The Australian Buffalo Industry

Market Research and Feasibility Study

A report for the Rural Industries Research and Development Corporation and Registry of Co-Operatives Department of Fair Trading

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Foreword

The Australian Buffalo Industry is concentrated in the Northern Territory with smaller herds existing in most States.

Since the considerable herd reduction in the Northern Territory due to the Brucellosis and Tuberculosis Eradication Campaign a small Australian domestic market has been developed for high quality Buffalo meat derived from young animals.

Producers saw a need for research into the market potential for Buffalo products and the ability of the industry to supply identified markets within an adequately funded marketing structure, which serviced customers and producers.

This publication examines the availability and development of markets for young Buffalo meat and hides, price structures, the role of competitors and the ability of the industry to supply the required product in the processed form as required by the market and in compliance with statutory requirements.

It also examines possible meat marketing systems, industry structures and a business plan, which would be required by a viable and developing industry.

This report, a new addition to RIRDCs diverse range of almost 400 research publications, forms part of our New Animal Products R&D program, which aims to accelerate the development of viable new animal industries.

Most of our publications are available for viewing, downloading or purchasing online through our website:
• downloads at www.rirdc.gov.au/reports/Index.htm

PETER CORE
Managing Director
Rural Industries Research and Development Corporation
ACKNOWLEDGEMENTS

The consultants wish to thank Producers, all sections of the Meat Industry, Public Relations Consultants, Officers of Government Departments and Instrumentalities and others who have given generously of their time and expertise.

They are listed individually in Schedule 1 of this Study.

Acknowledgement is made of financial assistance for this study from the Rural Industries Research and Development Corporation and the Department of Fair Trading in New South Wales.
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EXECUTIVE SUMMARY

Background

The Australian Buffalo Industry has been centred on the Northern Territory with product exported live or processed and exported as manufacturing meat and hides or sold on the domestic market. This trade has dropped to small quantities in recent years since the Brucellosis and Tuberculosis Eradication Campaign (B.T.E.C.) program reduced the herd.

Breeding stock from the Northern Territory have been sold to producers in the Southern States and identified herds exist in Western Australia, South Australia, New South Wales, Victoria and Tasmania. Most of these are less than 20 animals although a few producers have herds in excess of 50 animals.

A market for meat derived from Buffalo (Tenderbuff) less than 30 months old and complying with quality assurance standards of weight, pH, fat thickness and accelerated conditioning has been developed in the Northern Territory for small numbers of carcasses. Southern States producers attempted to develop markets for similar animals. However, apart from a trade, centred on the Queensland Tourist Industry, all sales are small and adhoc. A major difficulty, which all producers face, is marketing the majority of the carcass after the fillet, striploin and possibly the cube roll and rump have been sold.

Objectives

Objectives contained in the terms of reference provided by Buffalo Producers NSW Inc on behalf of the industry are shown below.

To determine the short, medium and long term viability of the Australian Buffalo Industry the principal outcomes required of the study are:

- Assessment of the current and future domestic markets for Buffalo products.
- An assessment of the economic feasibility of Water Buffalo production in Australia based on the domestic market for its products.

Methodology

The consultants conducted a written survey of 118 identified Buffalo producers regarding supply and handling of livestock, markets, specifications and industry structure. Meetings were held with Buffalo producer organisations and visits made to Buffalo properties. A liaison structure was set up between the consultants and Mrs Janet Robertson representing the industry.
Meat industry organisations, meat traders, wholesalers, retailers, consultants were interviewed in order to assess current and potential demand for Buffalo meat. Discussions were held with C.S.I.R.O. and the Skin and Hide Industry to assess demand for Buffalo hides and leather.

Discussions were held with operators of abattoirs, boning rooms, transporters and processors to determine if there was any interest in handling Buffalo and if so the costs and special conditions to provide the service.

Relevant government authorities were consulted on matters of substitution, packaging, labelling, quality assurance, health requirements and the formation of co-operatives. These included Meat Industry Authorities, Health Departments, Ausmeat, A.Q.I.S., Food Science Australia and the NSW Department of Fair Trading. Market development, public relations and promotion firms, particularly those specialising in products from emerging industries were interviewed in relation to demand creation and costs involved.

Results

- **The Market Potential for Buffalo Products**

A list of Buffalo products and their possible end use was compiled. This concentrated on meat and hides. A number of possible uses for non-preferred cuts were identified in the processed foods and smallgoods markets. Hide numbers available are too small for tannery operations and to replace imports. Only low prices (50% lower than cattle) were available on the export market for salted hides. Some ad hoc domestic sales have been made at higher prices.

- **An Analysis of the Domestic Meat Market**

Current demand, which apart from markets in Northern Territory and Queensland is small, adhoc and not organised, significant or regular. Demand for fillets continues at low levels at prices of approximately $20kg. Almost all wholesalers and retailers interviewed claimed there was insufficient differentiation between beef and Buffalo to justify a price differential. The low prevailing beef prices (Sept. 98. $2.20 – 2.60kg) are the major determinant of Buffalo price. Opportunities for smallgoods and processed meat exist at beef prices. Apart from the Northern Territory export works no demand exists for meat from older animals. A wholesaler was identified in New South Wales who was prepared to conduct a market trial for young Buffalo at $3.50kg (HDW) delivered. Other wholesalers would only trial at beef prices.

- **Current Levels of Supply / Availability**

Figures provided by producers (as at 9 December 1998) show the following number of young Buffalo available for markets.
<table>
<thead>
<tr>
<th>Annual Turn Off</th>
<th>Numbers Available in each State</th>
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<tbody>
<tr>
<td>1998</td>
<td>Victoria</td>
</tr>
<tr>
<td>1999</td>
<td>NSW</td>
</tr>
<tr>
<td>2000</td>
<td>SA</td>
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<td>NT</td>
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<td>TAS</td>
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<td></td>
<td>1,533</td>
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These include 450 Buffalo from South Australia, which may not comply with Tenderbuff specifications.

The survey showed few producers who were affected by seasonality. These preferred to turn off stock in the spring/early summer due to climate and availability of feed in New South Wales and Victoria.

- **Estimates of Demand Growth**

In the consultants opinion any demand growth will be determined by: -

i. The success of carcass trials with identified wholesalers

ii. Establishment of the financial and structural framework required to organise supplies of product to the market as required and according to specifications

iii. The world demand for beef and its effect on the price of red meat on the Australian market

iv. Meeting the challenge of competitors in the Chicken, Pork, Lamb, Emu, Ostrich, Camel, Venison and Kangaroo Industries at a time when the consumption of red meat is predicted to fall

v. The success of an adequately funded demand creation campaign including market development and promotion

vi. The ability of the industry to overcome the problems of critical mass relating to administration and market development, finance, access to slaughtering, processing facilities and export markets.

- **Margin Analysis of the Supply Chain**

Available data was collected and provided as background information for producers. Costs would be similar to beef, however, the Buffalo industry is too small to influence any costs involved.

- **Beef Substitution and its Effects on the Buffalo Market**

Evidence on this matter was mainly anecdotal with no identified individual or firm being prosecuted for an offence. Discussions with relevant authorities revealed adequate legislation to deal with complaints.
• **Export Markets Identified During the Study**

No investigation of these markets was required. Markets have existed in Europe (particularly Germany) for manufacturing meat and a current demand exists from Denmark for 15 carcasses a month. Total exports to Europe in 1996 and 1997 were 45.7 tonnes. Some product was also sent to Taiwan in previous years. E.U. listed abattoirs in the Southern States will not process Buffalo due to species separation problems and the lack of a critical mass of animals to provide a financial incentive.

• **Transport of Animals and Processed Product**

It was agreed by producers during the study that they were best able to arrange transport of their animals after training them for transport and abattoir handling to avoid stress and prevent processing delays. The model code of practice for the welfare of animals “Farmed Buffalo” is a recommended reference document.

Processed product should be treated according to guidelines laid down in the C.S.I.R.O.’s publication “The Production of Chilled Meat for Export”. It is expected that any growth in Buffalo meat market demand will occur in capital cities. Adequate transport to them from identified abattoirs and boning rooms is available.

• **Abattoirs and Processors able to Serve Markets for Buffalo**

Abattoirs were identified in Northern Territory, Western Australia, South Australia, Victoria and New South Wales who were prepared to process young Buffalo. These were mainly small to medium sized domestic works (some with Ausmeat accreditation). Larger domestic works and export works particularly those listed for the European market were reluctant or unwilling to process small numbers of Buffalo due to species separation requirements and the lack of an economic incentive.

Boning rooms were identified who would process carcasses and arrange delivery to capital city markets.

Smallgoods manufacturers were identified who would take small quantities of non preferred cuts for market development on a seasonal basis. This would need to be coordinated with carcass trials.

The consultants saw a need for a person to be employed to carry out the tasks of supply coordination, quality assurance, liaison with abattoirs, processors, wholesalers and producers.

• **Packaging and Labelling Requirements**

These are clearly set out in the Australian Food Standards Code.

• **Producer Database**
A database was compiled of 100 active Buffalo producers as at December 1998.

- **Marketing Structures**

Marketing structure options were recommended according to conditions in the various States. These resulted from the identification of key issues, a SWOT analysis and the formulation of strategies.

- **Business Plan**

A business plan was prepared together with funding requirements and possible sources of funds.

**Conclusions**

- Only two significant and regular markets exist for carcass Buffalo in Australia.

  Northern Territory where approximately 120 Tenderbuff have been slaughtered per annum in recent years with some of this product being sold to the Southern States.

  A trade in Queensland servicing the tourist industry and other markets. This product is not marketed as Tenderbuff and may be approximately 80 carcasses of Buffalo per annum.

  All other demand is ad hoc for small numbers of carcasses, (which may or may not be according to Tenderbuff specifications) and small quantities of fillet and striploin for the hotel and restaurant trade. Apart from the above no significant regular demand for Buffalo exists in the Australian red meat, or small goods industries.

- The prices prevailing and those indicated for the short term future are similar to beef for most of the carcase with a small premium for the fillet and striploin. The trade believes that there are insufficient differences between beef and Buffalo to warrant significant price differential. There are few identified exceptions to this and these firms are prepared to test the red meat and small goods market with small quantities of Tenderbuff.

- The impact of the USA beef cycle will cause a drop in consumption of beef and a rise in Australian prices from 1999 to 2002. The heavy price competition from pork and chicken will limit price rises. Strong competition for Buffalo will also come from Lamb, Venison, Camel, Kangaroo, Ostrich and Emu.

- Staff are required to organise a supply and Q.A. system, liaise with the marketing and distribution network and provide feedback to producers.

- The industry needs to develop a critical mass of capital and product supply to gain access to processing facilities, export markets and funds required to support industry structures and market development.
Beef substitution for Buffalo is likely to have occurred with fillets and striploins in the hotel and restaurant industry. Buffalo may have been substituted for beef in order to quit stocks of the majority of some Buffalo carcasses. However apart from the NT experience only hearsay evidence exists on substitution.

Buffalo is not differentiated sufficiently from beef in branding and packaging. Adequate legislation exists in states and territories to deal with matters of substitution brought to the attention of appropriate authorities.

Export opportunities could exist in some European markets. However in the southern states the small numbers of animals available are insufficient to encourage export listed plants (particularly EU) to carry out a service kill or provide marketable quantities of meat or leather. Prices offered by Northern Territory export meatworks are insufficient to attract producers to sell quantities of stock to them.

The industry should centralize slaughtering and further processing of Buffalo in each State or Territory. These establishments should be Ausmeat accredited or of equivalent standard to ensure product integrity; and must develop expertise in handling Buffalo and their products. Animals must be trained by producers for transport and handling at abattoirs strategically located to avoid temperature induced stress of Buffalo.

Packaging and labelling requirements are contained in the Australian Food Standards Code (Parts A and C).

Market Development and image creation are necessary for demand growth. Experts are required to carry out this task, which could take at least 3 years. Initial annual costs could be at least $46,000, however, some competitors spend much more than this. The thrust of this process should be the sale of all cuts except fillet and striploin.

The Tenderbuff specifications should be reviewed particularly in relation to the upper size limit of carcasses from producers in the Southern States and any effect of the introduction of Riverine stock into the herd.

Producers must enter into contracts to supply consistent quality inputs to the markets at the time required.

**Recommendations**

The Buffalo industry should have an adequately funded financial base and structure which would enable it to carry out the following tasks:

- Administration of an organisation which ensures supply of product at the frequency and quality assurance levels required by customers and provide feedback to producers. This includes any proposed wholesale market trials for meat and hide appraisal, which should take place with organisations identified by the consultant. This will require contractual
commitments from producers to supply consistent quality livestock on time to the markets.

- Further investigation into export market opportunities and possible development of a critical mass of product which enables access to export markets and replacement of hide imports.

- Market development including specific Buffalo value added products, image creation, publicity, promotion and identification of product to minimise substitution.

- Compliance with statutory requirements on quality assurance and labelling.

- A review of the tenderbuff specifications particularly in relation to the upper weight limit for animals produced in Southern States and any effect of the introduction of Riverine stock into the herd.

- The funding of at least the first year’s administration and demand creation should be seen as further research into and development of the market and an application made to RIRDC for this money. No additional research funds should be spent on the animal production areas until it is determined whether a significant and regular market for Buffalo meat exists at a price acceptable to producers.

- A study should be carried out into any developmental finance needed by Buffalo abattoirs and processing establishments in order to comply with quality assurance standards required by the industry and its customers. This would cover staff training and equipment such as firearms, accelerated conditioning, vacuum packing and controlled atmosphere machinery.

- Buffalo meat should be identified through brands, distinctive packaging (or both) to minimise substitution. Persons with evidence on substitution should report it to the appropriate authorities for action.

- Buffalo Industry bodies should ensure that members are aware that the C.S.I.R.O. publication titled “Farmed Buffalo” containing a model Code of Practice for the welfare of animals is available. Producers should train their animals for transport and slaughter. Where possible they should accompany the animals until slaughter occurs and take measures to avoid temperature induced stress in the animals.

- Effective industry organisations should be active in each State where Buffaloes are farmed. A national body to represent the industry should be formed.

- To achieve a critical mass, it is recommended that New South Wales and Victoria form a joint marketing organisation. This could take the form of a company or a co-operative.

- In the event that these two States cannot establish a joint marketing group, then a producer controlled co-operative is recommended for New South Wales, and a marketing company with buffalo producers as shareholders in Victoria.
- For the Northern Territory it is recommended that co-ordinated marketing without formal structures be continued, with emphasis on reliable supply and quality assurance of product.

- Individual marketing efforts will probably continue in South Australia, Western Australia, Queensland and Tasmania, unless producer and animal numbers increase markedly. It is recommended that these States liaise closely with the Buffalo industry organisations established in the other three States, and the national body when it is formed.
INTRODUCTION

BACKGROUND TO THE PROJECT

The Buffalo Industry has been operating in the Northern Territory since the 1880’s. First with export of hides, then a pet meat trade in 1959, followed by meat for domestic consumption in 1960 and in 1962 export of meat. (Lemcke et al 1993)

Fillets and rumps were cuts required by consumers, with the rest of the carcass meat utilised for manufacturing. An export trade for live animals was also developed.

These trades peaked in 1988 as the herd and turn off numbers were drastically reduced due to the introduction of the National Brucellosis and Tuberculosis Eradication Campaign (BTEC). In 1997/8 only 28.3 tonnes of Buffalo meat was exported from the Northern Territory and 119 young Buffalo carcasses processed in the Northern Territory for the domestic market.

In the 1990’s breeding stock from the Northern Territory have been sold to producers in the Southern States and identified herds exist in Western Australia, South Australia, New South Wales, Victoria and Tasmania. Most of these are less than 20 animals, although a few producers have herds in excess of 50 animals with one herd of approximately 400 in South Australia.

A market for meat derived from Buffalo less than 30 months old and complying with quality assurance standards of weight, pH, fat thickness and accelerated conditioning has been developed in the Northern Territory for small numbers of carcasses; some cuts are sold to the Southern States. These are sold under the ‘Tenderbuff’ brand, which is owned by the Northern Territory Buffalo Industry Council, but available to other producers by arrangement.

Southern States producers have made attempts to develop markets for similar animals with little success. A Buffalo Industry promotion in Victoria was a failure. A trade was built up in Western Australia for 25 carcasses a month during 1993-6, but is now non existent. Apart from a trade, which is centred on the Queensland Tourist Industry for approximately 80 carcasses per annum, all sales are small and ad hoc. A major difficulty which all producers face is the marketing of the majority of the carcass after the fillet, striploin and possibly the cube roll and rump have been sold.

Other problems include the availability of adequate slaughtering and processing facilities and the need to ensure product integrity and avoid substitution. Producers saw a need for a National Marketing Body to coordinate supply of animals and carcass to customers and provide feedback to producers.

The Northern Territory producers required markets at prices greater than beef and at least equivalent to live export for up to 500 Tenderbuff per annum. Whilst the smaller Southern States producers wanted to determine if economic markets existed or could be developed for their projected turn off. They also required information which would assist their decision making on herd expansion or disposal.
In 1998 the Buffalo producers NSW Inc in consultation with other industry bodies in the Northern Territory and Victoria engaged Ian Flack and Peter Smetana to carry out a Buffalo market research and industry feasibility study. Funding was to be provided by Rural Industries Research and Development Corporation and the NSW Department of Fair Trading.

This study aimed to determine the short, medium and long-term viability of the Australian Buffalo Industry.

OBJECTIVES

Buffalo Producers NSW Inc. (BPNSW) is co-ordinating a market research and industry feasibility study to determine the short, medium and long term viability of the Australian Buffalo Industry. It is anticipated that this study will lead to the development of a national marketing body.

The principal outcomes of this study will be:

- Assessment of the current and future domestic markets for Buffalo products.
- An assessment of the economic feasibility of water Buffalo production in Australia based on the domestic market for its products.

PART 1 – BUFFALO MARKET RESEARCH

A. Market Potential of Buffalo Products

1. Compile a list of all Buffalo products and their possible end uses. Opportunities for adding value are to be identified.

2. Analysis of the domestic Buffalo meat market, including: -

   market demand
   current levels of supply / availability
   prices prevailing
   segmentation of markets, geographically, by type of end user
   any seasonal variation in supply and demand
   estimated rates of demand growth to 2005, stating all assumptions
   factors affecting price
   margin analysis of the supply chain – producer, abattoir, wholesaler, distributor, retailer

3. Assessment of extent of beef substitution, its effects on the Buffalo market and recommendation on how it may be addressed.
4. Note of any export market opportunities identified during domestic market analysis. (Detailed evaluation of export markets is not required).

**B. Buffalo Product Supply Requirements**

1. Description of a system of transport of live animals and processed product to serve the markets identified in A.

2. List of abattoirs suitable to serve the markets identified in A. Details to include costs, availability of and any limitations of slaughter runs, geographic location, prior experience serving similar markets, quality assurance methods. Any capability of domestic abattoirs, able to serve export markets are to be noted.

3. List of processors able to provide the product range to satisfy markets identified in A. Details to include costs, availability of, and any limitations of production runs, geographic location, prior experience serving similar markets, quality assurance methods.

4. Description of packaging and labelling requirements, and any special quality assurance or image creation required to secure the markets identified in A. Estimates of the costs of these are to be included.

**PART 2 – BUFFALO INDUSTRY FEASIBILITY STUDY**

**A. Buffalo Meat Marketing System and Structure**

1. Compile a list of Buffalo producers in Australia. (A subsequently complete draft is available from BPNSW Inc.) Include producer name, location, herd size, herd type.

2. Recommended marketing structure that will enable capable Buffalo producers to service the markets identified in Terms of Reference Part 1. Issues relating to establishment, consolidation, and growth through to 2005 of the enterprise must be accommodated in the structure proposed.

For all producers listed in item 1, establish and record.

- their level of interest in working with the marketing body described in item 2
- their aims for their herds
- their forecasts of current, 1 year and 3 year Buffalo production
- their capability and facilities to service the expected market (e.g. yards, road access, ability to finish stock on schedule).

**B. Buffalo Product Business Plan**

1. Comprehensive 3 year business plan to address the issues identified in market research and feasibility studies. The plan must take into account all relevant geographical,
logistic and practical factors. Estimates of financial performance are to be included in a model. All assumptions and any data deficiencies are to be noted.

2. Examination of funding opportunities available through RIRDC with regard to assisting the implementation of the proposed plan.

METHODOLOGY

Consultation with Producers

- Meetings were held with Buffalo producer organisations in Northern Territory (NT Buffalo Industry Council), New South Wales (Buffalo Producers NSW Inc) and Victoria (Buffalo Industry Council of Victoria). Matters discussed included the terms of reference for the study, producers previous experience and their future expectation on matters contained in the TOR.

- Visits were made to individual properties producing Buffalo in NT, VIC and SA and to the NT Department of Primary Industry and Fisheries Coastal Plains Research Station.

- A liaison structure was set up between the consultants and Mrs Janet Robertson representing the industry through Buffalo Producers NSW Inc.

- Meetings were held with former producers of Buffalo.

- A comprehensive written survey was sent to 118 identified producers of Buffalo (A copy of this is shown in Schedule 2). Producers were contacted and asked to provide information on matters related to the supply of Buffalo, identified markets and their comments on industry structure.

Assessment of Current and Potential Demand for Buffalo Meat

- All identified producers were surveyed to determine the volume of Buffalo meat sales in recent years.

- The consultant attended the Fine Food Fair in Melbourne.

- The National Meat Association was consulted in order to determine wholesalers and other meat traders who would be a representative group with interest in marketing Buffalo. These persons were interviewed by the consultants on matters such as demand, supply, price and market development. These meetings took place in WA, NT, SA, VIC, NSW and QLD.

- Other retailers and wholesalers identified as having information relevant to the Buffalo industry were also interviewed in each State.
• Meat and Livestock Australia were consulted on future demand and projected prices in Australia for red meat.

• Information was gained on the recent export sales and current prices being offered for Buffalo at export meat works.

