pursuance thereof to collect funds and to solicit, receive, enlist and accept financial and other aid, subscriptions, donations and bequests from individuals, trusts, companies, associations, societies, institutions and other organisations or authorities, and from governments and public bodies;**
- (d) to undertake and execute any trusts the undertaking whereof may be necessary or desirable for the carrying out of any of the objects of the company;
- (e) to accept any gift, endowment or bequest made to the company generally or for the purpose of any specific object and to carry out any trusts attached to any gift, endowment or bequest, provided that the company shall only deal with any property which is subject to any trusts in such manner as is allowed by Law having regard to such trusts;
- (f) to subscribe to, become a member of, cooperate with or amalgamate with any other association or organisation, whether incorporated or not, whose objects are similar to those of the company;

- (g) to buy, sell and deal in all kinds of apparatus and all kinds of provisions, liquid and solid, required by the members of the company or persons frequenting the company's premises;
- (h) to purchase, take on lease or in exchange, hire and otherwise acquire any lands, building, easement or property, real and personal, and any rights or privileges which may be requisite for the purposes of, or capable of being conveniently used in connection with, any of the objects of the company;
- (i) to enter into any arrangements with any government, organisation or authority, supreme, municipal, local or otherwise, that may seem conducive to the company's objects or any of them and to obtain from any such government or authority any rights, privileges and concessions which the company may think it desirable to obtain; and to carry out, exercise and comply with any such arrangements, rights, privileges and concessions;
- (j) to appoint, employ, remove or suspend such managers, clerks, secretaries, servants, workmen and other persons as may be necessary or convenient for the purposes of the company;
- (k) to establish and support or aid in the establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit employees or past employees of the company or the dependents or connections of any such persons; and to grant pensions and allowances; and to make payments towards insurance; and to subscribe or guarantee money for charitable or benevolent objects; or for any public, general or useful object;
- (l) to construct, improve, maintain, develop, work, manage, carry out, alter or control any houses, building, grounds, works or conveniences which may seem calculated directly or indirectly to advance the company's interests, and to contribute to, subsidise or otherwise assist and take part in the construction, improvement, maintenance, development, working, management, carrying out, alteration or control thereof;
- (m) to insure against fire or otherwise any insurable property of the company and to pay premiums on insurance or assurance policies which the company may acquire by any means;
- (n) to invest and deal with the money of the company not immediately required in such manner as may be permitted by an Act of the Commonwealth, a State Act, or a Law of a Territory of the Commonwealth for the investment of trust funds without special authorisation but the company may hold or retain any property or gift including any stocks funds and shares in the original form in which it was received by the company without selling or converting the same into money and the powers authorities and discretions in relation to securities conferred upon trustees by sections 21, 21A, 22 and 23 of the Trustee Act, 1925 (NSW) as amended shall apply to any such property or gift;
- (o) to borrow or raise or secure the payment of money in such manner as the company may think fit and to secure the same or the repayment or performance of any debt, liability, contract, guarantee or other engagement incurred or to be entered into by the company in any way and in particular by the issue of mortgages, charges or debentures, perpetual or otherwise, charged upon all or any of the company's property (both present and future), and to purchase, redeem or pay off such securities;
- (p) to make, draw, accept, endorse, discount, execute and issue promissory notes, bills of exchange, bills of lading and other negotiable or transferable instruments;
- (q) to sell, improve, manage, develop, exchange, lease, dispose of, turn to account or otherwise deal with all or any part of the property and rights of the company;
- (r) to take or hold mortgages, liens and charges to secure payment of the purchase price or any unpaid balance of the purchase price, of any part of the company's property of whatsoever kind sold by the company or any money due to the company from purchasers and others;
- (s) to take any gift of property whether subject to any special trust or not, for any one or more of the objects of the company;
- (t) to hold or arrange competitions and provide or contribute towards the provision of prizes, awards and distinctions in connection therewith;
- (u) to purchase or otherwise acquire and undertake all or any part of the property, assets, liabilities and engagements of any one or more of the companies, institutions, societies or associations with which the company is authorised to amalgamate;
- (v) to transfer all or any part of the property, assets, liabilities and engagements of the company to any one or more of the companies, institutions, societies or associations with which the company is authorised to amalgamate;
- (w) to ensure that the company complies with the requirements in regard to ethical and other standards for human and animal experimentation imposed from time to time by institutions or organisations which may provide accommodation or premises for use by the company; and
- (x) to do all such other acts matters and things and to enter into and make such agreements as are incidental or conducive to the attainment of the objects and the exercise of the powers of the company.