• Prices of competitors for Buffalo meat (mainly beef) were obtained from wholesalers and discussions held with persons marketing other competing products such as Kangaroo, Camel, Emu and Ostrich.

• Relevant persons in the meat trade were consulted on information relating to margin analysis of each link in the supply chain.

Hides

• Discussions were held with CSIRO and the Skin and Hide Industry to assess demand for Buffalo hides and leather.

Assessment of Beef Substitution

• This matter was discussed with relevant sections of the meat trade.

• Relevant government authorities in NT, VIC, NSW and QLD were interviewed on this matter and the consultants were informed on applicable legislation and appropriate action to ensure compliance.

Abattoirs and Processors

• Discussions were held with operators of abattoirs, boning rooms and processors to determine if there was any interest in handling Buffalo and if so the costs of this service and any special conditions relating to such service.

Packaging, Labelling, Quality Assurance and Health Requirements

• Relevant government authorities were consulted on this matter, these included Meat Industry Authorities, Departments of Health in various states, Ausmeat, AQIS and Food Science Australia.

Image Creation Required to Secure Markets

• Market Development, Public Relations and Promotion firms were interviewed. These included some who specialised in market development of food based emerging industries such as Kangaroo, Camel, Ostrich, Emu and Venison.

Buffalo Industry Structure
In addition to a survey of producers on this matter.

- Meetings were held with persons responsible for advising on the formation of cooperatives.
RESULTS  (for Part 1 – Buffalo Market Research)

A.  Market Potential of Buffalo Products

Products identified and their possible end uses.

1.  Carcasses

1.1  Tenderbuff is a quality assurance program run by the Northern Territory Buffalo Industry Council in co-operation with the Department of Primary Industry and Fisheries in order to supply high quality meat to the domestic and food service industry sectors. They are prepared to enter into agreements with other Buffalo producer organisations to allow use of this brand.

Specifications:

1.  Hot standard carcass wt 150 kg – 220kg (150kg – 300kg in NT)
2.  P8 (Rump) fat thickness 3mm-12mm
3.  No permanent teeth < 2.5 years of age
4.  Electrical stimulation of carcass
5.  Ultimate pH of muscle 5.4 – 5.8

1.2  The specific primal cuts from Buffalo are identical to those of beef and are clearly set out in the Handbook of Australian Meat. They are shown below with any identified possible use of meat sourced from animals complying with the Tenderbuff specifications. Wholesalers and other sections of the meat trade will use beef specifications when ordering product.

1.3  PRIMAL CUT    POSSIBLE USE

   Inside      :  Smallgoods – pastrami, smoked product
                  Roasts
                  Barbecue steaks for retail trade after tenderising

   Outside     :  Smallgoods - pastrami, smoked product
                  Roasts – corned product
                  Barbecue steaks for retail trade after tenderising

   Round       :  Smallgoods - smoked product
                  Roasts
                  Barbecue steaks for retail trade after tenderising

   Rump        :  Steak for retail trade (requires special cutting)
                  Roasts
                  Smoked product, marinated in a bag

   Fillet      :  Steak (the most valuable cut required by Food Service Industry)

   Striploin   :  Steak (required by Food Service Industry)

   Cube Roll   :  Steak (required by Food Service Industry but not as popular as
Blade (CLOD) : Smoked, corned smallgoods
Kebabs

Trim : Special 90CL diet mince, burgers, rissoles, pies, sausages, salami, terrines, pate, biltong, beerwurst, dicing (kebabs), mettwurst, stir fry

NB: This also applies to cuts other than fillet, striploin and cube roll.

1.4 Comments On The Above

With fillet, striploin and possibly cube roll being the traditionally preferred cuts by the trade and consumers, this leaves the major part of the carcass (approximately 91% of the boneless product) to be utilised in a manner acceptable to consumers. An average carcass breakdown of a 175kg carcass is shown below (1).

<table>
<thead>
<tr>
<th>TENDERBUFF CARCASS</th>
<th>AVERAGE CARCASS BREAKDOWN</th>
<th>175 KG CARCASS</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Carcass</td>
<td>Wt. of Cut (kg)</td>
<td>% of Bone Out*</td>
</tr>
<tr>
<td>Tenderloin</td>
<td>1.4</td>
<td>2.45</td>
</tr>
<tr>
<td>Striploin (Porterhouse)</td>
<td>2.6</td>
<td>4.53</td>
</tr>
<tr>
<td>Cube Roll (Scotch)</td>
<td>2.2</td>
<td>4.04</td>
</tr>
<tr>
<td>Oyster Blade</td>
<td>1.5</td>
<td>2.63</td>
</tr>
<tr>
<td>Rump</td>
<td>4.4</td>
<td>7.71</td>
</tr>
<tr>
<td>Topside</td>
<td>5.3</td>
<td>9.18</td>
</tr>
<tr>
<td>Round</td>
<td>4.8</td>
<td>8.4</td>
</tr>
<tr>
<td>Blade</td>
<td>6.0</td>
<td>10.41</td>
</tr>
<tr>
<td>Chuck</td>
<td>7.6</td>
<td>13.23</td>
</tr>
<tr>
<td>Silverside</td>
<td>6.6</td>
<td>11.51</td>
</tr>
<tr>
<td>Brisket</td>
<td>3.9</td>
<td>6.73</td>
</tr>
<tr>
<td>Trim</td>
<td>23.8</td>
<td>41.65</td>
</tr>
<tr>
<td>Bone</td>
<td>30</td>
<td>Nil</td>
</tr>
</tbody>
</table>

(1) provided by NT Buffalo Industry Council.

1.5 Comments On Tenderbuff Specifications

- The surveys carried out by the consultants have identified a number of producers who are critical of Tenderbuff specifications. Some of their comments are shown below: -
  - The upper size limit should be increased for Southern States producers.
  - There is a problem with the availability of electrical stimulation at abattoirs willing to kill Buffalo.
The need for such specifications for animals under 2 years is not required as meat from these animals will be tender.
Markets should determine size of animal required.
The standards are too high for Northern Territory producers.
There were also producers who are satisfied with the specifications and wanted to comply with the most rigid standards determined by the market.

- In the opinion of the consultants, Tenderbuff specifications or similar are necessary to satisfy customers demanding wholesome and tender meat. The major difference between Northern and Southern producers is the age-weight specification. The introduction of Riverine breeding stock into the herd may further compound this difference which requires further investigation.

2. Comments By Buffalo Meat Marketers/Potential Marketers

2.1 The small quantities used of the special cuts required by hotels and restaurants mean that it takes a long time to use a box. Cartons should not hold more than 15kg of product.

2.2 Buffalo meat goes dark very quickly in display cabinets and this deters visual buyers (special packs may reduce this).

2.3 Customers are prepared to pay a premium for mince, which is guaranteed lean (90CL). This product was retailing in Sydney at $10.95kg and in some other States at $7.00kg.

2.4 Asian restaurants are a potential market for non-preferred cuts at beef prices because of Buffalo’s low fat content.

2.5 Chefs should have a demand for Buffalo terrine.

2.6 There is a reluctance by small operators to manufacture fermented sausage due to increased regulation in recent years, however, Buffalo is ideal for smallgoods.

2.7 Butchers could be provided with gourmet packs of mixed cuts and smallgoods as they will only sell small quantities of each line.

2.8 Rumps, topsides and silversides have been diced and ground in order to make sales.

2.9 Smoked products, pate and terrine have a potential market. However, roasting does not seem a likely source of demand for pre-packed product.

2.10 Smallgoods, which contain Buffalo meat, are required to identify this on the label. Experts in burger and sausage production should produce a product, which is different in taste to those containing other meat products.
2.11 The striploin and cube rolls of Swamp/Riverine cross carcasses produced in the Northern Territory are larger than from Swamp Buffalo and similar in conformation and size to beef. Cuts do not have to be butterflied to achieve an acceptable size. Riverine/Swamp carcasses have a better conformation than those from pure Swamp.

2.12 There is a demand for 15 carcasses (boneless) a month from Denmark. However, species separation requirements of AQIS and the associated costs have deterred E.U. listed abattoirs from processing such a small number.

3. **Hides**

3.1 There are some niche markets with small tanners who use Buffalo leather for protective aprons and gloves (due to the thickness of the hide), saddles and stock whips. However, the number of Buffalo hides currently available and that projected for the short to medium term will not create a sufficient critical mass to expand on this. Large tanners would require 2000 hides a month to process Buffalo separately.

The tanners experience in the past particularly during the BTEC Program was that Buffalo hides were often damaged and of inconsistent quality. However, one leading tanner would be prepared to appraise and report on a sample of 24 Tenderbuff hides.

3.2 Buffalo hides are more difficult to tan than cattle, they have a different grain and collagen content.

3.3 Buffalo hides make very good leather, which is particularly sought after by the shoe and furnishing industry. Buffalo calf leather at the crust stage is currently imported into Australia from Pakistan. The area of these hides is 4-12 square feet, which is much smaller than Tenderbuff. eg a baby beef hide is approximately 15-30 square feet. The Australian leather industry would like to replace this with local product as supply and quality are inconsistent in imports, however large numbers are required.

3.4 The current price for export Buffalo hides is approximately 50% of equivalent cattle hides (ie. 50 cents a kg salted and delivered). However, some small ad hoc domestic sales have reached prices of up to $40 per hide.

3.5 The only significant market for Buffalo hides at present is exported in a salted form and these would compete with large supplies coming from China. It is preferable to collect a container load, 20 tonne (1000 hides) within 6 months, however, 15 tonne (750 hides) may be a possible export quantity.

3.6 Seasons affect the price of hides. However, the further up the processing chain the more stable the price. Manufacturers want a price for a whole season.

4. **Meat from Older Animals Outside the Tenderbuff Specification**
4.1 The export market is the main outlet for these animals, however, the abattoirs prepared to purchase and kill animals are in the Northern Territory. Indicative prices in July 1998 over the abattoir scale were up to $1.30 kg. Although Australia has a quota to E.U. of 2,500 tonne of Buffalo per annum the most recent figures available from the Department of Primary Industries and Energy show that recent shipments made were:

<table>
<thead>
<tr>
<th>Year</th>
<th>Tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>28.3</td>
</tr>
<tr>
<td>1996</td>
<td>17.4</td>
</tr>
</tbody>
</table>

both shipments were made to Germany.

4.2 Apart from small demand for fillets only one market has been identified in the Southern States for culled animals. This is for processing meat ($2.40kg boneless and delivered Sydney Nov 98). Smallgoods manufacture where the meat is ground appears to be the best option for this product. Some export opportunity may exist if a suitable abattoir was prepared to kill. This would be more likely if a critical mass of at least one container load of meat could be processed in one days kill. ie. 143 animals with a hot dressed carcass average weight of 200kg and yield of 70%.

B. Analysis of Domestic Buffalo Meat Market

5. Market Demand and Prices Prevailing

5.1 Northern Territory

- The most recent figures available show that 117 Tenderbuff were slaughtered in 1996/7 and 119 in 1997/8. These animals have been marketed by the Department of Primary Industries and Fisheries as part of their herd cull due to possible TB contacts and the prices received have been $2.00kg (HDW) in this special circumstance. In the past Darwin buyers have paid up to $3.10kg (HDW).

- There are two major buyers of Tenderbuff in Darwin and both were interviewed by the consultant and points raised by them are shown below: -

- The Darwin market tends to be very seasonal with greatest demand in the tourist (dry) season and lower demand in the wet season. Restaurant demand follows the same pattern, but once on the menu they expect to be able to purchase it year-round. However, some Darwin hotels and restaurants have replaced fillet and other preferred cuts on their menu with beef due to its low cost. This has taken place despite considerable efforts by the Northern Territory B.I.C and one wholesaler to promote Buffalo to the Food Service Industry.

- The major problem in wholesaling Buffalo is the disposal of non-preferred cuts at reasonable prices. This means everything except fillet, striploin, cube roll and rump. It would be counter-productive to promote preferred cuts as this would increase the
stockpile of non-preferred cuts, which would have to be sold at a low price, which could incur losses.

- One butcher believed the price for carcasses should be at beef prices which in July 1998 landed Darwin from Adelaide was $2.30 - $2.50/kg (cold wt) for top yearling beef. The major wholesaler thought that Buffalo may stand 30-40c a/kg more than $2.30/kg (cold wt).

- In July 1998 Southern markets were being supplied ex Darwin with preferred cuts. Fillets were wholesaling at $20/kg.

5.2 South Australia

- Some hotels and restaurants have been supplied from Buffalo grown in the State. There have also been trials of smallgoods. This has been only a small and intermittent trade with non-preferred cuts being used in pies. These animals have not been sold as Tenderbuff. The pie meat is utilised in the winter months for the football trade.

- Northern Territory Buffalo has been utilised by a firm in Adelaide, which supplied one of the major supermarket chains. This firm has been taken over and the new owners may be looking for further supplies of up to 100 kg per week, which could increase. However, any demand for Buffalo cuts would have to be created and they would not pay more than $3.30/kg boneless delivered to them. They are not interested in the fillets and would pay only $1.90 - $2.20/kg for trim. They consider Buffalo carcasses delivered to them are not worth more than $2.40/kg (cold wt) (September 1998 price).

- An Adelaide gourmet smallgoods manufacturer has been identified who is interested in small amounts of Buffalo at beef prices. He has had prior experience with Buffalo.

5.3 Western Australia

- A consistent market in Buffalo meat was built up by a family business in the years 1991-6 and at its peak it was marketing 25 Tenderbuff a month. It took 3 years of intensive effort to achieve this level; with an aim of a 25% mark up on beef prices. This included non-preferred cuts and trim. This production catered for Northern and Eastern States as well as local wholesalers, hotels, restaurants, smallgoods manufacturers, sausage makers, shows, festivals, roadhouses and passing trade. There was no significant demand from retail butchers. Unfortunately, circumstances including illness and the lack of producer support in meeting market deadlines and quality prevented this business continuing and no other enterprise took its place.

- At present there is little demand for Buffalo meat. Some fillet, striploin and cube rolls are sold to the Food Service Industry. However, there is no interest in other cuts. If carcasses were purchased wholesalers could not envisage prices at more than 5% above beef prices.
• A Western Australian wholesaler has recently purchased a large quantity of fillets ex a Northern Territory export works at a price around $20kg.

5.4 Victoria

• Apart from some small ad hoc carcass sales and spasmodic demand for fillets and striploins, no real and continuing demand for Buffalo meat has been identified and a lot of competition exists from other meats. One firm, which specialises in the supply of premium meat and game products to the Food Service Industry told the consultant that they do not handle Buffalo because of inconsistency of quality and supply.

• There was some indication of future demand for Buffalo cuts at beef prices from a firm dealing in game (particularly kangaroo).

• A leading Victorian wholesaler who was involved in a previous unsuccessful promotion of Buffalo meat is interested in trialing a small number of Tenderbuff carcasses with the aim of disposing of the whole carcass and developing the business. They have their own boning room and smallgoods facility and they have had previous success in promoting the domestic venison trade. They see the following points essential: -

  - Prices they pay are no more than beef (September 1998 - $2.55kg, HDW), prices of competition eg. lamb and kangaroo must also be taken into account.

  - Supply at this price must be assured before promotion takes place.

  - The wholesaler and producer must take some promotion costs in the first 6 months to introduce the product.

  - There should be only one Buffalo wholesaler in each State.

5.5 New South Wales

• There is a demand for fillets and striploin in the Food Services Industry. However, apart from small ad hoc sales there is no current regular demand for the rest of the carcass. It was suggested by one leading wholesaler who has over 180 clients in the Food Service Industry, that smallgoods products developed in a highly professional way may utilise some non-preferred cuts into products such as pastrami, silverside, salami and roast Buffalo. Experts in sausage and hamburger manufacture must produce a taste discernibly different to beef.

• Buffalo growers could not expect to receive more than good yearling beef prices for their product ($2.20kg cold weight, September 1998) as it is not significantly different to beef. Smallgoods manufacturers would not pay more than beef prices ($2.20kg trim and $2.60kg chuck, September 1998).
• A smallgoods manufacturer has been identified in New South Wales who has had prior experience with Buffalo and is willing to undertake further product development for pre-packaged product and promote the product. He sees a possible target price as 25% above beef for smoked products, pastrami, pate and terrine. However, this trade would be mainly in the summer and warmer parts of spring and autumn.

• A meat trader has been identified who is prepared to trial 5-10 carcasses of Tenderbuff at $3.50kg (HDW) delivered to his premises in Sydney. He aims to sell all the carcass, not just preferred cuts. However, he is concerned about shelf life given his previous experience with game meat. Carcasses, which do not meet the Tenderbuff criteria, could be purchased for $2.40kg boneless landed Sydney (Nov 98).

5.6 Queensland

• There is an operator trading along the Queensland coast in Buffalo meat and smallgoods and servicing the tourist trade of hotels, restaurants and cruise vessels. The consultant has not been provided with figures on total demand, however, anecdotal evidence indicates it could be up to 80 bodies per annum. Prices paid live weight for animals by this operation in September 1998 were in the order of $1.30kg for premium animals and $1.20kg over 450kg.

• Apart from the above trade the only demand for Buffalo meat appears to be ad hoc requirements for fillet and striploin. However, one Gold Coast wholesaler who deals with hotels and restaurants on the Gold Coast, Brisbane, Sunshine Coast and the Whitsundays is interested in a trial of 5-6 bodies of Tenderbuff. The price offered landed at his factory would be on the basis of $2.80kg (HDW) which he claims is $60 a carcass more than equivalent beef.

• Another Brisbane wholesaler told the consultant that choice young beef is wholesaling in Brisbane (September 1998) at $2.20Kg (HDW). Some Asian restaurants could be a market for non-preferred cuts because of the lean properties of the meat. However, they would not pay greater than beef prices.

6. Current Levels of Supply / Availability

6.1 The survey of 118 identified Australian Buffalo Producers will provide the required information and this will be analysed in Part 2 of the Study. As at the 3rd December 1998, 60 replies had been received. The projected numbers of Tenderbuff from these producers is shown below:

<table>
<thead>
<tr>
<th>1998</th>
<th>VIC</th>
<th>NSW</th>
<th>SA</th>
<th>WA</th>
<th>NT</th>
<th>TAS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>34</td>
<td>57</td>
<td>104</td>
<td>4</td>
<td>10</td>
<td>2</td>
<td>211</td>
</tr>
</tbody>
</table>
A total of 1533 animals has been projected by producers as turn off 1998 – 2001. The South Australian figures include 464 Buffalo termed as “Meat Animals”, not Tenderbuff by the Producer. The Northern Territory figures include 425 animals, which are expected to be agisted at the Coastal Plains Research Station, the source of these animals has not been specified.

6.2 Seasonality

The surveys showed few producers who were affected by seasonality. Agistment is available in the Northern Territory for up to 200 Tenderbuff per annum. Some producers in NSW and Victoria prefer to turn off their prime animals in September to December due to climatic and availability of feed factors. Other producers prefer to turn-off April to September or March to June.

7. Estimates of Demand Growth to 2005

This will be determined by a number of factors: -

- The ability of the Buffalo industry to organise supplies of product to the market as required and according to specifications.
- The success of trials with wholesalers.
- The relativity of Buffalo to beef prices.
- World demand for beef (particularly USA).
- The demand for red meat in Australia and the challenge of competitors in the chicken, pork, lamb, emu, ostrich, camel, venison and kangaroo industries.
- Decisions by producers to engage in market development and publicity and a promotion campaign to create demand for Buffalo. NB an analysis of the effectiveness of this course of action was not part of the study.
- The ability of the industry to overcome the problems of critical mass and financing of development and structure.

7.1 Organisation of the Supply Chain

- This will require a person paid to carry out this task as part of the administration costs of an effective Buffalo Industry. Duties will include liaison with growers in each State and
the Northern Territory to ensure animals according to specification are slaughtered and processed according to the market demands. Regular contact will be required with abattoirs, boning rooms and possibly hide merchants, livestock and meat transporters. It was indicated to the consultant that the goat industry in Western Australia employs such a person with a retainer of $16,000 per annum and a per head incentive. There has been no indication given to the consultant that funds are available for this purpose from the Buffalo Industry.

7.2 The Success of Trials with Wholesalers

- The Western Australian and Northern Territory experience shared by the major marketeer in Queensland is that with a lot of effort, personal attention to clients on a regular basis, regular supply and strict quality control it is possible to develop a market in Buffalo meat. As shown above this reached 25 carcasses a month in Western Australia. However, this number took 3 years to develop. Once the intense effort stopped the trade diminished to a negligible quantity.

- It appears unlikely that this task could be carried out for the medium to long term unless it was supported by an existing structure and financial base which services clients daily as part of its other operations in special meat products and can cover situations such as illness, unforeseen circumstances and the collection of outstanding accounts. It should be noted that debtors are a major problem with some clients of meat traders. A meat wholesaler with a wide variety of clients including hotels, restaurants, tourist resorts, smallgoods manufacturers, pie makers and gourmet butchers would be the preferred organisation to increase carcass sales. There is also the advantage of generic labelling to offset the high cost of purchasing minimum production runs from packaging manufacturers.

- An alternative to this would be the employment by the Buffalo producers of a person to carry out these functions. However, the large geographical area to be covered, the establishment costs and the small number of carcasses involved in each of the Southern States would make this exercise costly. The consultant has received no indication that funds are available for this purpose.

- Future demand increase will greatly depend on the trials proposed by three wholesalers - one each in Victoria, New South Wales and Queensland. Whilst other organisations may be identified in the future, it is vital that every effort be made by producers in ensure these trials are a success. Animals must comply with Tenderbuff standards, they must be trained for their transport and abattoir handling to avoid stress, high pH and abattoir delays. The carcasses should be produced in an Ausmeat or equivalent accredited plant and any non-complying carcasses excluded from the trial. The vacuum packaging and cold chain maintenance should be in compliance with those recommended by the CSIRO. A competent person should be paid to supervise these trial animals, carcasses and cuts from the farm to the wholesaler, this should be treated as market research by funding bodies. AUSMEAT would be a suitable body to carry out this function. Their indicative charges are $80 per hour on site or $640 per day. This total amount could be reduced if
Buffalo trials were carried out in conjunction with a regular AUSMEAT Audit. Meat Industry authorities may also be able to assist in conjunction with their audits.

- Projections of increased demand beyond the trials is speculative and will depend on producers acceptance of prices and costs indicated by the trials. From the reaction of the trade this price is likely to be equivalent beef prices or slightly above. It was indicated to the consultants by the Northern Territory Buffalo Industry Council that this price range is unacceptable when compared to live export prices. Only one meat trader has been identified who will trial at Northern Territory required price. This is an important factor as the number of Tenderbuff animals available is considerably reduced if the Northern Territory prefer to ship their animals overseas.

- If there is a mutually agreeable price then the experience in Western Australia indicates that markets for 25 Tenderbuff a month could be achieved within 3 years. The distribution and servicing of markets would be carried out by wholesalers who provide feedback to producers. A number of wholesalers spoken to by the consultant felt that 520 carcasses of Tenderbuff per annum was a realistic short to medium term national target (excluding internal Northern Territory sales).

### 7.3 Factors Affecting Price

- The factor which has the greatest impact is the price of the substitute which is closest to Buffalo ie. BEEF. Other factors are insignificant when compared to beef price. Wholesalers claim that there is not enough differential between beef and Buffalo meat to warrant significant price differentials. As shown above prime yearling beef carcasses during July – September 1998 sold throughout Australia at a range of $2.20 to $2.55kg delivered. This price is significantly affected by world demand and supply.

### 7.4 The World Demand for Beef and its Effect on Australian Prices

- The most relevant factor is the US Cattle Cycle. When prices for US cattle drop due to oversupply, producers reduce their herd. The supply of meat increases and inhibits Australian exports, creating a large supply of beef on the Australian market and a price fall. The USA also increases it’s exports compounding the situation. Approximately 60% of Australian beef is exported. Domestic demand has been flat up until recent years when low prices have caused increased demand.

A description of the US Cattle Cycle is shown below.
This cattle cycle has historically been of 10 years duration and there are indications of a rise in beef prices in 1999. The futures market shows a rise of 8% in beef prices for December 1998 and 12% for April 1999. The USDA is forecasting an 8% rise in beef price in 1999.

7.5 The Challenge of Competitors and the Demand for Red Meat in Australia

Meat and Livestock Australia predict that although food safety concerns will continue to impact on beef demand this year, an acceleration of pork and poultry production levels is likely to pose a greater threat to the level of global beef demand in 1998.

Global supplies of pork and poultry are forecast to increase by 2.5% and 5.8% respectively in the coming year. At the same time global beef production is expected to fall 1.4%. This set of circumstances is likely to seriously challenge the price competitiveness of beef and will lead to a further surrender in market share to the white meats. (AMLC 1998) This global situation may be reflected in Australia and if this occurs could put a cap on prices obtained for Buffalo.

During the course of the study the consultant was informed that producers of Kangaroo meat for the gourmet market would not be pricing their product above beef. There was anecdotal evidence that the non-preferred cuts of other non-traditional meat species were difficult to sell at economic price levels.

The table below shows an expected reduction in domestic utilisation of beef, which continues until 2002.

<table>
<thead>
<tr>
<th>Situation and outlook for the Australian Cattle Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Utilisation ('000 tonnes e/c weight)</td>
</tr>
<tr>
<td>Total, carcass weight</td>
</tr>
<tr>
<td>Kg/head</td>
</tr>
</tbody>
</table>

Source: Australian Cattle and Sheep Industry Projections 1998
7.6 The Creation of an Increased Demand for Buffalo Meat

- As mentioned above no regular market for supplies of Buffalo carcasses exists in markets other than the Northern Territory and Queensland.

- If the Buffalo producers wish to create a demand for their product a number of prerequisites are required. Areas, which have been identified as relevant to this course of action, are shown below.

  - An effective industry body which is adequately funded and can organise the supply segment of the production chain.
  
  - A proper quality assurance system in place for the product from “gate to plate”.
  
  - A cost effective distribution and wholesaling system in which regular personal contact with buyers and feedback to producers is essential.
  
  - A market development, promotional strategy and campaign which include the engagements of specialists.
  
  - Market development could take up to 3 years and needs to be financed.
  
  - It would be counter productive to actively promote preferred cuts. This would just increase the stockpile of non-preferred cuts and trim which are likely to be sold at below cost prices. The order should be reversed with promotion of non-preferred cuts and trim being given priority.
  
  - Promotion should emphasise the special benefits of Buffalo eg. lean qualities and exotic appeal. Marketing experts should assess any advantages in a new meat cutting system for Buffalo with original names for cuts.
  
  - There should be a focus on distinctive labelling and packaging. This will attract buyers and assist in the reduction of substitution.
  
  - Experts in smallgoods manufacture, pie and sausage production should produce Buffalo products with a taste discernibly different to beef which could be marketed to gourmet butchers and delis.
  
  - Promotions should not be undertaken unless there is a guaranteed supply of product to meet any reasonable forecast demand generated by the structures and action outlined above.
  
  - The allocation of resources to develop a trade with retail butchers would not be cost-effective.

7.7 The Engagement of a Market Development Specialist
• The consultant spoke to a number of firms engaged in the marketing and promotion of game products for niche markets. The indicative prices for their services ranged from $1,000 to $2,000 per month. The largest of these firms is based in Adelaide and they are currently promoting venison, emu, ostrich and camel as part of their portfolio. They spread developmental and promotional costs over a number of products and promote their label with generic packaging. They have actively promoted food and tourism. This has attracted sponsorship from firms such as Ansett, Orlando Wines and Coopers Brewery. They have regular chef’s table functions for the Food Service Industry including butchers and gourmet delis. They have a chef on staff to develop menus and access to a German smallgoods maker. Their clients include a large supermarket chain. Their comments on an indicative cost structure for a target of $3.20kg (HDW) for Tenderbuff is shown below.

• The target is achievable, however, it will take time and money to achieve $3.20kg (HDW) and will require a person to organise the supply and quality assurance areas.

• One estimate of annual possible marketing and development costs

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work carried out by consultant</td>
<td>$25,000</td>
</tr>
<tr>
<td>Printing Costs</td>
<td>$3,000</td>
</tr>
<tr>
<td>Packaging Costs</td>
<td>$5,000</td>
</tr>
<tr>
<td>Product for Development (smallgoods value adding)</td>
<td>$5,000</td>
</tr>
<tr>
<td>Product for Free Samples</td>
<td>$6,000</td>
</tr>
<tr>
<td>Product for Recipe Development</td>
<td>$2,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$46,000</strong></td>
</tr>
</tbody>
</table>

NB: Only consultancy fees and some packaging are likely to be annual costs after Year 1.

• Similar industries to Buffalo may pay up to $100,000 per annum for market development, publicity and promotion. It is worthy of note that a new firm in the kangaroo meat industry, which is targeting gourmet consumers, has a very aggressive promotion and publicity campaign organised by a public relations firm and a full time public relations expert on staff. They have chefs to develop menus, regularly contact clients, organise taste panels and promotional lunches and provide point of sale material and newsletters to clients. Investment in the whole operation including buildings, plant and equipment is millions of dollars.

7.8 The Ability of the Industry to Overcome the Problems of Critical Mass

• The industry requires sufficient volume of product or other sources of capital to finance the required support systems, develop markets and access production facilities.

• It has been demonstrated during the study that insufficient volumes of Buffalo are available to encourage slaughtering and boning establishments (both export and local) to handle the product. The interruption of production to separate species is a major factor as is the number of part filled cartons in the boning room.
• There are insufficient volumes of Buffalo to replace imported Buffalo hides and leather. A prerequisite is sufficient production runs to enable processors to handle Buffalo separately.

• There appears to be insufficient numbers of Buffalo or capital available to support financially a trading and distribution system separate to the existing wholesaler system.

• There appears to be insufficient Buffalo available or capital available to support market development including a campaign to create, demand for Buffalo meat in the market through publicity and promotion. Finance would need to be raised for this purpose, for a period of up to 3 years.

• In the Southern States there are insufficient numbers of Buffalo to develop export markets of at least 1 x 20 tonne container.

• There appears to be insufficient numbers of Buffalo or capital available to support financially a system to organise supply and ensure quality assurance of the product.

8. Margin Analysis of Supply Chain

• Accurate figures in this area are difficult to access, particularly in the wholesaler, distributor, retail area. Margins will differ according to the time of year as retailers try to avoid severe fluctuations in price to their customers. This means prices will not rise as much as they should when supplies of product are scarce and prices for livestock rise. Conversely retail prices do not fall as much as they could when livestock prices fall. Margins for retailers will differ from one outlet to another and this is affected by the business strategy, geographic and socioeconomic factors related to outlet. One shop in an affluent area may only deal in top quality product with a low volume and high profit margin. Another shop in an area of lower socioeconomic market may seek high volumes and low profit per kg of meat sold. Differential pricing between cuts is another factor to be considered. Some cuts eg. fillet can command high prices whereas other cuts and trim may have to be sold at cost or below cost. Information gained on each section of the supply chain is shown below. All figures are based on a 200kg carcass (HDW).

8.1 Producer

• Prices indicated by the trade are $2.20 - $2.55kg HDW to the producer. In this example two calculations have been made one at $2.40kg and another at $3.20kg, which is the amount required by the Northern Territory for their Tenderbuff carcasses, transport costs being paid by the buyer.

• The returns to the producer are shown below: -

\[
\begin{array}{ccc}
200\text{kg} & @ & $2.40\text{kg} & = & $480 \\
200\text{kg} & @ & $3.20\text{kg} & = & $640
\end{array}
\]
• Prices for slaughter, which are paid by the producer range from $55 to $100. If we assume that slaughter cost is $80 then returns to the producer would be $400 or $560 if no credit for hides is received. Depending on market demand the value of hides could be $20 - $25.

8.2 Abattoir

• Indicative charges are shown above, however, delays in slaughtering due to Buffalo refusing to move through gates and run up races may increase abattoir costs. Penalty rates for bulls are paid under many awards and agreements. In export establishments species separation and wash down between species is an additional cost.

8.3 Wholesaler

• The indicative margins in this area range from 2% to 20cents a kg. In the price examples for this paper this produces a range of 4.8cents a kg to 20cents a kg. Wholesalers deliver this product to the retailer or manufacturer.

8.4 Retailer

• It is fundamental in retailing that prices must be competitive and at the same time must be nett profitable. The accepted method of calculating this is to calculate the overhead expenses and profit in terms of cents per kilogram of carcass meat sold from a shop each week. This figure is the “mark up” in cents that should be applied to the cost of each kg of meat purchased.

• The elements comprising selling prices are: -

  □ Wholesale cost of meat into shop
  □ Operating expenses
  □ Nett profit

  **EXAMPLE (INDICATIVE NOT ACTUAL)**
  Wholesale cost of beef per kg into shop 240c
  Operating expenses per kg carcass weight 200c
  Nett profit per kg carcass weight 20c
  Average selling price per kg carcass weight 460c

• It is obvious that some cuts of meat will be sold well above 460cents per kg, some will be below and certain residuals such as fat and bones sold for a few cents per kg.

• The object of the retailer will be to price the cuts over the counter in such a way that they will return sufficient to cover the cost of the carcass plus operating expenses plus nett profit. Factors taken into account include the percentage yield and demand for each cut.
Expenses include such items as wages, provision for long service leave, annual leave, sick leave, superannuation, worker’s compensation, insurance, rent, rates and taxes, light, power, telephone, advertising, shop supplies, accountancy, motor vehicle expenses, repairs and maintenance, depreciation. (Meat and Allied Trades 1989). Actual operating costs of retail establishments are treated as commercial in confidence by operators and vary from enterprise to enterprise. Supermarkets have different costs to one-man retailers. The socio-economic status of customers is another factor; as well as the marketing strategy of the retailer. eg. Low margin – high volume or vice versa. The consultant has obtained estimated operating costs of a retailer handling approximately 300,000kg of product annually. These costs are approximately $1.20 per kg.

A chart of total value giving suggested prices of each component of beef carcass is shown below.

### BEEF TOTAL VALUE IN CENTS PER KG = $4.60

<table>
<thead>
<tr>
<th>Component</th>
<th>% OF CARCASS</th>
<th>SELLING PRICE $ PER KG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fillet Steak</td>
<td>1.00</td>
<td>16.80</td>
</tr>
<tr>
<td>Rump Steak</td>
<td>4.00</td>
<td>10.20</td>
</tr>
<tr>
<td>Sirloin Steak</td>
<td>6.25</td>
<td>8.90</td>
</tr>
<tr>
<td>Round Steak</td>
<td>3.75</td>
<td>8.00</td>
</tr>
<tr>
<td>Topside Steak</td>
<td>5.50</td>
<td>8.00</td>
</tr>
<tr>
<td>Silverside</td>
<td>5.75</td>
<td>6.40</td>
</tr>
<tr>
<td>Skirt Steak</td>
<td>1.50</td>
<td>6.80</td>
</tr>
<tr>
<td>Rolled Rib Roast</td>
<td>7.75</td>
<td>6.00</td>
</tr>
<tr>
<td>Blade Steak</td>
<td>6.25</td>
<td>6.80</td>
</tr>
<tr>
<td>Chuck Steak</td>
<td>7.50</td>
<td>6.30</td>
</tr>
<tr>
<td>Rolled Brisket</td>
<td>5.25</td>
<td>5.10</td>
</tr>
<tr>
<td>Gravy Beef</td>
<td>6.25</td>
<td>5.70</td>
</tr>
<tr>
<td>Minced Steak</td>
<td>4.75</td>
<td>4.90</td>
</tr>
<tr>
<td>Kidney</td>
<td>0.25</td>
<td>2.00</td>
</tr>
<tr>
<td>Sausage Trim</td>
<td>6.00</td>
<td>0.80</td>
</tr>
<tr>
<td>Bones and Loss</td>
<td>16.50</td>
<td>0.08</td>
</tr>
<tr>
<td>Fat</td>
<td>11.75</td>
<td>0.16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

*Source: Meat and Allied Trades Federation W.A.*

8.5 **Boning and Packing**

- As the retail trade is unlikely to be the major destination for Tenderbuff carcasses, establishments which bone, pack (normal, vacuum or controlled atmosphere) are a cost element in the chain from producer to consumer. Boning rooms incur most of the overheads relating to retail outlets with major exceptions being labour for special cutting and customer service costs. Prices quoted to the consultants for boning and packing have a wide variation. Examples are shown below: -
$65 to bone and pack a carcass
$50 to bone and pack (including material) a carcass
$1.20kg to bone and pack at an E.U. listed works (including materials)
35-55 cents kg to bone, pack and cryovac (including bags)
60 cents kg to bone and pack (a further 40 cents per kg for materials and cryovac)
Contract boning costs for one wholesaler were 10 cents kg plus packaging materials and cryovac.

8.6 Small Goods Manufacture

- No detailed costs are available. This process does require expensive equipment and machinery. Some air-dried products lose considerable weight and margins vary over a range of products. Comments made by manufacturers are shown below.

- Skin and labour on sausages costs $1.50 per kg
- Smallgoods in large volume plants cost $4.00 per kg to produce. In special operations with low volume and the use of natural skins this cost could be $6.40 for special packs
- Distribution costs up to 20% on top of production costs
- Some retailers require a 60% mark up on delivered product
- Some sausage yields no profit, it is a means of disposing of trim

9. Assessment of Extent of Beef Substitution, its Effects on the Buffalo Market and Recommendations on How it May Be Addressed

The consultant spoke to trade representatives and government authorities on this matter and discovered the following.

9.1 Adequate legislation exists in all States and Territories contacted to deal with persons who substitute beef for Buffalo. In New South Wales this is covered under the “New South Wales Food Act Section 8 Adulteration or False Description”, the New South Wales Health Department does not carry out species tests nor have there been any formal complaints on substitution discovered by the consultant.

9.2 In Victoria this matter is dealt with as a consumer affairs responsibility. The Victorian Meat Industry Authority are not concerned with substitution of beef for Buffalo. The Authority have recently refused to approve a separate brand for Buffalo as they are not in the business of product description. They believe that meat substitution is not a food safety matter. No formal complaints on beef/Buffalo substitution were brought to the attention of the consultant.

9.3 In the Northern Territory after a number of complaints samples were taken by the Health Department and species tests revealed substitution. Subsequent action almost eliminated substitution.
9.4 In Queensland meat substitution is a breach of the Meat Industry Act with very heavy penalties provided if a person is found guilty. The Health Department also has legislation covering false trade description and labelling which misrepresents the product. There have been no claims that beef has been substituted for Buffalo.

9.5 In Western Australia there have been no claims to the appropriate authorities that beef has been substituted for Buffalo. The Public Health Department has discontinued regular species tests due to their high costs (in excess of $150).

9.6 In discussions with the Meat Trade the consultant was provided with a number of anecdotes about substitution of beef fillets (mainly bull) for Buffalo by the hotel and restaurant industry. No other cuts were mentioned and more than one State was involved. In all circumstances the product was not clearly identified by brand, wrap or package. It requires an experienced person to identify beef from Buffalo.

9.7 Recommendations

i. Persons with suspicions about substitution and evidence to support this should report it to the appropriate authorities for action.

ii. Product should be branded (fire), wrapped and packaged in a manner, which clearly identifies it, as Buffalo.

10. Export Markets Identified During the Consultancy

10.1 There are traditional markets in Germany, Sweden, Netherlands, Belgium, Luxembourg and Taiwan, which have taken Buffalo for smallgoods manufacture from Australia over many years. However, little has been exported in recent times. The price offered to producers has not attracted them to bring supplies of Buffalo to the abattoirs in the Northern Territory. However, as mentioned elsewhere in this report, no other markets have been identified which would handle non-Tenderbuff animals.

10.2 There is a demand in Denmark for 15 carcasses (boneless) a month. However, an E.U. listed plant which is willing to provide slaughtering and boning facilities for this small kill cannot be found.

10.3 Some years ago one container of Buffalo meat was exported from Western Australia to Taiwan.

10.4 Export of hides has been dealt with elsewhere in this report.

10.5 The consultant has received some advice that resources used in developing domestic markets in Australia may be better utilised in establishing a market in countries traditionally used to consuming game meat mentioned above. A critical mass of Buffalo supplies would be necessary if this was the case in order to encourage an E.U. listed works to slaughter and process as well as to give regular supplies of containers of meat. This area should be the subject of further investigation.
11. **Transport of Live Animals and Processed Product to Markets**

11.1 **Live Animals**

- It was agreed at the meeting between the consultants and the Buffalo producers NSW Inc held on 1 August 1998 that producers are the best persons to arrange the most appropriate transport system for their animals. Information gained by the consultant which may help with this is shown below.

11.2 The standing committee on agriculture and resource management animal health committee has published a model code of practice of the welfare of animals titled “Farmed Buffalo”. It is recommended that all Buffalo producers have a copy of this document, which is available from CSIRO Publications.

11.3 The Western Australian experience showed that in times of extremely hot weather, Buffalo should be transported at night and killed first up at the abattoir the next morning. NSW and Victorian experience shows that animals may suffer temperature induced stress when exposed to low temperatures on trips greater than 200km.

11.4 Animals should be trained for at least a week in yards and races to avoid unnecessary stress and problems in transport and abattoir handling. Any delays caused to abattoir throughout could deter works from handling Buffalo. Stress also causes unacceptable pH levels in meat.

11.5 **Processed Product**

- There is an Australian Standard for transportation of meat for human consumption. This is available from CSIRO Publishing. It contains the minimum construction and operating requirements for vehicles used for the transport of wholesome meat. This includes temperature maintenance. It is likely that the majority (if not all) of Tenderbuff product will be vacuum packed or subjected to modified atmosphere packaging. It will be necessary to ensure that this product is treated in a manner laid down in the CSIRO Publication “The Production of Chilled Meat for Export” published in 1991.

- The consultants have assumed that any regular and significant markets for Buffalo will be in capital cities. This means that there will be a need for an efficient transport system to carry the boneless product to that market from the boning and packing facility. It has been established that this already exists from Darwin to Brisbane, Adelaide, Sydney and Melbourne. Prices are up to 25c kg to Adelaide and Brisbane and 35c kg to Melbourne and Sydney. The price per carton for product Albury to Sydney has been quoted at $5. Carcass costs from Coonabarabran are 12c kg to Dubbo and 18c kg to Sydney. The price of cartons from Frederickton to Sydney is 10c kg.

- In the Southern States it will be preferable to have product slaughtered and boned at an abattoir which is Ausmeat accredited or equivalent standard and has a direct
refrigerated transport link to the major capital cities. Slaughter at one location and boning nearby is also acceptable provided required temperatures are maintained.

12. **Abattoirs Which Can Serve Markets For Buffalo**

12.1 State and Territory authorities responsible for abattoirs, boning rooms and smallgoods manufacturers require compliance with the relevant Australian Standards for processing animals, the hygienic production of meat for human consumption and the manufacture of smallgoods.

These standards require establishments to have an approved program of production based on quality assurance principles incorporating the application of hazard analysis and critical control point (HACCP) methods, which are an effective and logical tool in the production of safe and wholesome meat. Preventing problems from occurring is the paramount philosophy underlying any HACCP system. Seven basic principles are employed in the development of HACCP plans. These principles include:

- Hazard Assessment
- CCP Identification
- Establishing Critical Limits
- Monitoring Procedures
- Corrective Actions
- Documentation
- Verification Procedures

Under such systems if a deviation occurs, indicating that control may be lost, the deviation is detected and appropriate steps are taken in a timely manner to assure that potentially hazardous products do not reach the consumer (AQIS 1994).

The standards require establishments to be audited regularly by the appropriate authority. Eg NSW Meat Industry Authority which has recommended a more sophisticated meat safety quality assurance standard be introduced by June 1999.

It is voluntary for establishments processing for the domestic markets to have Ausmeat accreditation. Those who choose to do so must comply with the following requirements set out in the Ausmeat manual.

- Use of the Ausmeat Language
- Australian Standard Carcass
- Mandatory Vendor Feedback
- Quality System
- Accredited Persons
- Carcass Branding
- Instruments and Facilities
- Accelerated Conditioning
• Trained Employees

Ausmeat also audits establishments on a regular basis.

12.2 Northern Territory

• Litchfield Abattoir – this is Ausmeat accredited and has electrical stimulation. Its slaughter cost (Aug 98) was $50.00 and the hide retained. Boning and packing carried out at Quality Fresh Meats cost (Aug 98) was $50.00 including materials. Litchfield kills Buffalo regularly.

12.3 Western Australia

• Metro Meats Linley Valley (this is an E.U. listed export abattoir). It has electrical stimulation. Cost (Aug 98) for slaughter $65.00 for boning and packing $1.20kg including materials (approximately according to pack). Metro would prefer a kill run of at least 25 animals. They have killed and boned Buffalo regularly in the past. Abattoirs at Northam and Esperance have also slaughtered Buffalo.

12.4 South Australia

• Port Lincoln have slaughtered, boned and packed Buffalo. They do not have electrical stimulation and are not Ausmeat accredited. Lobethal is a domestic abattoir which has killed Buffalo and they are Ausmeat accredited. They prefer production runs of 50 animals due to separation of species requirements on the slaughter floor and boning room. Penalties are paid to slaughterpersons and boners for bulls. The only other Ausmeat accredited domestic abattoir in SA is George Chapman Pty Ltd at Nairne. Buffalo have also been killed at Pedlar and Sons abattoir at Millicent.

12.5 New South Wales

• Cudgegong Abattoir Mudgee (this is a USA listed export plant). The cost for slaughter (Aug 98) is approximately $54.00 per head. Mudgee would want a minimum run of 10 animals. No boning and packing is provided, however, independent boning rooms on-site may provide this service. Mudgee do not have significant experience in handling Buffalo.

• Cargills at Wagga Wagga were contacted as they have two plants; export at Wagga Wagga and an Ausmeat accredited domestic plant at Tamworth. They do not wish to process Buffalo at either plant.

• The other operating Ausmeat accredited domestic plants in NSW are: -
  
  □ Griffith Abattoir Pty Ltd
  □ Gundegai Meat Processors
They have no experience in Buffalo slaughter, however they are prepared to kill and negotiate a fee. No boning facilities are available. The works provides electrical stimulation of carcasses.

- Parrish Meat Supplies, Yallah
- Scone Fresh Meats
- Burrrangong Meat Processors, Young
- J. Bush, Yanco
- D.A. Holdings Pty Ltd, Moruya
- Milton District Meat, Milton
- Tolsat Pty Ltd, Fredrickton

The abattoir is Ausmeat accredited and provides slaughtering, boning and packing facilities including cryovac. They have experience with Buffalo, having killed approximately 100 within the last year. Fees would need to be negotiated, but would be in the order of $50 slaughter and bone, pack and cryovac for 45c kg (CDW carcass). Transport is available to Sydney at 10c kg. They prefer to kill in lots of 25, however, 5 animals may be acceptable. The works provides electrical stimulation of carcasses.

- Abattoirs in NSW which are not Ausmeat accredited, but licensed by the NSW Meat Industry and willing to kill Buffalo are shown below.

  - Bunganbah Meat Co, Coonabarabran
    They have previous experience in slaughtering Buffalo and are able to provide transport to a boning room in Dubbo at 12c kg and one day a week transport to Sydney at 18c kg. Indicative slaughter fee is $65. This works provides electrical stimulation of carcasses.

  - Cowra Abattoir Ltd
    They have previous experience in slaughtering Buffalo and will provide boning and packing. Indicative fees are slaughter $70, boning and packing (including cryovac) 36c kg. Cowra do not wish to process animals, which are aggressive or larger than 220kg (HDW). This works provides electrical stimulation of carcasses.

12.6 **Victoria**

- A survey conducted by the Buffalo Industry Council of Victoria of abattoirs in that State elicited responses from the following domestic abattoirs who were willing to slaughter Buffalo.

  - Colac (Ausmeat Accredited)
  - Bairnsdale
  - Horsham
    This abattoir has experience in processing Buffalo.
  - St. Clare
  - Wonthaggi
  - Swan Hill (Ausmeat Accredited)
The Swan Hill Abattoir is prepared to kill small numbers of Buffalo at the end of their beef kill and arrange boning and packing at a local butcher shop. They require producers to run their animals to the knocking box and preferably provide a suitable firearm and shoot the animals. No prices were available to the consultant, these would need to be negotiated. Transport is available to all capital cities. This works provides electrical stimulation of carcasses.

- *Alexandra*
  This abattoir has experience in processing Buffalo.

- *Myrtleford*
  This abattoir has experience in processing Buffalo and provides electrical stimulation of carcasses.

- *Echuca (Ausmeat Accredited)*
  This plant has an Ausmeat listed abattoir and boning room and some experience in processing Buffalo. They are interested in providing a service kill, boning and packing (vacuum pack if required). They can provide transport for processed product to Melbourne or Sydney in their own vehicles. Fees would need to be negotiated, however, $70 for slaughter and $70 for boning and packing are indicative prices. This works provides electrical stimulation of carcasses.

- *Talangatta (Ausmeat Accredited)*
  The slaughter fee is $80 per head. They have had experience in handling Buffalo and there are no restrictions on kill for younger animals. However, the killing race may not accommodate larger animals. No boning facilities available. This works provides electrical stimulation of carcasses.

### 12.7 Ausmeat Accredited and Other Domestic Boning Rooms

- Only two available boning rooms have been identified at Ausmeat accredited abattoirs (One in NSW and one in Victoria). Only one other Ausmeat independent boning room is located outside the Sydney metropolitan area in NSW and only one outside the Melbourne metropolitan area in Victoria. The consequence of this is the transport of carcasses to the metropolitan areas for boning if a suitable plant can be identified. The other alternatives may be for non accredited boning rooms and local butcher shops to bone and pack product according to Ausmeat equivalent standard and the QA procedures laid down. Ausmeat or other accredited professionals could train staff to acceptable levels. A boning room has been identified in Dubbo (Dubbo Meat Centre) which has a good reputation and could be suitable for this purpose.

#### Ausmeat Accredited Domestic Boning Rooms

- **New South Wales**
  - Australian Carton Meats, Auburn
  - Campbell BE NSW Pty Ltd, Wetherill Park
  - Handina Meats Pty Ltd, Alexandria
- Nowra Meat Supply, Nowra
- Sydney Gourmet Wilsons Pty Ltd, Gladesville

- Victoria
  - Brookmere Pty Ltd, Berwick
  - Natic Pty Ltd, Thomastown
  - Oakdale Meat Co., Dandenong
  - Pacific Meat Packers, Thomastown
  - Perfect Portions, Airport West

- South Australia
  - Austral Meat, Gepps Cross
  - Meatpak Australia Pty Ltd, North Cavan
  - Woolworths SA Meats, Mile End

13. Processors able to Provide Necessary Product Range

- The consultant has identified smallgoods manufacturers in Western Australia, South Australia, Victoria and New South Wales who are prepared to trial small amounts of Buffalo. However, this should be carried out as part of an overall strategy to market the non-preferred cuts of a Tenderbuff carcass. Matters which should be taken into account are as follows:

  - The quantity of product available to the Australian market.
  - The trials with wholesalers to dispose of carcasses. These firms will have their own contacts and outlets for smallgoods.
  - Any decision by producers to promote and publicise their product. It has been shown above that this will include product development and marketing of smallgoods if professional firms are employed.
  - The seasonal nature of smallgoods demand.
  - It is worthy of note that one of the largest manufacturers of continental smallgoods in Australia informed the consultant they had no interest in Buffalo as a raw material for their product. They have had bad experiences with shotgun pellets in Buffalo meat. If there was a demand in the future for Buffalo it would be at bull prices (Aug 98 $2.80 kg) boxed and delivered to them.

14. Package and Labelling Requirements

- According to the New South Wales Health Department the Australian requirements for food labelling (agreed by all States and Territories) are contained in the Australian Food Standards Code (mainly parts A and C). Compliance with this code is a necessary
requirement for labelling claims about a food product. This is particularly relevant in regard to special claims such as low cholesterol.

- Special claims should be referred to analysts authorised under the relevant act who will give opinions on compliance of proposed labelling and carry out required testing to verify claims.
CONCLUSIONS  (For Part 1 – Buffalo Market Research)

i)  • Only two regular markets exist for carcass Buffalo in Australia.

• Northern Territory where approximately 120 Tenderbuff have been slaughtered per annum in recent years with some of this product being sold to the Southern States.

• A trade in Queensland servicing the tourist industry and other markets. This product is not marketed as Tenderbuff and may be approximately 80 carcasses of Buffalo per annum.

• All other demand is ad hoc for small numbers of carcasses, (which may or may not be according to Tenderbuff specifications) and small quantities of fillet and striploin for the hotel and restaurant trade. Apart from the above no significant regular demand for Buffalo exists in the Australian red meat, or small goods industries.

ii) The prices prevailing and those indicated for the short term future are similar to beef for most of the carcase with a small premium for the fillet and striploin. The trade believes that there are insufficient differences between beef and Buffalo to warrant significant price differential. There are few identified exceptions to this and these firms are prepared to test the red meat and small goods market with small quantities of Tenderbuff.

iii) The impact of the USA beef cycle will cause a drop in consumption of beef and a rise in Australian prices from 1999 to 2002. The heavy price competition from pork and chicken will limit price rises. Strong competition for Buffalo will also come from Lamb, Venison, Camel, Kangaroo, Ostrich and Emu.

iv) Given that insufficient demand exists to cater for potential Buffalo turn-off at a price acceptable to the producers in the face of increased competition then consideration should be given to market development and demand creation. This would take up to 3 years and require investment by producers or other bodies. Areas involved include market development and demand creation, a professional supply and QA system and a marketing and distribution network, which provided feedback to producers.

v) The industry needs to develop a critical mass of capital and product supply to gain access to processing facilities, export markets and funds required to support industry structures and market development.

vi) • Beef substitution for Buffalo is likely to have occurred with fillets and striploins in the hotel and restaurant industry. Buffalo may have been substituted for beef in order to quit stocks of the majority of some Buffalo carcasses. However apart from the NT experience only hearsay evidence exists on substitution.

• Buffalo is not differentiated sufficiently from beef in branding and packaging.
- Adequate legislation exists in states and territories to deal with matters of substitution brought to the attention of appropriate authorities.

vii) Export opportunities could exist in some European markets. However, in the southern states the small numbers of animals available are insufficient to encourage export listed plants (particularly EU) to carry out a service kill. This lack of a critical mass also prevents container loads of non Tenderbuff meat and culls being processed in southern states and access to Australian Leather Markets. In the NT the price offered by export meatworks is insufficient to attract producers to sell quantities of stock to them.

viii) The industry should minimise the number of slaughtering, boning and packaging establishments processing Buffalo in each State. These should be Ausmeat accredited or of equivalent standard to ensure integrity of the produce. The consultant has been made aware of some of examples of poor product shelf life due to inadequate procedures or equipment. A centralised establishment would gain experience in handling Buffalo as a premium product particularly the live animal and the knocking process. Animals must be trained for transport and abattoir handling and abattoirs should be strategically located to avoid temperature induced stress of animals.

ix) Packaging and labelling requirements are contained in the Australian Food Standards Code (Parts A and C).

x) Market Development and image creation are necessary for demand growth. Experts in this area will need to be engaged to carry out this task. Initial annual costs could be at least $46,000 however, some competitors spend much more than this. The thrust of this process should be the sale of all cuts except fillet and striploin.

xi) The Tenderbuff specifications should be reviewed particularly in relation to the upper size limit for producers in the Southern States and the effect of the introduction of Riverine stock into the herd.

xii) Producers must enter into contracts to supply consistent quality inputs to the markets at the time required.
RECOMMENDATIONS  (For Part 1 – Buffalo Market Research)

The Buffalo industry should have an adequately funded financial base and structure which would enable it to carry out the following tasks: -

- Administration of an organisation which ensures supply of product at the frequency and quality assurance levels required by customers and provide feedback to producers. This includes any proposed wholesale market trials for meat and hide appraisal, which should take place with organisations identified by the consultant, and will require contractual commitments from producers to supply consistent quality livestock on time to the markets.

- Further investigation into export market opportunities and possible development of a critical mass of product which enables access to export markets and replacement of hide imports.

- Market development including specific Buffalo value added products, image creation, publicity, promotion and identification of product to minimise substitution.

- Compliance with statutory requirements on quality assurance and labelling.

- A review of the tenderbuff specifications particularly in relation to the upper weight limit for animals produced in Southern States and the effect of the introduction of Riverine stock into the herd.

- The funding of at least the first year’s administration and demand creation should be seen as further research into and development of the market and an application made to RIRDC for this money. No additional research funds should be spent on the animal production areas until it is determined whether a significant and regular market for Buffalo meat exists at a price acceptable to producers.

- If the Buffalo Industry does not have access to well located and properly equipped Ausmeat or equivalent accredited abattoirs and boning rooms the funds should be available to train supervisors and staff to ensure that the processing of Buffalo meets quality assurance standards laid down by the industry and required by customers. Development finance may also need to be provided for accelerated conditioning and suitable vacuum packing or controlled atmosphere equipment to guarantee product quality and shelf life. The provision of firearms suitable for knocking Buffalo may also need to be financed. A survey should be carried out to determine the extent of these requirements.

- Buffalo meat should be identified through brands, distinctive packaging (or both) to minimise substitution. Persons with evidence on substitution should report it to the appropriate authorities for action.

- Buffalo Industry bodies should ensure that members are aware that the C.S.I.R.O. publication titled “Farmed Buffalo” containing a model Code of Practice for the welfare of animals is available. Producers should train their animals for transport and slaughter.
Where possible they should accompany the animals until slaughter occurs and take measures to avoid temperature induced stress in the animals.
BUFFALO INDUSTRY FEASIBILITY STUDY  (PART 2)

A. BUFFALO MEAT MARKETING SYSTEM AND STRUCTURE

1. LIST OF BUFFALO PRODUCERS IN AUSTRALIA

A database was compiled listing the names, addresses and contact numbers of all known Buffalo producers in Australia. A comprehensive list provided by Buffalo Producers NSW Inc., was updated following discussions with industry representatives in each State, and the results of a survey mailed to 118 producers.

It is estimated that there could be up to 100 Buffalo breeders at present. Not all breeders listed are active and a few may no longer have stock. It was not feasible to telephone every name on the list. A database of identified producers is shown in Schedule 3.

2. RECOMMENDED MARKETING STRUCTURES

Before examining suitable marketing systems, key issues need to be identified:

- Few regular markets in Australia for Buffalo meat.
- Co-ordination of supply and quality of Buffalo products.
- Finance needed for market development and image creation to stimulate demand.
- Insufficient differences between beef and Buffalo to warrant a general premium for Buffalo meat prices.
- Allegations of beef substitution for Buffalo.
- Compliance with requirements for quality assurance and labelling.
- The problem of market development without reliable supplies of high quality meat.

SWOT Analysis

The following SWOT analysis relates to the current Buffalo industry in Australia.

Strengths

- Excellent quality food product
- Health and nutritive values – low fat / cholesterol
- Few production problems
- Cost of production normally similar to beef
- Buffalo well adapted to areas marginal for beef production

Weaknesses

- Lack of market for meat, particularly non-preferred cuts and by-products
- Buffalo perceived as game meat
- Australians are not traditional game meat eaters
- Lack of strong marketing organisations
- Expenditure on promotion necessary
- Product development and marketing not well co-ordinated  
- Product quality variation  
- Allegations of Buffalo meat substitution with beef  
- Too many farms with very small animal numbers  
- The reluctance of EU listed abattoirs to slaughter Buffalo in Southern States

**Opportunities**
- Known export markets exist  
- Cross-breeding with Riverine Buffalo to produce a more efficient and marketable animal  
- Survey respondents generally supported industry controlled marketing systems  
- High quality Tenderbuff meat can be promoted as a new exotic meat  
- Some trials of small goods have been well received by niche markets

**Threats**
- Further downturn in red meat consumption  
- Competition from low priced chicken and pig meat  
- Competition from other exotic meats such as venison, ostrich, emu, kangaroo, camel, crocodile and rabbit.  
- Industry fragmentation

**Strategies**

The identification of key issues and a SWOT Analysis lead to the formulation of the following strategies for the Buffalo industry:

a) **Producers**
- Form strong industry groups in each State and on a National basis  
- Co-ordinate the supply of Buffalo products according to market requirements  
- Introduce the Riverine breed to swamp Buffalo herds  
- Increase farm size where possible to become a viable unit with economy of scale advantages  
- Ensure year round supply of product  
- Cost of production has to be competitive  
- Buffalo for slaughter must be trained for transport and abattoir handling

b) **Processing**
- Minimise the number of Buffalo meat slaughtering, boning and packaging establishments in each State  
- Meat processing works handling Buffalo should be Ausmeat accredited  
- These works need to comply with packaging and labelling requirements
• Centralised works are more likely to gain experience in handling Buffalo and producing a premium product
• Aim to achieve a critical mass which export abattoirs would find profitable to process and meets market requirements, ie one container load.

c) Marketing

• Investment into market development and demand creation is essential
• A quality assurance system needs to be in place in the production, processing and marketing chain
• Export marketing opportunities should be further examined, especially in Europe
• Buffalo meat should be packaged to differentiate it from beef
• Beef substitution should be reported to the appropriate authorities which exist in each State
• Tenderbuff specifications should be reviewed in relation to upper size limit in the Southern States and for Riverine cross stock
• Stimulate interest by meat wholesalers in Buffalo products

d) Consumers

• Prepare information for consumer education on health and nutrition advantages, taste, flavour and tenderness
• Develop recipes on the use of Buffalo meat, especially the cheaper cuts
• Ensure that trim can be used for value-added consumer products
• Organise tasting of Buffalo meat for the food service industry, providing product is available to cater for demand generated.

e) Resources

Funding will be required for:
• Market development
• Demand creation
• Quality assurance system
• Product research and development
• Administration of industry organisations
• Product promotion expenses
• Export market investigations

Revenue for the development of new industries is always a problem, as large amounts are normally needed to overcome marketing constraints, whereas income from the industry is low and increases slowly.

Sources of revenue are:
• Slaughter levy
• Membership fees
• Funding bodies – State and National
• Trading profit
• Loans
The other resource essential for industry development is the availability of dedicated and capable industry personnel as well as experts in the fields of processing and marketing.

Marketing Structures

To assist in determining a recommended marketing structure for the Buffalo industry, relevant questions were included in the survey of producers.

Information from the survey clearly indicated that the majority of producers preferred not to market their own Buffalo products. On a State basis, the response on marketing preferences was as follows:

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
<th>NO RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>VICTORIA</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market own product</td>
<td>1</td>
<td>20</td>
<td>6</td>
</tr>
<tr>
<td>Industry controlled co-operative</td>
<td>16</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Industry controlled marketing group</td>
<td>19</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td><strong>NEW SOUTH WALES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market own product</td>
<td>1</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Industry controlled co-operative</td>
<td>11</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Industry controlled marketing group</td>
<td>9</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td><strong>NORTHERN TERRITORY</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market own product</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Industry controlled co-operative</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Industry controlled marketing group</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>WA/SA/TAS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market own product</td>
<td>4</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Industry controlled co-operative</td>
<td>3</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Industry controlled marketing group</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

The questionnaire also provided for suggestions on marketing systems other than those listed. There were only three responses:

- A company
- A company with producer shareholders
- Private enterprise

Overall, producer responses in the survey were evenly divided between a co-operative and an industry controlled marketing group other than a co-operative. More respondents were opposed to a co-operative than to a marketing group.
A consultant visit to the Northern Territory found strong opposition to the concept of a co-operative to market Buffalo products. This, together with each State having different co-operative laws, virtually precludes setting up a national co-operative.

The option exists, however, to establish co-operatives on a State basis.

A marketing structure other than a co-operative on a national basis could have some benefits, but is not considered to be a viable option due to the different supply and demand situations in the States. Unlike the Northern Territory, the Southern States generally have many farms with small numbers of animals.

In the survey, the responses to questions on assisting market structures was as follows on a State basis:

**Question:** Would you support financially your preferred market system in an initial establishment period?

<table>
<thead>
<tr>
<th>State</th>
<th>YES</th>
<th>NO</th>
<th>NO RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Victoria</td>
<td>14</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>New South Wales</td>
<td>9</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>WA/SA/TAS</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

**Question:** Would you assist in the management of a marketing system?

<table>
<thead>
<tr>
<th>State</th>
<th>YES</th>
<th>NO</th>
<th>NO RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Victoria</td>
<td>12</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>New South Wales</td>
<td>7</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>3</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>WA/SA/TAS</td>
<td>4</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>

**Marketing Structure Options**

A strong organisation in each State where Buffaloes are farmed is essential for the welfare of the industry. Effective councils or associations operate in New South Wales, Victoria and the Northern Territory. While there is contact between the States, there is no formal co-ordination, and a body to facilitate this will need to be formed.

Councils or associations should represent the industry, but experience has shown that they should not have responsibility for marketing. Producers normally do not have the time or the expertise to successfully market their products.

Several marketing structure options exist:

i) Individual private marketing of own product
ii) Contract growing
iii) Industry controlled company
iv) Industry controlled co-operative
v) Strategic alliances with companies
vi) Regulated, Government marketing body

i) **Individual Private Marketing**

This is essentially the current method used by producers to market Buffalo. It is not regarded as an efficient system at this stage of marketing of the Buffalo industry. The survey showed that very few producers (12.7%) favoured this system.

ii) **Contract Growing**

This arrangement works well in the chicken meat and some other agricultural industries. It involves a formal contract to grow Buffaloes for one or more private marketing companies not controlled by producers. The system relies on efficient companies with significant markets and is unlikely to succeed in the Buffalo industry with relatively low turn-over for some years.

iii) **Industry Controlled Company**

About half the respondents in the survey indicated that this was the preferred marketing system. Strongest support came from Victoria where plans have been drawn up to form a corporate structure to market Buffalo and its products. Shareholding in the company will be restricted to producers in Victoria and New South Wales.

This marketing system has been used in several new rural industries with varying results. Important factors for success include:

- Raising sufficient funds from shareholders to operate in the initial period when income is low.
- Ensure that the product supply base is sufficient to meet demand.
- Strict product quality control according to market requirements.
- Professional management by personnel with practical, commercial expertise in the meat industry.
- Undertake effective product development and promotion.

iv) **Industry Controlled Co-Operative**

Half the respondents in the survey indicated that an industry-controlled co-operative was their preferred choice of marketing system. Strongest support was from producers in New South Wales where more than half stated they would contribute financially and assist in the management of this system in the initial establishment period.

There are numerous examples of successful and failed co-operatives in the rural industries. Legislation covering co-operatives differs from State to State. It has already been pointed out that a National co-operative is unlikely to succeed.

The benefits of a co-operative are:
• Provides a marketing service
• Simpler to form and less expensive than a company
• Protection from dominance from outside the industry
• Some avenues of fund raising available to co-operative, but not for companies
• Provides for collecting money from levies on product sold
• Some tax benefits

The cost to register a co-operative in New South Wales is $150.00. A co-operative must have a minimum of five members and operates like a company with Directors and regular board meetings. Normally it would be expected that members would be mainly farmers. For operational procedures the co-operative can have outside directors and a paid marketing manager or members undertake marketing as agents for other members.

A co-operative has the option to insist on marketing all products from members or leave it on a voluntary basis. It can also buy inputs such as fertilisers and provide insurance for the members, thereby gaining economy of scale advantages.

There are also some disadvantages associated with co-operatives;

• In New South Wales, most successful co-operatives are in established industries
• Co-operatives need a reliable cash flow to be viable, which is difficult for new industries
• Producer members of co-operatives may not have the expertise to carry out marketing operations
• Successful co-operatives rely on the full commitment of members and skilled management

Full details on the establishment and features of co-operatives in NSW and WA are attached in papers as Schedule 4 and Schedule 5.

According to the survey results and discussions with producers in most States, it is feasible that a co-operative could be a marketing option in New South Wales. It is highly unlikely that a co-operative would succeed in the Northern Territory, Western Australia, South Australia or on a national level.

In Victoria, about 44% of respondents were in favour of a co-operative, however, seven producers were opposed, whereas none were opposed to an industry controlled company.

(v) Strategic Alliances with Companies

Strategic alliances are an important part of any business. Ideally, a new livestock industry could benefit from linkages with one or more large, established firms with capital, appropriate infrastructure, experience and the relevant outlets to market Buffalo products. These could be meat wholesalers, small goods manufacturers or other companies in related marketing activities.
The difficulty with this system is the problem of finding suitable companies interested in promoting and marketing Buffalo products. It should also be realised that producers may have to forego ownership and control of products with this type of market structure.

A successful alliance with a company in marketing activities would relieve farmers from direct involvement in this difficult and competitive field and allow them to concentrate on production, which in the case of Buffaloes, presents far fewer problems. A strong, co-ordinated producer organisation would be required to ensure a reliable supply of product. Linkages with companies would need careful consideration. Current Buffalo product turnover volumes are low, therefore it is likely that the only interested firms would already be active in meat or game meat marketing. This means that the company probably sells competitive products, which could be a benefit or a disadvantage.

(vi) **Regulated, Government Marketing Body**

Government intervention, other than regulatory activities in the health and export fields, is not politically correct at present. Generally, neither Government nor industries are keen on Government regulation. Statutory marketing authorities have in some instances been highly successful, but the trend is to abolish them.

Strong representation from an industry organisation for Government intervention could still result in some action, but there has been no indication from Buffalo producers that they want this to happen other than in the area of beef for Buffalo meat substitution. It has to be mentioned that Government action to limit production during the early phase of activities such as emu, ostrich and rabbit production, would have saved a lot of money for a large number of producers. Most industries however clearly prefer minimal Government intervention.
Structural Outlines

<table>
<thead>
<tr>
<th>Current</th>
<th>Proposed / Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producers</td>
<td>Producers</td>
</tr>
<tr>
<td>Producer Associations</td>
<td>Producer Associations</td>
</tr>
<tr>
<td>Abattoirs</td>
<td>Companies / Co-operative / Individuals</td>
</tr>
<tr>
<td>Wholesalers / Producers</td>
<td>Abattoirs</td>
</tr>
<tr>
<td>Market Outlets</td>
<td>Wholesalers</td>
</tr>
<tr>
<td>Consumers</td>
<td>Food Service Industry</td>
</tr>
<tr>
<td></td>
<td>Consumers / Possible Exports</td>
</tr>
</tbody>
</table>

Market Structure Recommendations

The following recommended marketing structures are the most appropriate at this stage of the Buffalo industry and should be valid until the year 2005.

1. A national marketing body for Buffalo products is desirable, but not feasible, and therefore is not recommended.

2. It is recommended that New South Wales and Victoria form a joint marketing organisation in order to achieve a critical mass. This could take the form of a company or a co-operative.

3. In the event that these two States cannot establish a joint marketing group, then a producer controlled co-operative appears to be the best option for New South Wales.

At a meeting of the Buffalo Producers of New South Wales in July 1998, members indicated that they had no objection to the establishment of a co-operative. The survey confirmed that there would be strong support for a co-operative. In New South
4. Victoria has formulated a proposal for a marketing company with Buffalo producers in Victoria and possibly New South Wales as shareholders. The company would sell Buffalo and their products in South East Australia.

Survey results confirm that producers prefer this type of marketing structure in Victoria.

It is recommended that the Buffalo Industry Council of Victoria proceeds with the formation of a marketing company, preferably in conjunction with NSW.

5. The Northern Territory has the largest population of Buffaloes and the longest established marketing arrangements. Unfortunately, only a few producers responded to the survey.

At present some individual producers market their own products, but the major activity is through the Northern Territory Buffalo Industry Council and the Berrimah Agricultural Research Centre.

Little support was evident for formal marketing structures such as a co-operative or a company. At this stage, a co-ordinated marketing effort with emphasis on reliable supply and quality assurance of product is the best course of action. This needs to be market driven and should involve the Northern Territory Buffalo Industry Council and the Northern Territory Department of Primary Industry and Fisheries. An important activity would be to continue to network with the Southern States marketing organisations in the supply of young Buffalo meat to identified markets.

6. South Australia, Western Australia, Queensland and Tasmania each have few producers, although significant herds exist in South Australia and Western Australia. Individual marketing efforts will probably continue in these States, unless producer and animal numbers increase markedly.

The maintenance of an agreed quality assurance standard is essential for market growth.

It is recommended that these States liaise closely with the Buffalo industry organisations established in the other three States. Producers in States without an official body should consider joining active organisations in other States.

3. ANALYSIS OF BUFFALO PRODUCER SURVEY RESULTS

Survey forms were sent by mail to 118 Buffalo farmers listed by Buffalo Producers NSW Inc. A copy of the questionnaire is attached as Schedule 2. Questionnaires were sent out at the beginning of October and despite a 30 October 1998 requested deadline for replies, forms continued to be returned until early December.
The total number of responses received from producers with Buffalo was 55. In six cases the survey forms were returned unopened. It is estimated that there could be about 100 producers throughout Australia.

Survey forms returned on a State basis were:

<table>
<thead>
<tr>
<th>State</th>
<th>Breeders</th>
<th>Non-Breeders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Victoria</td>
<td>29</td>
<td>72</td>
</tr>
<tr>
<td>New South Wales</td>
<td>13</td>
<td>147</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>5</td>
<td>243</td>
</tr>
<tr>
<td>Western Australia</td>
<td>4</td>
<td>182</td>
</tr>
<tr>
<td>South Australia</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Tasmania</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>55</td>
<td></td>
</tr>
</tbody>
</table>

**Analysis of Results**

Based on returns from producers, the major results and comments are listed.

**Herd Size and Structure**

<table>
<thead>
<tr>
<th>State</th>
<th>Breeders</th>
<th>Non-Breeders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Victoria</td>
<td>309</td>
<td>72</td>
</tr>
<tr>
<td>New South Wales</td>
<td>290</td>
<td>147</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>594</td>
<td>243</td>
</tr>
<tr>
<td>WA, SA, Tasmania</td>
<td>492</td>
<td>182</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td>1685</td>
<td>644</td>
</tr>
</tbody>
</table>

Included in these totals are 184 Riverine cross-breds and 13 Riverine pure-bred animals. Not included are several large herds of more than 1000 Buffalo known to exist in the Northern Territory and one farm in Western Australia with 100 animals. These farms did not respond to the survey.

From the survey returns, it is evident that considerable variation exists in breeder numbers per farm:

<table>
<thead>
<tr>
<th>Number of Breeders</th>
<th>Number of Farms</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 9</td>
<td>21</td>
</tr>
</tbody>
</table>
Live Animal Sales Over Past Year (1998)

A total of 115 live Buffalo were traded within Australia over the past year. The majority of sales were from the Northern Territory (63%) and South Australia (26%). Live Buffalo exported overseas from the Northern Territory are not included.

Product Sales Over Past Year (1998)

According to returns received, 210 animals were sold under Tenderbuff specifications and a further 53 carcasses without these specifications.

Apart from some hides sold separately, no significant quantities of other Buffalo products were traded.

Which Abattoirs Have You Used?

The number of abattoirs used in each State to slaughter Buffalo were as follows:

<table>
<thead>
<tr>
<th>STATE</th>
<th>ABATTOIRS - No. USED</th>
<th>No. OF PRODUCERS USING ABATTOIRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Victoria</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Western Australia</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>New South Wales</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>South Australia</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

One abattoir in each State was Ausmeat accredited, except in the Northern Territory where three were accredited.

Production Forecasts

The projected number of Tenderbuff animals available for turnoff in 1998-2001 is 1533. Details on a State basis for each year are given in Part 1 of this Study.

In addition to the projected number of Tenderbuff animals, forecasts of breeders and culls available for sale from the survey are shown below:
<table>
<thead>
<tr>
<th></th>
<th>VIC</th>
<th>NSW</th>
<th>NT</th>
<th>WA</th>
<th>SA</th>
<th>TAS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>165</td>
<td>134</td>
<td>195</td>
<td>82</td>
<td>303</td>
<td>2</td>
<td>881</td>
</tr>
<tr>
<td>1999</td>
<td>194</td>
<td>201</td>
<td>70</td>
<td>54</td>
<td>355</td>
<td>6</td>
<td>880</td>
</tr>
<tr>
<td>2000</td>
<td>175</td>
<td>220</td>
<td>100</td>
<td>22</td>
<td>355</td>
<td>6</td>
<td>878</td>
</tr>
<tr>
<td>2001</td>
<td>191</td>
<td>262</td>
<td>130</td>
<td>30</td>
<td>355</td>
<td>6</td>
<td>974</td>
</tr>
<tr>
<td>Total</td>
<td>725</td>
<td>817</td>
<td>495</td>
<td>188</td>
<td>1368</td>
<td>20</td>
<td>3613</td>
</tr>
</tbody>
</table>

It should be noted that the figures for breeders in 1998 in the above table do not correspond with the number of breeders in the table under Herd Size and Structure, which includes breeders to be kept and those for sale.

<table>
<thead>
<tr>
<th></th>
<th>VIC</th>
<th>NSW</th>
<th>NT</th>
<th>WA</th>
<th>SA</th>
<th>TAS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>7</td>
<td>10</td>
<td>2</td>
<td>-</td>
<td>10</td>
<td>-</td>
<td>29</td>
</tr>
<tr>
<td>1999</td>
<td>10</td>
<td>18</td>
<td>5</td>
<td>4</td>
<td>20</td>
<td>-</td>
<td>57</td>
</tr>
<tr>
<td>2000</td>
<td>16</td>
<td>15</td>
<td>10</td>
<td>-</td>
<td>30</td>
<td>-</td>
<td>71</td>
</tr>
<tr>
<td>2001</td>
<td>19</td>
<td>19</td>
<td>10</td>
<td>-</td>
<td>30</td>
<td>-</td>
<td>78</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>62</td>
<td>27</td>
<td>4</td>
<td>90</td>
<td>-</td>
<td>235</td>
</tr>
</tbody>
</table>

These figures give an indication of projected Buffalo numbers in the Southern States, however, several large herds in the Northern Territory were not able to be included in the survey. Many respondents commented that the numbers were dependent on the development of markets for Buffalo products.

**Expected Seasonal Turnoffs**

The survey indicated that seasonality was not a major factor for Buffalo turnoff, however, the question appeared to be poorly understood by respondents.

Results were as follows:

<table>
<thead>
<tr>
<th></th>
<th>% of Producers</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Seasonality</td>
<td>23.6</td>
</tr>
<tr>
<td>Seasonality</td>
<td>10.9</td>
</tr>
<tr>
<td>No Response</td>
<td>40.0</td>
</tr>
<tr>
<td>Question Not Understood</td>
<td>21.8</td>
</tr>
<tr>
<td>Not Sure</td>
<td>3.7</td>
</tr>
</tbody>
</table>

The availability of feed was the main factor where seasonal production was indicated. In most cases, spring was nominated as the selling season.
Hides

Respondents reported the sale of 192 hides in 1998, mostly in the Northern Territory. No hides were sold in New South Wales and only two in Victoria. In most cases, hides were sold to a tannery for prices between $25 to $40 each, although in one case only $5 was received.

A few producers commented that hides were discarded at abattoirs where they were rendered. It seems clear that little demand exists for small numbers of hides.

End User of Product Sales

The majority of respondents had not sold any Buffalo products commercially. In several cases, the comment was made that no commercial sales were available.

Prime cuts had been sold to restaurants, hotels, butchers and a few meat wholesalers. Non-preferred cuts had been sold to smallgoods manufacturers in very few instances.

Only one Buffalo producer reported the sale of horns.

Aims for your Herd

Responses to this question were allocated to categories as follows:

<table>
<thead>
<tr>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase herd numbers</td>
<td>21.8</td>
</tr>
<tr>
<td>Increase herd numbers if market and prices improve</td>
<td>21.8</td>
</tr>
<tr>
<td>Upgrade with or introduce Riverine</td>
<td>12.7</td>
</tr>
<tr>
<td>Status quo</td>
<td>9.1</td>
</tr>
<tr>
<td>Intend to sell</td>
<td>7.3</td>
</tr>
<tr>
<td>No sell</td>
<td>27.3</td>
</tr>
<tr>
<td>No response</td>
<td>100.0</td>
</tr>
</tbody>
</table>

While 43.6 percent of producers indicated an intention to increase herd numbers, it is significant that half stated that this was dependent on satisfactory markets and prices.

Ability to Service Markets

Survey results showed that very few producers had problems servicing markets. The figures in the following table relate to numbers of producers:

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
<th>NO RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yards with loading facilities</td>
<td>44</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Road Access</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• All weather</td>
<td>41</td>
<td>0</td>
<td>8</td>
</tr>
</tbody>
</table>
Marketing Preferences

Some definite opinions were expressed in response to this question. As indicated in the table below, the majority of producers preferred not to market their own Buffalo products, however, they were evenly divided between a co-operative and an industry controlled marketing group. Significantly, more producers were opposed to the establishment of a co-operative than to an industry marketing body.

The question also provided for suggestions for alternative marketing systems. Apart from one opinion that there should be no Government marketing controls, and a suggestion that a marketing company be formed, other alternatives were not offered.

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
<th>NO RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market own product</td>
<td>7</td>
<td>32</td>
<td>13</td>
</tr>
<tr>
<td>Industry controlled co-operative</td>
<td>31</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>Industry controlled marketing group</td>
<td>32</td>
<td>5</td>
<td>15</td>
</tr>
</tbody>
</table>

The figures in the above table refer to the number of producers.

Would you support financially, your preferred co-op or system (as in Question 14) in an initial establishment period?

Just over half the producers indicated that they would give financial support to their preferred marketing system in the initial period. A few of these producers answered ‘yes’ but with the proviso that ‘the cost was not too high’.

<table>
<thead>
<tr>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>50.9</td>
</tr>
<tr>
<td>No</td>
<td>20.0</td>
</tr>
<tr>
<td>Unsure</td>
<td>10.9</td>
</tr>
<tr>
<td>No Response</td>
<td>18.2</td>
</tr>
</tbody>
</table>

Strongest support was provided by producers in New South Wales, where 70% agreed to financial assistance.

Would you be prepared to assist in the management of the co-op or other system?
Do you agree with the suitability of Tenderbuff specifications in the Southern States?

Tenderbuff specifications were drawn-up in the Northern Territory and widely used in Western Australia in the early 1990’s. In recent years, there has been debate over the suitability of the specifications for the Southern States.

<table>
<thead>
<tr>
<th></th>
<th>%</th>
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</thead>
<tbody>
<tr>
<td>Yes</td>
<td>47.3</td>
</tr>
<tr>
<td>No</td>
<td>30.9</td>
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<tr>
<td>Unsure</td>
<td>7.3</td>
</tr>
<tr>
<td>No Response</td>
<td>14.5</td>
</tr>
<tr>
<td></td>
<td>100.0</td>
</tr>
</tbody>
</table>

The following comments were recorded:

- Specified carcass weights are too low
- Higher weight for age limit needed
- Specifications too restrictive
- Electrical stimulation not always available
- Alternative name to Tenderbuff required (but no suggestions made)
- Tenderbuff specifications not suitable for Riverine crosses
- There was general agreement expressed that quality assurance was important

The results of the survey indicate that the Tenderbuff specifications should be reviewed in relation to the upper size limit of carcasses produced in the Southern States and the introduction of Riverine stock.

List The Major Issues Facing an Expanded Buffalo Industry

Most respondents listed at least one major issue. As expected, the most common issue reported was concerned with the market for Buffalo products.

The items listed, together with the number of times mentioned, are given below:
Lack of markets/create market demand 25
Lack of co-ordinated, regular supply 8
Quality variations of meat 6
Consumer acceptance 6
Low prices for meat and hides 4
Bull/beef substitution 4
Promotion of products required 3
Transport costs and difficulties 3
Research and development 2
Abattoir availability 2

No response to this question was recorded from 15 (27 percent) producers who took part in the survey.

**General Comments on any Aspect of Buffalo Production**

Although 56 percent of producers did not respond to this question, some useful comments were made. Three producers expressed concern over the poor quality of some Buffalo meat placed on the market. The other points were raised by individual producers:

- Concern over the quality of some Buffalo meat placed on the market.
- Many Buffalo herds are too small (ie less than 20 head) which makes marketing difficult.
- Producer unity essential to overcome industry problems.
- Transport costs of animals are of concern to small producers.
- Media coverage needed to give Buffalo an improved image to the public.
- Buffalo production is risky until regular markets are available.
- A distinction between producers and marketers should be acknowledged.
- Buffalo prices need to be higher than beef to attract large breeders, (other producers have claimed in discussion with the consultants that the cost of production is about the same).
- A Victorian producer commented that Riverine cross animals had benefits over the Swamp Buffalo, including the following:
  - Less wallowing
  - Tolerate cool conditions better
  - Quicker growth rates
  - Improved hindquarters
  - Smaller horns
- Another producer commented that more research into Riverine cross-breeding was needed.
- A well known top-end identity made the point that the Northern Territory needs committed producers to take the Buff by the horns and run with it!
B. BUFFALO PRODUCT BUSINESS PLAN

1. Business Plans

A business plan is normally prepared for a specific entity, such as a company or a project. The business plan identifies business objectives, needs, opportunities and problems and can be used to obtain finance.

Because of the diversity in Buffalo production between States, it is unrealistic to prepare one business plan for the Buffalo Industry in Australia.

Instead, an outline of a business plan for a recommended co-operative of Buffalo producers in New South Wales is presented. Parts of the plan could be used in Victoria, where an outline of a business plan has already been prepared for a company structure.

New South Wales Buffalo Co-operative

Name and Location

The business entity will be the New South Wales Buffalo Co-operative

The Co-operative administration centre would ideally be located in or near Sydney where most of the market action can be expected. However, as most of the Co-operative members will be Buffalo producers, it may be more realistic to select a location near a concentration of farmers in rural New South Wales.

Purpose of the Plan

To determine the objectives and viability of the New South Wales Buffalo industry and to identify the resources to achieve these objectives.

Objectives of the Co-operative

- Overall, the purpose of the Co-operative is to provide members with an adequate return on investment and sustainable market growth from the production and sale of Buffalo products.
- Organise the supply of Buffalo and Buffalo products according to market demand.
- Ensure all products are subjected to a quality assurance program to comply with requirements for both the local and export markets.
- Successfully market Buffalo products for an adequate return to shareholders.
- Engage in product development and promotion to ensure sustainable market growth.
- Ensure optimum customer service and competitiveness in the market place.
Company Description

The Co-operative will be made up of shareholders, consisting of Buffalo producers in New South Wales, but not necessarily restricting membership to farmers.

Depending on the interest, availability and expertise of the members, it may be necessary to employ professional marketing/administration personnel.

Products handled by the Co-operative would be mainly Buffalo meat and hides, with some live animal sales at times. The market for these products would be in New South Wales, although some opportunities exist for sales to other States and on the export market. A likely market chain would be abattoirs, wholesalers, the food service industry and retailers.

A survey of Buffalo producers in New South Wales indicated strong support for a co-operative as a marketing system. The full time involvement of the co-operative in marketing Buffalo products, according to the strategies presented, will result in expanding the current small niche market. Close contact between producers and the market is designed to overcome the problems of lack of supply or overproduction. Product quality control, promotion and product development are essential for market growth.

Industry Analysis

Key issues, a SWOT analysis and strategies have been presented in Part 2, A2 under Recommended Marketing Structures.

The New South Wales Buffalo industry consists of an estimated 26 producers. From the 13 respondents to the survey, there are nearly 300 breeders plus 150 non-breeders on these farms. Estimated numbers of Tenderbuff animals available for sale over the four years 1998 to 2001 totalled 435. In addition, a further 817 breeders and 62 cull animals were available for sale over the same four years.

It was clear from comments by respondents in the survey that the future size of the industry was entirely dependent on the size of the market and the adequacy of returns from products sold. For a detailed analysis of the domestic Buffalo meat market for each of the States, reference is made to Part 1, Section B, of the report. Part 1, Section A deals with the market potential of Buffalo products. These sections deal with the target markets and identify the probable major customers. Prices for Buffalo meat and beef are presented in Part 1, Section B, under Margin Analysis of Supply Chain. Hides are dealt with under Results, Section A, Sub-section 3.

Competition for Buffalo meat comes mainly from the cattle industry. While preferred cuts of Buffalo meat can command a premium over beef prices, other products are generally sold at the same price as beef. Most Buffalo farmers indicated that their cost of production was similar to beef production. A strong marketing advantage for Buffalo meat is its low fat, low cholesterol content compared with beef. However, it needs to be recognised that the beef
industry is well established, has a high volume turnover with all the infrastructure in place and has an export market.

Low priced chicken and pig meat represent some competition, but Buffalo is perceived as a game meat and therefore competes with a range of exotic meats such as venison, kangaroo, camel, rabbit, crocodile, emu and ostrich. With the exception of kangaroo and rabbit meat, the others normally sell for more than beef prices. None of the exotic meats have a significant market share.

Acceptance of preferred cuts of Buffalo meat is well established, especially in hotels and restaurants. Other cuts need special marketing efforts including prices competitive with beef, reliable supply and quality and product development.

Industry Trends & Prospects

Nearly all new, rural industries such as rabbits, deer, emus etc, go through a stage of rapid expansion in production which is not market driven. The result has been the collapse of many of these enterprises, both large and small. The market is clearly the key to viability.

For some years, red meat consumption has been in decline, and this trend is expected to continue in the short term. The reason is given as health based, resulting in changed eating habits, and this can adversely affect Buffalo meat consumption. Against this however, are the nutritive value and health benefits from the low fat and cholesterol contents compared to beef and sheep meat.

The other positive area for long term prospects is in exports, which could be developed when sufficient supply can be guaranteed. Normally a minimum order is one container load of about 20 tonnes.

The successful establishment of a co-operative in New South Wales, with the majority of producers as members, could overcome the marketing problems common to new rural industries.

Marketing Strategy

The marketing activities of the co-operative would include organising supply, product quality, processing, distribution, promotion, pricing, product development, market share and possibly export at some future date.

Marketing strategies applicable to the proposed co-operative have been presented in Part 2A under Recommended Marketing Structures. An important issue for the formation of a co-operative is to attract enough members, so that throughput of product to the market is sufficient to raise the equity to run the business.
Management

Co-operatives generally have a Board of Directors and a General Manager. The Board is required to act as a professional marketing group and the General Manager needs marketing expertise.

The attached papers on co-operatives describe the management structure and responsibilities in detail.

Financial Statement

Funding is required to establish the co-operative. Members will be required to indicate the number of shares each person is subscribing. It may also be necessary to charge initial levies and use grants or subsidies during the early period when income will be low.

A cash flow budget and profit and loss statement will be needed for the first year of operation. Examples of a format for these are as follows:
## CASH FLOW BUDGET FORECAST

**FOR FIRST YEAR OF OPERATION**

<table>
<thead>
<tr>
<th>OPENING BANK BALANCE</th>
<th>ESTIMATES FIRST YEAR OF OPERATION 19____</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH</strong></td>
<td><strong>IN</strong></td>
</tr>
<tr>
<td>Issue of Shares to members</td>
<td>Grants &amp; Subsidies</td>
</tr>
<tr>
<td></td>
<td>Subscriptions &amp; Donations</td>
</tr>
<tr>
<td></td>
<td>Commercial Revenue</td>
</tr>
<tr>
<td></td>
<td>Loans Raised</td>
</tr>
<tr>
<td>+</td>
<td><strong>TOTAL CASH RECEIPTS</strong></td>
</tr>
<tr>
<td></td>
<td>Materials</td>
</tr>
<tr>
<td></td>
<td>Wages &amp; Salaries</td>
</tr>
<tr>
<td></td>
<td>Transport &amp; Travel</td>
</tr>
<tr>
<td><strong>CASH</strong></td>
<td><strong>OUT</strong></td>
</tr>
<tr>
<td>Rent</td>
<td>Insurance</td>
</tr>
<tr>
<td></td>
<td>Repair &amp; Maintenance</td>
</tr>
<tr>
<td></td>
<td>Administration Expenses</td>
</tr>
<tr>
<td></td>
<td>Audit</td>
</tr>
<tr>
<td></td>
<td>Interest on Borrowings</td>
</tr>
<tr>
<td></td>
<td>Capital Expenditure</td>
</tr>
<tr>
<td></td>
<td>Tax</td>
</tr>
<tr>
<td></td>
<td>Sundries</td>
</tr>
<tr>
<td>-</td>
<td><strong>TOTAL CASH PAYMENTS</strong></td>
</tr>
<tr>
<td>=</td>
<td><strong>CLOSING BANK BALANCE</strong></td>
</tr>
</tbody>
</table>
# FORECASTED PROFIT AND LOSS STATEMENT

**YEAR ONE**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td><strong>SALES</strong></td>
<td>…………………</td>
</tr>
<tr>
<td>Less: Cost of Goods Sold</td>
<td>…………………</td>
</tr>
<tr>
<td><strong>GROSS PROFIT</strong></td>
<td>…………………</td>
</tr>
<tr>
<td>Add: Other Income</td>
<td>…………………</td>
</tr>
<tr>
<td><strong>TOTAL INCOME</strong></td>
<td>…………………</td>
</tr>
<tr>
<td>Less: Fixed Costs</td>
<td>…………………</td>
</tr>
<tr>
<td>Operational Costs</td>
<td>…………………</td>
</tr>
<tr>
<td><strong>OPERATING PROFIT/LOSS</strong></td>
<td>…………………</td>
</tr>
<tr>
<td>Less: Income Tax attributable To Operating Profit</td>
<td>…………………</td>
</tr>
<tr>
<td><strong>OPERATING PROFIT/LOSS AFTER TAX</strong></td>
<td>…………………</td>
</tr>
<tr>
<td>Less: Proposed rebates/dividends</td>
<td>…………………</td>
</tr>
<tr>
<td><strong>RETAINED PROFITS</strong></td>
<td>…………………</td>
</tr>
</tbody>
</table>
The major cost initially will be associated with a manager/salesperson. Limited throughput means that insufficient funds may be available for a full-time marketing expert. It should be possible, however, to appoint a suitable person for about $20,000 per annum plus car costs and a bonus payment on sales.

A rough guide to the costs of marketing and promotion is indicated in the following budget.

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager plus car</td>
<td>35,000</td>
</tr>
<tr>
<td>Point of sale material</td>
<td>15,000</td>
</tr>
<tr>
<td>Advertising</td>
<td>30,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 80,000</strong></td>
</tr>
</tbody>
</table>

Industries similar to the Buffalo Industry either spend, or are quoted, about $100,000 for marketing, publicity and promotion work. An alternative to the above is to engage market development specialists for a specific period.

Quoted costs range form $1,000 to $2,000 per month or $46,000 annually from another firm for marketing and development costs. Details are given in Section 7.7 in Part 1 of this report.

2. **Funding Opportunities**

The Rural Industries Research and Development Corporation (RIRDC) has been the major funding body for new agricultural enterprises including the Buffalo Industry.

Discussions with RIRDC staff and previous experience with the Corporation, indicate that it would be possible to obtain further funding for market development and industry organisation. It is understood that no new Buffalo projects have been accepted for the next financial year. Funding for production oriented projects are unlikely to be approved.

It should be noted that RIRDC prefers to deal with a national body, which represents the whole industry. Funding could be available for a workshop or conference to establish a national industry group. Once this body is formed, it needs to set research and development priorities for the industry, which could then be favourably viewed by RIRDC for funding.

The fact that RIRDC receives levies from Buffaloes slaughtered in the Northern Territory is an advantage for funding. The Southern States need to ensure that a similar system results in annual levies for RIRDC use in the industry.

Market development would be a main priority for the industry and financial assistance from RIRDC could be expected. This funding could include expenses involved in setting up marketing structures.

Following the establishment of a national organisation and a marketing structure, another priority would be to implement an industry wide quality assurance program. RIRDC may
fund some brochures relating to product quality, however for setting up the program, funding could be available from the Department of Industry, Science and Tourism.

Funding assistance for agribusiness programs from the Commonwealth Government is no longer available. A new scheme – Food and Fibre Supply Chain Program – under Supermarkets to Asia Ltd, will be operational after the next budget. Possible projects are now being considered. The contact within Agriculture, Fisheries and Forestry Australia in Canberra is Mr David Gregory on (02) 6270 8801, but he is not available until after 19 March 1999.

Some additional funding assistance may be available from State Government Departments. There is also the possibility of grants and loans through a co-operative.
REFERENCES

Meat and Allied Trades Federation of Australia, Western Australia Division 1989 Costing and Pricing Manual

Lemcke B, Ffoulkes D. and Kennedy P. MRC Buffalo Industry Project 1993


SCHEDULE 1

PERSONS WHO HAVE ASSISTED IN THE STUDY
## Persons who have assisted in the study

<table>
<thead>
<tr>
<th>Name</th>
<th>Organization</th>
<th>Contact Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr Brian Topper</td>
<td>A.L. Topper and Co., NSW</td>
<td>02 9261 1900</td>
</tr>
<tr>
<td>Dr Jack Haslam</td>
<td>A.Q.I.S., Canberra</td>
<td>06 272 3933</td>
</tr>
<tr>
<td>Mr Gary Garreffa</td>
<td>A.Q.I.S., Perth</td>
<td>08 9311 5333</td>
</tr>
<tr>
<td>Mr Greg Ferrier</td>
<td>Agriculture Victoria</td>
<td>060 304 500</td>
</tr>
<tr>
<td>Mr Paul Frapple</td>
<td>Agriculture, WA</td>
<td>08 9322 7141</td>
</tr>
<tr>
<td>Mr Jim Schofield</td>
<td>Alfresco Smallgoods and Providores, Cowra, NSW</td>
<td>02 6342 1617</td>
</tr>
<tr>
<td>Mr Glenn Williams</td>
<td>Ausmeat, NSW</td>
<td>07 5482 5452</td>
</tr>
<tr>
<td>Mr Peter Husband</td>
<td>Ausmeat, QLD</td>
<td>07 3247 7200</td>
</tr>
<tr>
<td>Mr Rob Brown</td>
<td>Ausmeat, SA</td>
<td>0418 963 246</td>
</tr>
<tr>
<td>Mr Gerry Flynn</td>
<td>Ausmeat, VIC</td>
<td>03 9749 5451</td>
</tr>
<tr>
<td>Mr Glen Smith</td>
<td>Ausmeat, WA</td>
<td>0418 699 470</td>
</tr>
<tr>
<td>Mr Franz Knoll</td>
<td>Barossa Fine Foods, SA</td>
<td>08 8250 9070</td>
</tr>
<tr>
<td>Mr Charlie D’Aloia</td>
<td>Bravo Meats, SA</td>
<td>08 8268 4216</td>
</tr>
<tr>
<td>Mr Malcolm Stoner</td>
<td>Buffalo Industry Council of Victoria</td>
<td>03 5728 1970</td>
</tr>
<tr>
<td>Mr John Lloyd</td>
<td>Buffalo Producer and Trader, QLD</td>
<td>07 4958 8470</td>
</tr>
<tr>
<td>Mr Phil Carter</td>
<td>Buffalo Producer, WA</td>
<td>08 9295 2824</td>
</tr>
<tr>
<td>Mr Trevor Hall</td>
<td>Buffalo Producers NSW Inc</td>
<td>02 6020 1122</td>
</tr>
<tr>
<td>Mr George Carney</td>
<td>Buffalo Producers NSW Inc, Cowra, NSW</td>
<td>02 6342 4554</td>
</tr>
<tr>
<td>Mr Douglas Robertson</td>
<td>Buffalo Producers NSW Inc, Tara Tooraweenah NSW</td>
<td>02 6848 5359</td>
</tr>
<tr>
<td>Mrs Janet Robertson</td>
<td>Buffalo Producers NSW Inc, Tara Tooraweenah NSW</td>
<td>02 6848 5359</td>
</tr>
<tr>
<td>Mr Warren Scifleet</td>
<td>Bunganbah Meat Co., Coonabarabran</td>
<td>02 6842 7800</td>
</tr>
<tr>
<td>Mr Tony Wharton</td>
<td>C.E.O., Q Meat, Brisbane</td>
<td>07 3399 1011</td>
</tr>
<tr>
<td>Mr Brian Casey</td>
<td>C.E.O., Victorian Meat Industry Authority</td>
<td>03 9429 9401</td>
</tr>
<tr>
<td>M/s Catherine Money</td>
<td>C.S.I.R.O.</td>
<td>03 9542 2406</td>
</tr>
<tr>
<td>Mr Chris Hall</td>
<td>Cargills, NSW</td>
<td>02 6938 3000</td>
</tr>
<tr>
<td>Mr Ted Palmer</td>
<td>Chairman South Strathfield, Wholesale Meat Complex, NSW</td>
<td>02 9261 1900</td>
</tr>
<tr>
<td>Mr Ashley Manners</td>
<td>Consultant, WA</td>
<td>08 9447 3695</td>
</tr>
<tr>
<td>Mr Max Basile</td>
<td>Consultant, WA</td>
<td>08 9307 7879</td>
</tr>
<tr>
<td>Mr Alan Tak</td>
<td>Darwin Retail Butcher</td>
<td></td>
</tr>
<tr>
<td>Mr Jim Manwaring</td>
<td>Department of Fair Trading, NSW</td>
<td>02 9793 0567</td>
</tr>
<tr>
<td>Mr Peter Tormey</td>
<td>Department of Primary Industries and Energy</td>
<td>02 6271 6401</td>
</tr>
<tr>
<td>Mr Ian Cook</td>
<td>Department of Primary Industries and Energy</td>
<td>02 9245 6500</td>
</tr>
<tr>
<td>Mr Martin Iffland</td>
<td>Director, National Meat Association, NSW</td>
<td>02 9438 5144</td>
</tr>
<tr>
<td>Mr Paul Sandercock</td>
<td>Director, National Meat Association, SA</td>
<td>08 8272 2400</td>
</tr>
<tr>
<td>Mr Bob Heaperman</td>
<td>Director, National Meat Association, WA</td>
<td>08 9470 1577</td>
</tr>
<tr>
<td>Dr Robin Shorthouse</td>
<td>Food Science Australia</td>
<td>07 3214 2000</td>
</tr>
<tr>
<td>Mr Barry Johnson</td>
<td>Food Science Australia</td>
<td>07 3214 2000</td>
</tr>
<tr>
<td>Mrs Val Deutscher</td>
<td>Former Buffalo Producer and Trader, Badgingarra, WA</td>
<td>0896 526 020</td>
</tr>
<tr>
<td>Mr Robin Deutscher</td>
<td>Former Buffalo Producer and Trader, Badgingarra, WA</td>
<td>0596 526 020</td>
</tr>
<tr>
<td>Mr Rob Hargreaves</td>
<td>Gundagai Meat Processors</td>
<td>02 6944 1001</td>
</tr>
<tr>
<td>Mr Brian Devine</td>
<td>Health Department of WA</td>
<td>08 9388 4915</td>
</tr>
<tr>
<td>Mr Stan Goodchild</td>
<td>Health Department, WA</td>
<td>08 9388 4915</td>
</tr>
</tbody>
</table>
Mr Paul Sell  
Hillman Meat Co., QLD  
07 3279 0370

Mr Paul Thompson  
I.M.T.P. Meat Traders, QLD  
07 3899 0368

M/s Maureen Kohalmi  
Ideas on Food, NSW  
02 9555 9688

M/s Linley Adam  
Impact Communications, WA  
08 9227 0233

Mr Graham Harvey  
Lobethal Abattoir, SA  
08 6389 6368

Mr Tony Wray  
M.B.L., WA  
08 9361 3321

Mr Graeme Fagan  
Manager Marrakai Station and President Northern Territory Buffalo Industry Council  
08 8978 8980

Mr Des Griffiths  
Manager, Linley Valley Abattoir, WA  
08 9573 1366

Mr Robert Lee  
Manager, Makani Meat Traders, NSW  
02 9896 7222

Mr Neville Hall  
Manager, Makani Meat Traders, WA  
08 9383 1225

Mr Tony Searle  
Manager, Melaluca Station Northern Territory

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Mr Ray Day  
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Mr Ron Pinney     University Meats, Victoria       03 9347 6933
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SCHEDULE 2

BUFFALO PRODUCER SURVEY
### BUFFALO PRODUCER SURVEY

**Questionnaire**

- **Name:** …………………………………………………………………………………………………………………
- **Address:** …………………………………………………………………………………………………………………
- **Telephone No.** ……………………………………………………………………………………………………………
- **Fax No.** …………………………………………………………………………………………………………………

**INTRODUCTION**

1. **Do you currently breed Buffalo?** Y/N

   If Yes, please go to Question 3.

2. **If not, to whom did you sell your stock and when?**

   ……………………………………………………………………………………………………………………………..Year ………

   ……………………………………………………………………………………………………………………………..Year………

**QUESTIONS**

3. **Herd Size & Structure**

<table>
<thead>
<tr>
<th>Age</th>
<th>Breeding Cows</th>
<th>Breeding Bulls</th>
<th>Heifers Breeder</th>
<th>Females Non breed</th>
<th>Males Non breed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td></td>
<td></td>
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<td>1-2 years</td>
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<td>2-3 years</td>
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<td>4 and over</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
4. Are any of your stock Riverine or Riverine cross? Y/N
   If so, how many?  ...................

5. Live Animal Sales Over Past Year - number/type
   .............................................................................................................................

6. Product Sales Over Past Year - type/quantity
   Tenderbuff meat .................................................................
   Cull meat ........................................................................
   Hides .............................................................................
   Horns .............................................................................
   Other .............................................................................

7. Which abattoirs have you used:
   Name ................................................................................
   Location ...........................................................................
   Is the abattoir Ausmeat accredited? ..................................

8. Production Forecasts

   
<table>
<thead>
<tr>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of breeders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of tenderbuff animals for sale</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of culls for sale</td>
<td></td>
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<tr>
<td>Other Products</td>
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<td>.........................</td>
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</tbody>
</table>
9 Expected Seasonal Turnoff - eg Tenderbuff April to Sept./Culls all year

Reasons for seasonality

10 Hides
Number sold in 1998
Sold to
Price

11 End User of Product Sales - where known
Meat
Prime cuts (eg butcher)
Other
Hides
Horns
Other Products

12 Aims for Your Herd
Total number
Other comments

13 Ability to Service Markets - yes/no
Yards with loading facilities

Road access

All weather
Seasonal
Poor

Do you quieten stock for slaughter

14 Would you prefer to:

Market your own products? Y/N
Use an industry controlled cooperative Y/N
Use an industry controlled marketing body other than a cooperative Y/N

Do you have suggestions for an alternative to a cooperative as a marketing system? Please specify
........................................................................................................................................
........................................................................................................................................

15 Would you support financially, your preferred co-op or system (as above) in an initial establishment period?

Y/N

16 Would you be prepared to assist in the management of the co-op or other system?

Y/N

17 Do you agree with the suitability of Tenderbuff specifications in the Southern States? - please include comments
18 List the major issues facing an expanded buffalo industry

19 General comments on any aspect of buffalo production

Thank you for your time and effort.
Individual producers' names from the database have been withheld for privacy reasons.

However, please feel free to contact your nearest buffalo council office for further information about the industry (see next page)
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SCHEDULE 4

DETAILS ON THE ESTABLISHMENT AND FEATURES OF NSW CO-OPERATIVES
Guidelines for Success in Co-operative Marketing

Address to Beef Producers

West Wyalong, NSW

May 28, 1998

Jim Manwaring
Principal Advisory Officer
Registry of Co-operatives
Department of Fair Trading
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WHat is CO-operATIVE MARKETING?

A marketing co-operative is formed when a group of producers of a specific product(s) come together to jointly market that product(s). They do this because they believe that they can achieve benefits as a group which they could not achieve as individuals.

A co-operative is a corporate body registered by government in the same way as a company is a corporate body. That is, it is a legal entity with a life of its own. It lives on, even though some members may leave it (and others may join it).

It is owned and controlled by grower members. It may of course borrow money from a financial institution, but non-members should not be allowed to own shares in the co-operative because this may weaken grower control.

Co-operatives are self-help organisations. Marketing co-operatives are built on strong, unified determination of a group of producers to achieve greater marketing success through mutual self-help. This strong desire for marketing success gives rise to producer commitment, in terms of money invested, time invested and product put through the co-operative.

Each member of a co-operative has one vote. Voting is not in proportion to number of shares held as is the case in companies.

Members of a co-operative have limited liability. This means that if a member invests say $500 in share capital, then, if the co-operative goes broke the most that individual can lose is $500.

It is possible that under certain circumstances directors of a co-operative could be liable for more than they have invested. This very seldom happens, and directors who exercise a normal, common sense approach to their duties need not be concerned.

A marketing co-operative is the members' professional marketing arm for a particular product(s). It therefore must employ skilled marketing personnel to carry out this function and members must be willing to hand-over their marketing operations to their co-operative.

A producer marketing co-operative is not an investment body. That is, members do not invest money, to make money on their money. However, the co-operative must have money to enable it to operate. Therefore, members put money into the co-operative as "a ticket" to participate in it.

What then is the specific goal of a marketing co-operative?
It is to achieve the best possible price for members for the sale of their product(s), through the application of advanced marketing methods. In other words, members benefit by getting a good price for their product(s), rather than by getting a return on their capital.

Sometimes producers perceive a co-operative as being like a statutory marketing board. This is not correct and is an unfortunate misunderstanding. A co-operative is as much a part of the free enterprise system as is a company, whereas in the final analysis, a statutory board is a part of government. In the operations of a co-operative, a Minister of the Crown can no more interfere than he/she can in the operations of a company.

**BENEFITS**

We shall now look at the potential benefits of a Marketing Co-operative to producer members.

It will require a well researched, business plan to give members a clear idea of specifically what the benefits are likely to be.

The basic idea of a producer marketing co-operative is that producers set-up a new corporate business that will operate as the growers' marketing arm. Here the term marketing is used in its broadest sense.

The co-operative must be a thoroughly competent and professional marketing body.

This is of course a long term proposition in which the co-operative provides growers with a secure market outlet and favourable prices for products sold.

Secure markets and good prices are built on the co-operative's capacity to:

- Identify and research markets.
- To communicate market research findings to members.
- To provide buyers (markets) with precisely what they seek in terms of product type, quality, packaging, delivery times, continuity of supply, after sales service etc.
- To provide buyers (markets) with large quantities of products of uniform type and quality, and on this basis, negotiate acceptable prices for producers.
- Establish good working relationships with buyers and other members in the marketing channel.

These points are some of the main features possessed by any successful agricultural marketing organisation.
Some of the other potential benefits of co-operative marketing to members are:

♦ Producers have the opportunity to have their say in determining the strategies of the co-operative. This is because, of its nature, a co-operative is member owned and controlled.

♦ Unit costs in key parts of marketing such as grading, packaging, storage and transportation may be reduced through economies of scale.

♦ The existence of an efficient co-operative operating beyond the farm gate, makes it more difficult for large business firms or multinationals to dominate your industry.

In addition, it should be remembered that in a co-operative, there is no third party investor taking profits out of the business. The whole focus of a co-operative is to provide a marketing arm for members' products and to secure a good price for products to be returned into the pockets of members. A co-operative exists to service members.

I cannot emphasize too strongly the necessity of a good practical business plan right at the beginning of a co-operative's life. It is imperative that the Board of Directors are deeply involved in the development of this plan. Out of it will flow a clear picture of the likely benefits to potential members of joining the co-operative. However, the most important benefit of the business plan is that it will spell-out in detail how the co-operative will operate, and in particular how the marketing will be done.

Ideally, the business plan needs to be completed in 8-10 weeks. Otherwise, a serious loss of momentum may well occur.

**PITFALLS**

In my experience, marketing co-operatives are prone to fall into one or more of the following pitfalls:

1. Lack of member commitment
2. Members failing to agree
3. Members lacking expertise
4. Shoddy and amateurish product marketing
5. An inadequate Board of Directors
6. An unsuitable General Manager
7. Members unaware of, and therefore failing to carryout, their responsibilities
8. Insufficient capital
9. Failure to adhere to ethical practices
10 Inadequate communication with members

11 Failure to recognise that education of Directors, Managers and Members is essential for co-operative success.

12 Neglect of strategic planning.

I will now address each of these pitfalls, but because it is important to be positive, I will speak of twelve keys to success in co-operative marketing. Each of the twelve pitfalls has a corresponding key to success.

1 Commitment

The fundamental cornerstone of a co-operative's success is members' commitment to the organisation. Without loyalty, support and commitment you will always have problems. The most important aspect of commitment is that members market all of their production through the co-operative.

Here are seven (7) ways to achieve producer commitment:

- **A First class Board and general manager:** If directors are respected by producers, sharp in business matters, and work intelligently the organisation will perform well and will usually be supported by members with their product(s).

- **Member investment:** A simple rule of thumb applies here; the more money members invest in their co-operative, the more they will support it. This is human nature; the product will follow their money.

- **Legal contracts:** An important development in the US is the use of legally binding contracts between the member and the co-operative. Contracts are being used increasingly in Australian co-operatives. Contracts give co-operatives real teeth in their efforts to achieve discipline which is essential in today's food industry.

- **Communication with members.**

- **Member involvement:** Get them doing something constructive. Involvement leads to commitment.

- **Education of members:** Deeper understanding leads to stronger support.

- **Peer pressure:** Talking to uncommitted members about the co-operative helps increase commitment. Peer pressure works well on some but not all members.
2 Achieving Agreement Between Members

Disagreements based on real issues or clashes of personalities are common to all types of organisations. Here are some guidelines to handling such matters in co-operatives:

- Directors and managers need to exercise extreme patience in handling difficult issues. Often, an inordinate amount of time is required to resolve issues. However, such time needs to be spent if damage to the co-operative is to be minimised.

- Every co-operative has at least one abrasive personality. Responses to such persons need to be mature and tactful. Sometimes, however, it is necessary to get rid of a troublesome member (s) for the sake of the Co-operative as a whole.

- Co-operatives are for people who want the benefits of organisation and who are willing to accept the disciplines involved. Clearly, therefore co-operatives are not for everyone. Directors are wise to keep some people out of their co-operatives. Co-operative law enables directors to refuse membership to applicants and, in doing so, directors are not obliged to say why the application was rejected.

- Co-operatives need to recognise and take into account the difference in servicing large and small scale members.

- One group of members should never subsidise another group within the co-operative. For example, if large growers are less costly to service than small growers, then larger growers should pay lower charges per unit than the small growers.

3 Securing Sufficient Expertise

It is common for new co-operatives to be concerned about lack of expertise among the members to run a professional marketing organisation. It is good that they recognise this problem and must take action to overcome it. Other parts of this paper deal with ways of securing and building up the expertise of directors, managers and members. The following additional guidelines are also important.

- Directors of the co-operative should never lose sight of the fact that a new business is being established, and that therefore, somebody (s) has to work "smart and hard" over several years to get the business up and running.

- The co-operative should identify the best marketer in the industry and should seek to emulate that marketer. Too often co-operatives are willing to be "second best". In the 90's being "second best" will lead to failure.
• More than ever, marketing success means becoming a learning organisation.

• Avoid 'group think.' That is, where boards of directors tend to think the same way about issues in their industry. Such boards often fail to take into account other important viewpoints.

4. Marketing

You need a considerable degree of control over how members market their product. Your co-operative must be a top-notch marketing organisation that will satisfy buyers requirements so well that they will want to come back to buy from your co-operative year after year. Marketing is not just selling, not just advertising and promotion; the people in the market have to like your products so much that they will come back again.

For decades Australian farmers have been sellers of raw materials, disposing of their product, but for 30 years it has been obvious they should be marketing their products, using market research, targeting groups of customers, looking at new markets, using advertising and promotion.

The way of the future is not disposing of produce but adding value to it through advanced marketing. We are in the era of consumer product marketing.

There are two keys to co-operative marketing success:

• **Board:** You must have a Board of Directors who are committed to becoming an innovative and professional marketing group.

• **General Manager:** You must have a general manager who is determined to make the co-operative into a marketing body. Rarely will a person with a production or financial background take on the difficult task of establishing a genuine marketing organisation because he/she will not have the conviction about marketing that is required. Your General Manager needs to be a committed marketing professional.

A Cornell University study (1986) into the best marketing co-operatives in the US found they had several elements in common.

• Marketing success was not a gradual process. It happened suddenly because of a crisis or dramatic change, a new general manager, a merger, a price drop, which forced the organisation to look at itself, and resulted in the adoption of a marketing stance.

• They have dual Boards of directors, a producer Board and a subordinate marketing Board comprising marketing staff and outside business consultants. No producers are on the subordinate Board but it reports to the grower Board.
• There is a clear distinction between the roles of Board and Management. Each knows their job and stays within their boundaries.
• They employ top marketing executives. The co-operatives compete with major corporations for executives and pay the money that the market demands.
• They have strong knowledge of their customers.
• They understand their organisation's strengths and weaknesses and know what areas they should stay out of.
• They develop strong brand franchises.

5. **Board of Directors**

You have to have a good Board. The directors must know what their responsibilities are and carry them out. They must serve their members. I have seen co-operatives where some directors have very selfish and unhealthy motives for being elected. Members should not allow that to happen. Directors are not there as a stepping stone to parliament; they are there to serve the members.

To be effective a Board needs:

• **A General Manager** with the specific skills required and determination to develop a successful co-operative.
• ** Totally committed Directors:** If a Board is not committed it will display a terrible example to members which will flow through the organisation.
• **A pro-marketing outlook.**
• **Directors who can read and understand financial statements:** A co-operative is justified in spending members' money for directors to be trained in this area.
• **Directors who understand their legal responsibilities:** All directors should understand their responsibilities, not only to protect themselves but to provide a guide to ethical behaviour throughout the organisation.

There are several reasons for ineffective Boards, but four of the most important are:

• The most capable producers do not make themselves available for nomination.
• Inadequate nomination procedures. In the US the annual meeting appoints a committee of industry elders who are obliged to find at least two people to nominate for each position, which provides a convenient way to remove unsuitable Board members. It also means that an intelligent, concerted effort is made to find suitable "new blood" and to persuade them to stand.
• Failure to develop a good team relationship with the General Manager.
• Directors neglectful of upgrading their skills through director education programs.

6. General Manager
You will go nowhere without a general manager who has the motivation and skills to do a good job. Whilst there are many similarities, the role of general manager in a co-operative is different in certain ways from a company where the manager sees shareholders once a year. In a co-operative the general manager may have the Board and members on his/her back all the time, so it behoves the Board to make sure the general manager understands quite clearly the important distinctions between a co-operative and a company.

The general manager must:

• be determined to achieve member commitment and to make the co-operative a strong marketing body;

• ensure that the co-operative succeeds as a business; and

• ensure that it succeeds as a co-operative.

It is imperative to find someone who can do the job of General Manager, since without a skilled manager the co-operative cannot succeed. It may take two or three attempts.

7. Members' Responsibilities
Members have several responsibilities. They must:

• regard the co-operative as an extension of their farm business.

• support it fully.

• contribute a proportionate share of capital to the organisation.

• work hard to secure the best possible Board of Directors.

• defend the co-operative in conversation. They have a moral responsibility to support the organisation, so if there is criticism they must find out the truth of the matter. Too much criticism weakens the organisation.

• take an interest in product marketing so they can talk intelligently with directors about it.

• make themselves available to the Board for committee work.

• introduce new members. However, membership should be a little bit exclusive. It is not a good idea to let in everyone who applies. There are some producers who you are better without.
8. **Capital**

Your co-operative must be adequately financed to operate effectively. Unless growers put in adequate equity the organisation's future will be limited. The secret is to find relatively painless ways of obtaining small amounts from members each year. Suitable mechanisms are available under The NSW Co-operatives Act 1992. Similar mechanisms are available under co-operative legislation in other states. The secret here is common sense, long-term planning and strong leadership by Directors and management who must "sell" their capital raising proposals to members.

9. **Ethical Practices**

It is generally recognised that no business will succeed in the long term without honesty and integrity. Dishonesty and unethical behaviour erode people's confidence in a business. If such practices persist they will eventually eat out the heart of an organisation and destroy it.

Co-operatives are no exception to this statement. Dishonesty of any form in a co-operative will destroy it in the eyes of its members and its customers. Sometimes, one or more Directors of a marketing co-operative shrewdly manipulate favourable treatment for themselves ("an inside run"). This sort of situation should ring alarm bells. Those Directors who are not involved in such practices (and members generally) must put an immediate stop to it. Otherwise, it will wreck the co-operative

10. **Communication**

Communications is even more important in co-operatives than in other forms of business. This applies especially to the relationship between directors, the general manager and members. The prime importance of communication in co-operatives arises from two factors.

Firstly, members are deeply aware that they have invested money in their co-operative and therefore own the organisation. Unless they are well informed, they become very critical of their co-operative. If members are not clearly informed about the work of Directors and management they often assume that "nothing is being done."

Secondly, good communications are essential to strengthen the commitment of members to their co-operative.
11. Education

Co-operative marketing success is built upon knowledge and understanding. Education of directors in aspects of business management and the unique features of co-operatives is essential. It is no exaggeration to say that in a co-operative education of key people is as imperative to success as is good marketing and good financial management.

12. Strategic Planning

This involves the setting of long term goals, working out the organisation's long term future. Will the co-operative seek more members, exporting, seek out interstate buyers, attempt to develop alliances with other marketing groups? Strategic planning helps co-operatives to:

- stop procrastinating about their future direction.
- initiate genuine marketing programs.
- direct attention onto key strengths, weaknesses, opportunities and threats.
- stimulate employee performance.

Importantly, strategic planning gives substance to directors' desire to truly lead their co-operative. It is doubtful if directors can effectively lead their co-operative without making intelligent use of strategic planning.
A Guide to
Co-operatives

Registry of Co-operatives
Department of Fair Trading
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A Guide to Co-operatives

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1. CO-OPERATIVES

What is a Co-operative?

A co-operative is a democratic organisation owned and controlled by the people it serves who join together for a common benefit.

A co-operative may be formed for the provision of goods or services to members or for the supply of goods or services to the general public.

Co-operative Principles

The Statement on Co-operative Identity was adopted at the 1995 General Assembly of the International Co-operative Alliance (ICA), held in Manchester on the occasion of the Alliance's Centenary. The Statement was the product of a lengthy process of consultation involving thousands of co-operatives around the world.

DEFINITION

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

VALUES

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

PRINCIPLES

The co-operative principles are guidelines by which co-operatives put their values into practice.

1st PRINCIPLE: VOLUNTARY AND OPEN MEMBERSHIP

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

2nd PRINCIPLE: DEMOCRATIC MEMBER CONTROL

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are organised in a democratic manner.
3rd PRINCIPLE: MEMBER ECONOMIC PARTICIPATION

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th PRINCIPLE: AUTONOMY AND INDEPENDENCE

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th PRINCIPLE: EDUCATION, TRAINING AND INFORMATION

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives.

They inform the general public -- particularly young people and opinion leaders -- about the nature and benefits of co-operation.

6th PRINCIPLE: CO-OPERATION AMONG CO-OPERATIVES

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.

7th PRINCIPLE: CONCERN FOR COMMUNITY

While focusing on member needs, co-operatives work for the sustainable development of their communities through policies accepted by their members.

What can a Co-operative Do?

A registered co-operative may carry out any activity or activities contained within its rules. These activities will reflect the nature of the co-operative's involvement in areas such as primary production, manufacturing, trading, community or social activity.

The extent of the operations of a co-operative depends on the support given to it by its members, whether this be by the amount of share capital subscribed, personal efforts as directors or other officers, or by their own patronage of the co-operative.

One might ask, why join a co-operative?

Sometimes the task is bigger than the resources of the individual, but well within the reach of a group of persons with a common purpose who pool their resources. Co-operation provides strength by bringing together people with mutual aims.
Governments view co-operatives as ideal bodies to promote the well-being of the community, by assisting individuals, families and groups of persons to cope more effectively with economic and social challenges confronting them.

Co-operatives are mutual organisations that provide a service, which any member can enjoy.

**Co-operatives differ from other organisations.**

There are practical similarities and differences between co-operatives and other kinds of organisations incorporated under New South Wales law. Differences arise from administrative and legal requirements created by adherence to the ethical ideas set out in the co-operative principles. Some key points of similarity and distinction are illustrated in the following comparison of characteristics of a co-operative registered under the Co-operatives Amendment Act 1997, a company registered under Corporations Law and an association registered under the Associations Incorporation Act 1984.

All three kinds of organisations:

➤ have corporate status, that is, they have a legal existence separate from that of the members and the organisation may sue or be sued in its own name; and

➤ may have limited liability, that is, in the event of winding up a member will not be required to make good any losses of the organisation.

Practical differences are shown in Table 1.

All organisations are required to comply with the laws under which they operate and there may be other important differences of significance to individual groups.

**What types of co-operative organisations are there?**

There are about 1,300 co-operative type organisations in NSW. About 800 of these organisations are general co-operatives while the rest are mainly financial co-operatives. The general co-operatives are administered by the Registry of Co-operatives under the Co-operatives Amendment Act 1997.

Financial co-operatives include permanent building societies, credit unions, friendly societies and co-operative housing societies, which are administered by Australian Financial Institution Commission (FINCOM).

The general co-operatives in NSW are involved in a wide range of economic and social activities and contribute significantly to the economy of NSW. A number of agricultural industries in Australian are dominated by co-operatives, eg the dairy, rice growing and processing, fishing and cotton growing and ginning industries. The activities of co-operatives include providing services to agriculture, food processing, processing fish and other seafood, ginning cotton, processing wool, manufacturing garments, printing and publishing books, distribution of water or operating irrigation systems, in the wholesale and retail industries, in freight transport services and taxi services, in housing, legal services, providing business or management consultancy services, marketing arts and crafts, providing hospital facilities and medical services, in pre-school education and post-school education, providing welfare and charitable services, radio broadcasting and in the recreating industry.
The total number of members in co-operatives in NSW exceed 5 million, although some people may be members of more than one co-operative.

The turnover of the general co-operative sector in 1996/97 was $3.24 billion while the total assets was $1.9 billion.

Why form a co-operative?

The co-operative form of enterprise is specially suited for meeting the collective needs of members, be they producers, consumers or workers. The basic objective of a co-operative is member service and satisfaction, unlike in a company driven by maximising profit. The members are more involved in the co-operative form of enterprise and they have more control of the activities of the co-operative.

A co-operative allows members to engage in both social and economic activities. The member service criterion provides for a more localised focus of activity, which is a reason for the low failure rate of co-operatives.

The co-operative structure is suited to large or small business. It is relatively simpler to form than a company and also, less costly to incorporate and administer in its day-to-day activities.

Code: 19/8/97
2. HOW IS A CO-OPERATIVE FORMED

Co-operatives in New South Wales are administered under the provisions of the New South Wales Co-operatives Amendment Act 1997, and the Co-operatives Regulation 1997. The Act and the General Regulations are designed to ensure that ownership and control of the co-operative always remains in the hands of those members who are actively utilising the facilities of the co-operative.

Procedure for formation and registration.

In order to form and register a co-operative, certain documents must be prepared and submitted to the Registry of Co-operatives.

Preparation of these documents may be undertaken by persons who may expect to be involved as members, officers, directors or employees of the co-operative when it commences operations. In large scale proposals the services of an accountant or solicitor may be required.

If you feel that the proposed co-operative will be able to meet the requirements of the Co-operatives Amendment Act and co-operative principles, and that the necessary membership support can be obtained prior to the formation meeting, contact the Registry at the address shown in this booklet.

Formation Kits.

On receipt of a request for information, a formation kit will be sent to you.

The kit will include:

(a) A copy of the standard rules
This document outlines the governing structure of the co-operative ie. primary activity(ies), objects if any, membership and active membership details, shares if applicable, directors, meetings etc.

(b) A copy of the disclosure statement format
The disclosure statement serves two main purposes:
(i) It demonstrates to the sponsors that there is a rational basis for their belief in the success, financial and otherwise, of the proposed co-operative
(ii) It provides information to prospective members upon which they may rely when making a decision to join the proposed co-operative, including liability and financial involvement.

(c) The co-operatives formation booklet, "Forming a Co-operative".
This booklet includes details of:-
Steps involved in forming a co-operative
How to complete the draft rules
How to complete the disclosure statement
Some guidelines on active membership
How to conduct a formation meeting
It is important that the notes included in the kit be followed closely and that amendment is not made to any standard rule unless made in accordance with these guidelines and the Co-operatives Act. Registry officers can advise on proposed rules and completion of other documents.

Copies of the Co-operatives Amendment Act, 1997 and the Co-operatives) Regulations, 1997 may be obtained from the NSW Government Information Office [Telephone (02) 9743 7200 for Sydney and 1800 463 955 for country].

Sponsors are encouraged to use the standard draft material and instructions contained within the "Formation Kit". Not only will this save time and effort for the sponsors, but it will help to ensure that all aspects of the legislation have been complied with.

The Disclosure Statement

The information to be inserted in the "disclosure statement" or included as an annexure is essential for full consideration of the proposed co-operative by all interested parties involved. Delays tend to occur when sponsors have to furnish corrections or essential information which has been omitted, and without which a satisfactory proposal cannot be established.

The following matters are included in the "disclosure statement":

(i) Information as to the nature and extent of a person's financial involvement or liability as a member of the co-operative;

(ii) A demonstration of the need for the co-operative, the resources available and the benefits expected to flow from its formation, together with details of members involvement and the minimum activity required from a member to retain membership;

(iii) A list of persons who have indicated their intention to join the co-operative;

(iv) If there is an existing unregistered organisation or business whose assets and liabilities are to be taken over, copies of the accounts and balance sheets for the last financial year - preferably certified by an auditor with an accompanying signed report;

(v) A budget covering at least the first 12 months' operations. Capital and revenue items should be shown separately and revenue items should be adjusted on a proper accrual basis. However, in the case of very small organisations, a budget on an estimated cash flow basis would be acceptable;

(vi) Lists of persons willing to be appointed as officers and directors with details of their experience and qualifications.; and

(vii) Copies of letters evidencing offers or availability of real estate, loans, grants, subsidies, donations, and particular resources necessary for the proposed operations of the co-operative.
Submission of draft documents.

It is important that draft documents, when completed, be submitted to the Registry of Co-operative prior to making any arrangements or commitment for formation of the co-operative. The draft documents to be submitted are:

a) The proposed rules of the co-operative - to be submitted at least 28 days prior to the scheduled formation meeting

b) The proposed disclosure statement - to be submitted at least 28 days prior to the scheduled formation meeting.

Where should the draft formation documents be sent?

Once the rules, disclosure statement and primary activity(ies)/objects statement have been drafted, they should be forwarded by mail to:

Registry of Co-operatives  
Formations Officer  
P O Box 3035  
BANKSTOWN NSW 2200  
Tel: (02) 9793 0528  
Fax: (02) 9793 0567

Alternatively, the drafts may be prepared and arrangements made for an interview by writing to or by telephoning the Registry of Co-operatives. This will enable most matters to be clarified or adjusted by the sponsors.
3. DIRECTORS AND OFFICERS OF CO-OPERATIVES

Introduction.

These notes are designed as a guide only to the statutory and other responsibilities of directors and other persons empowered under the rules of a registered co-operative to give directions in regard to the business of the co-operative. These persons are defined as "officers" in the legislation under which the co-operative is registered.

The material in this publication should not be read as a substitute for the relevant Acts and Regulations, which should be kept for reference at the co-operative's office.

Board of directors.

A co-operative is managed and controlled by its Board of Directors — subject to any restrictions imposed by rules. The Act does not confer any powers on the Manager, Secretary, Treasurer or employees of a co-operative. Under the Act it is the Board of Directors that is responsible for issuing instructions to those persons charged with the day to day management of the co-operative.

Responsibilities of directors.

The business responsibilities of directors are:

- The development of basic guidelines for the control of the business activities of the co-operative.
- The appointment, supervision and removal of employees including the determination of their pay and description of their responsibilities.
- The calling of special meetings whenever necessary or upon the request of members as provided in the rules.
- The approval of general business arrangements such as entering into contracts with distributors or suppliers.
- The settlement of arrangements for handling funds and the designation of the people who may sign cheques.
- The borrowing of funds for any legal and approved purpose.
- Ensuring that an adequate bookkeeping system is maintained, that regular financial reports and audits are done and that a complete record of Board meetings is kept in accordance with accounting standards.
- Ensuring that the organisation establishes and maintains systems of internal control and supervision and safe custody of appropriate documents.
- Exercising prudent decision-making regarding the level of debt entered into.
- The duties of loyalty, honesty and good faith.
• Declaring interest in proposed contracts.

The Director's responsibilities to members are:

• Serving to the best of one's ability and capacity.

• Representing members' interests on an impartial basis.

• Selecting good staff and overseeing activities without undue interference.

• Adopting policies and procedures along sound business lines. These should be based on study and analysis of available facts and should be compatible with the organisation's objectives.

• Using adequate checks to make certain that employed staff and voluntary officers, the Manager, Secretary and Treasurer are conforming to the policies adopted by the Board of Directors.

• Studying operating results in order to determine whether policies should be continued, changed or dropped.

• Taking active and energetic steps to keep members fully informed as to the organisation's activities and problems. Care must be taken, however, to ensure that individual members' private and confidential business is not disclosed.

• Providing high-quality, reliable service and making members' interests of first importance.

All of these responsibilities are common to large and small co-operatives. Therefore, it is important that a person possesses the ability to implement these responsibilities when being appointed as a director.

In practical terms, the day to day control will be placed in the hands of a single person. That person may have a title of Secretary, Manager, Executive Officer or some other title reflecting the size of the organisation. Regardless of the size of the organisation, it is important that the person takes a businesslike approach to his/her duties whether as an honorary officer or paid employee.

Responsibilities of manager.

The primary responsibilities of the manager are:

• Serving the society (either directly or through assistants) in accordance with the policies determined by the Board of Directors.

• Being knowledgeable of the organisation's objectives and complying with all policies designed to achieve them.

• Providing the Board of Directors with basic information and suggestions for developing new objectives, changing established ones and controlling operations.

• Selecting, training, supervising and developing personnel.

• Operating the organisation on a sound business basis by giving attention to:

  — Developing an effective business structure.

  — Using operating and financial budgets.

  — Developing and maintaining an adequate accounting and record system.
— Initiating sound purchasing and marketing practices.
— Studying, planning and conducting research on problems of interest to the organisation.
— Identifying and using external sources of assistance on problems affecting the organisation.
— Achieving technical proficiency with respect to the products handled and the physical facilities operated.

Statutory obligations.

A co-operative has a number of statutory obligations under various Acts of Parliament. (This publication does not attempt to deal with matters such as taxation, industrial matters or the Unclaimed Moneys Act.)

A co-operative is required, by legislation, to do a number of things which entail the forwarding of documents to the Registrar of Co-operatives on a periodical or event basis, such as annual returns, change in registered office or a change in the composition of the Board.

In addition, a co-operative is also required to keep various registers and to have certain documents and records as specified in the relevant legislation available for inspection.

For instance:

* A copy of the Act and Regulations.
* A copy of the rules of the co-operative.
* A copy of the last balance sheet, profit and loss account, together with the report of the auditor.
* A register of directors, members and shares.
* A register of loans raised and securities given.
* Minute books.
* Active membership records.

The powers and duties of the Directors are regulated by both the rules of the co-operative and the provisions in the legislation.

Offences.

There are certain offence provisions in the legislation which make certain actions grounds for conviction. They also deal with the recovery of penalties from Directors who fail to act in the prevention of the commission of any offence.

General.

Many matters such as the preparation of annual accounts and lodgement of annual returns, as well as the holding of the annual general meeting are annual events. They should be diarised as agenda items for a board meeting well prior to the end of the co-operatives financial year. A further meeting should be held shortly afterwards in order to ensure that these reports have received proper attention.
For further information on documents and forms.

Enquiries regarding annual return arrangements can be made by telephoning the Co-operatives Financial Analysis Branch in the Registry on telephone (02) 9793 0542.

Enquiries regarding forms and fees for application for registration of alterations to rules, changes in directors and other documents may be made by telephoning the Supervisor, Registrations and Rules in the Registry on telephone (02) 9793 0554.
4. HOW CAN WE HELP YOU?

What does the Registry of Co-operatives do for Co-operatives?

Activities of the Registry of Co-operatives within the Department of Fair Trading include:

* Providing an information service, including statistical data, about co-operatives.
* Provision of advice on policy, legislative and practical matters (particularly relating to the formation, operation, merging or winding up of co-operative organisations).
* Liaising with industry groups, Ministerial Advisory Committees, individual co-operatives and government departments with the view to improving the delivery of co-operative type services to the community.
* Maintaining a register of co-operatives under the Act 1997. (This includes the registration of their rules, amendments, special resolutions and charges given over their assets in order to secure any borrowings by a co-operative).
* Provision of search facilities for persons wishing to search registers or documents or to obtain copies of available documents.
* Provision of advisory services to prospective or existing co-operatives on requirements for the registration of co-operatives documents or rules.
* Authorisation and monitoring the activities of co-operatives registered in other states which are operating in New South Wales.

Advisory Services

Staff at the Registry are experienced in the legislative and regulatory framework required to operate viable co-operative businesses. They may be able to assist managers and directors with statutory or commercial issues by suggesting various courses of action. Please note while Registry staff are not able to provide legal or accounting advice, they may assist with interpretation of the co-operative legislation.

Financial assistance to fund feasibility studies or business plans may also be available from the Registry's Co-operative Development Fund.

From time to time, the Registry of Co-operatives receives complaints or enquiries from members of co-operatives and the general public.

Members of co-operative organisations are urged, in the first instance, to raise the issue with the co-operative concerned.

In most cases, the problem is resolved by clarifying the position for the complainant or after consultation with the co-operative.
Simple Steps to forming a Co-operative
DISCLAIMER OF LIABILITY

This publication has been produced to provide guidance on the subject. It should not be regarded as rendering unnecessary detailed consideration of the relevant legislation, nor as being an exhaustive statement of the subject matter. It is issued subject to any changes in the relevant legislation or administrative policies.

The publication is issued on the basis that the Department of Fair Trading is not engaged in the provision of legal or other professional services to the public. The Crown and the Department of Fair Trading expressly disclaim any liability for any omission or error which may appear and any liability arising from its use. If legal or other expert advice or assistance is required, the services of a competent professional person should be sought.
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INTRODUCTION

TO BEGIN - browse through the contents of the Formation Kit. It contains:

- A 'Guide to Co-operatives' brochure
- Blank Disclosure Statement for completion
- Suggested Standard Rules
- Suggested Rules Option Sheet

Initially you need to determine whether a co-operative structure will suit your needs. The enclosed brochure "Guide to Co-operatives" contains information which will help you in making your decision.

Also you should ensure the proposed activity is likely to be financially workable.

The Disclosure Statement is a handy, helpful tool to assist you clarify your ideas and work out what additional information you may need. In some ways the Disclosure Statement is like a summarised business plan providing information on aims, directors, management, assets, other resources and financing.

If you need any additional information or assistance please call the Formations Officer on (02) 9793 0528.

Registry of Co-operatives
Level 8, Bankstown Civic Tower
66-72 Rickard Road
BANKSTOWN NSW 2200

OTHER SERVICES AVAILABLE

Details of Business Enterprise Centres in both metropolitan and country regions are included. These centres provide a range of financial and business publications, as well as assistance in establishing new businesses.

You can also contact the Outreach Co-ordinator at your local TAFE college to discuss educational courses for setting up a co-operative. A kit, "Planning Community and Co-operative Enterprises", is available for $65 from:

Foundation Studies
Training Division
Suite 6, Level 1
125 Main St.
Blacktown NSW 2148
Telephone (02) 671 3099

Another useful contact in some areas is your Local Government Council. Some councils have a development officer who will provide assistance in helping to establish new businesses.
**SIMPLE STEPS TO FORMING A CO-OPERATIVE**

Once you have determined that a co-operative is a good idea for your group, you should take the following steps to forming your co-operative:

**STEP 1. Required Number of Persons**

You will need at least five (5) interested people.

**STEP 2. Documents to be Completed and Submitted to the Registry of Co-operatives**

Complete the following documents in draft form:

a. Rules

b. Disclosure Statement - This must be submitted to the Registry at least 28 days before the scheduled formation meeting.

Note: The above documents are in the enclosed formation kit.

**STEP 3. Submission of Draft Documents**

Mail the draft documents to:

The Formation Officer
Registry of Co-operatives
P.O. Box 3035
BANKSTOWN NSW 2200

**Registration Fee**

The Registration Fee is $150 for a trading co-operative or $100 for a non-trading co-operative. This fee can be sent with the draft formation documents or it can be forwarded with the registration papers after the formation meeting has been held.

**STEP 4. Review by the Registry**

The draft documents will be reviewed by the Registry as quickly as possible.

**STEP 5. The Formation Meeting**

After your documents have been approved by the Registrar you can hold your formation meeting with as many potential members as possible present. The legal minimum number required is five (5).
For guidance on how to conduct a formation meeting you will need to refer to “The Formation Meeting for a Co-operative”, which will be sent to you when the Registrar approves your draft rules and disclosure statement. The necessary forms to apply for registration of your co-operative will also be sent to you at this time.

STEP 6. Notify the Results of Formation meeting to the Registry

Within two (2) months of holding the formation meeting the registration documents must be sent to the Registry so that your co-operative may be registered.

STEP 7 After Registration

Once registered, a certificate of incorporation and a registered copy of the rules are mailed to the co-operative.

The new co-operative may now commence its activities.

HOW TO COMPLETE THE DISCLOSURE STATEMENT

One of the requirements that must be met by the sponsors before an application to register a co-operative is made is to present to the formation meeting a separate, written disclosure statement for the purpose of ensuring the prospective members are adequately informed of the nature and extent of a person's financial involvement or liability as a member of the co-operative.

The disclosure statement contains a number of sections to be completed by the sponsors together with provision for annexures. When completed, a draft must be submitted to the Registrar of Co-operatives at least 28 days before the formation meeting is held. The Registrar may approve the draft statement as submitted or may approve an amended statement. Approval is given by the Registrar by notice in writing to the person who submitted the draft statement.

Outlined below are the major areas you need to consider in the disclosure statement.

(1) Liability and financial involvement of members once the co-operative is formed

(2) Who can be a member of the co-operative including details of active membership requirements and objects, if applicable.

(3) Details of how the co-operative will perform its activities.
(4) **Particulars of how the co-operative will be managed including details of:**

- Proposed directors;
- Proposed directors interest in any contract with the co-operative;
- Day to day management;
- Responsibility for accounting and financial functions of the co-operative;
- Name of auditor together with written consent to nomination;

(5) **Detailed financial information including details of:**

- Start up funding showing internal and external source of funds;
- Property and assets;
- Trading stock;
- Market research;
- Formation expenses;
- Proposed contracts which the co-operative will assume once formed;
- Forecast cashflow budget in the format provided or by annexure;
- Forecast profit and loss statement in the format provided or by annexure.

**HOW TO COMPLETE THE RULES**

**What are the Rules?**

The rules are a collection of Clauses which describe the basic way the group will organise its activities. They outline the primary activity or activities, objects if any, the active membership provisions, qualifications for members and directors, admission of new members, shares and other charges, the meeting procedures, distribution of surplus, accounts and audit requirements, and more.

In a formal sense the rules are a binding contract between the members and the co-operative. They are equivalent to the Memorandum and Articles of Association of a company - they are the constitution of the organisation.

Firstly check to see if your group needs any rule options, as listed on an enclosed sheet. If you do, then send the completed list to the Registry of Co-operatives. The options will be sent to you.

Copies of Co-operatives legislation, including the Co-operatives Act 1992 and Co-operatives Regulation 1997 are available from:

**The Government Information Service**

Ph: (02) 9743 7200 or Toll free 1800 463955

Also, ask for any amendments.
SOME DOs AND DON'Ts WHEN COMPLETING LEGAL DOCUMENTS
(DISCLOSURE STATEMENT AND RULES)

These documents have a number of legal functions. Neatness and clarity make it easy for your members and others to use them. Some do's and dont's in respect of documents intended for registration are:

* DO preferably TYPE your responses. In the case of inserting additional rules, set them out on a separate sheet of white paper then PASTE in securely. If unable to type, use a BLACK pen.

* DO INITIAL any changes to the Rules e.g. inserting new rules deleting existing rules. (Initials of the Chairperson and Secretary of your co-operative are necessary).

* DO RULE OUT unused pages or spaces at the foot of pages in the Rules Book with a "Z".

* DON'T USE WHITEOUT. If you make a mistake, paste the correction over it and have the chairperson and secretary initial it.

* Please take care when completing these legal documents. In general, the Registry Staff are unable to correct any significant errors you make and the documents will be returned to you for correction.

ACTIVE MEMBERSHIP

NATURE OF ACTIVE MEMBERSHIP

The Co-operatives Act 1992 require that a co-operative rules specify the manner and extent to which a member is required to actively support a co-operative. This support is measured against the co-operative’s 'primary activity' (or a combination of primary activities). Members are obliged to use or support an activity, or activities, of a co-operative in order to retain the right to be a member, including the right to vote.

SOME GUIDELINES ON ACTIVE MEMBERSHIP

1. Firstly the primary activity has to be set out. This primary activity should make up at least:

   10 percent of the turnover; or
   10 percent of the income; or
   10 percent of the expense; or
   10 percent of the surplus; or
   10 percent of the business of the society.
To supply to members ......................... goods.

To dispose of ................................. produce of members.

2. Secondly, the minimum amount of activity a member must have with the co-operative needs to be set out with the time period for the activity. Some guidelines for the minimum amount of activity and time period are listed below:

<table>
<thead>
<tr>
<th>Produce or Services</th>
<th>Minimum Value</th>
<th>Time Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm supplies</td>
<td>$100</td>
<td>one month</td>
</tr>
<tr>
<td>Household supplies</td>
<td>$10</td>
<td>one month</td>
</tr>
<tr>
<td>Books, and stationery</td>
<td>$20</td>
<td>12 months</td>
</tr>
<tr>
<td>Machinery, parts and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>goods not included elsewhere</td>
<td>$100</td>
<td>12 months</td>
</tr>
<tr>
<td>Sugar cane</td>
<td>40 tonnes</td>
<td>12 months</td>
</tr>
<tr>
<td>Grain (other than seed grain)</td>
<td>1 tonne</td>
<td>12 months</td>
</tr>
<tr>
<td>Seed grain</td>
<td>10 kilograms</td>
<td>12 months</td>
</tr>
<tr>
<td>Fruit and vegetables</td>
<td>40 cases</td>
<td>12 months</td>
</tr>
<tr>
<td>Fish and shellfish</td>
<td>10 kilograms</td>
<td>12 months</td>
</tr>
<tr>
<td>Livestock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- cattle</td>
<td>10 animals</td>
<td>12 months</td>
</tr>
<tr>
<td>- pigs</td>
<td>20 animals</td>
<td>12 months</td>
</tr>
<tr>
<td>- sheep, goats or other</td>
<td>30 animals</td>
<td>12 months</td>
</tr>
<tr>
<td>Services</td>
<td>$10</td>
<td>12 months</td>
</tr>
<tr>
<td>Subscription</td>
<td>$10</td>
<td>12 months</td>
</tr>
</tbody>
</table>

SOME SAMPLES OF ACTIVE MEMBERSHIP

Sample of a Dairy Co-operative:-

Rule 12 In accordance with Part 6 of the Act:

(a) To dispose of milk produce of members is the primary activity of the co-operative; and

(b) A member shall supply at least 1,000 litres of milk during a period of seven days in order to establish active membership of the co-operative.

Sample of an Export Co-operative:-

Rule 12 In accordance with Part 6 of the Act:

(a) To export fruit grown by members in a primary activity of the co-operative; and

(b) A member shall supply to the co-operative a minimum of X cases of fruit during any period of 12 months in order to establish active membership of the co-operative.
Sample of a Marketing Co-operative

Rule 12  In accordance with Part 6 of the Act:

(a)  To market wheat and such other grains as members determine is a primary activity of the co-operative; and

(b)  A member shall pay a service fee of not less than $X during any period of 12 months in order to establish active membership of the co-operative.

Sample of a Trading Co-operative

Rule 12  In accordance with Part 6 of the Act:

(a)  the operation of a trading store is a primary activity of the co-operative; and

(b)  a member shall

(i)  purchase farm supplies of a least $100 value; or
(ii) purchase household supplies of at least $10 value during a period of one month

in order to establish active membership of the co-operative.

Sample of a Craft Co-operative:-

Rule 12  In accordance with Part 6 of the Act:

(a)  to provide a retail outlet for the art and crafts produced by members is a primary activity of the co-operative; and

(b)  a member shall

(i)  provide art and/or crafts for sale to the amount of not less than $250.00 in any period of 12 months; and

(ii) perform all rostered duties determined by the board during any period of 12 months; and

(iii) attend at least 60% of monthly meetings in any period of 12 months.

In order to establish active membership of the co-operative.

Sample of a Ski Club Co-operative:-

Rule 12  In accordance with Part 6 of the Act:

(a)  The provision of a ski lodge accommodation is a primary activity of the co-operative, and
(b) a member shall:-

(i) pay an annual subscription of at least ten dollars ($10) as set out in Rule number, (insert rule number);

(ii) stay overnight in the lodge on at least one occasion during a period of 12 months;

or

(iii) undertake at least 14 hours voluntary maintenance work during a period of 12 months;

in order to establish active membership of the Co-operative.

Sample of a Rental Housing Co-operative

Rule 12 In accordance with Part 6 of the Act:

(a) the provision of homes for rental within the area of Gondwanna is a chief primary activity of the co-operative; and

(b) a member shall

(i) be over the age of 18 years; and

(ii) be a resident in a property which is leased from the Gondwanna Housing Co-operative Ltd.

in order to establish active membership of the co-operative.

Sample of a Worker Co-operative

Rule 12 In accordance with Part 6 of the Act:

(a) to carry on the business of........................................and to provide employment for the members within the business is a primary activity of the co-operative; and

(b) a member shall work within the co-operative for a minimum period of X weeks in any period of 12 months in order to establish active membership of the co-operative.
**BUSINESS INFORMATION CENTRES**

**BUSINESS ENTERPRISE CENTRES (BECs).** The Department of State & Regional Development provides funding for BECs across the State to enable them to deliver business information services to start-up and micro businesses in NSW.

**METROPOLITAN OFFICES**

<table>
<thead>
<tr>
<th>Location</th>
<th>Telephone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blacktown</td>
<td>(02) 9672 3366</td>
</tr>
<tr>
<td>Botany</td>
<td>(02) 9316 5877</td>
</tr>
<tr>
<td>Eastern Suburbs</td>
<td>(02) 9369 2844</td>
</tr>
<tr>
<td>Fairfield</td>
<td>(02) 9726 2522</td>
</tr>
<tr>
<td>Campbelltown</td>
<td>(02) 4626 3544</td>
</tr>
<tr>
<td>Manly-Warringah</td>
<td>(02) 9971 1708</td>
</tr>
<tr>
<td>Northside</td>
<td>(02) 9415 2630</td>
</tr>
<tr>
<td>Parramatta</td>
<td>(02) 9689 1700</td>
</tr>
<tr>
<td>Penrith and District</td>
<td>(02) 4721 5011</td>
</tr>
<tr>
<td>St George &amp; Sutherland Shires</td>
<td>(02) 9588 3688</td>
</tr>
<tr>
<td>Sydney</td>
<td>(02) 9282 6977</td>
</tr>
<tr>
<td>Sydney Aboriginal</td>
<td>(02) 9349 7300</td>
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</table>

**BEC COUNTRY REGIONS**

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<tr>
<th>Location</th>
<th>Telephone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albury Wodonga</td>
<td>(02) 6041 3704</td>
</tr>
<tr>
<td>Armidale &amp; District</td>
<td>(02) 6771 2556</td>
</tr>
<tr>
<td>Ballina</td>
<td>(02) 6686 9122</td>
</tr>
<tr>
<td>Bathurst</td>
<td>(02) 6332 1077</td>
</tr>
<tr>
<td>Casino Region</td>
<td>(02) 6662 5055</td>
</tr>
<tr>
<td>Clarence</td>
<td>(02) 6645 3633</td>
</tr>
<tr>
<td>Cobar</td>
<td>(02) 6836 1184</td>
</tr>
<tr>
<td>Coffs Harbour</td>
<td>(02) 6651 3388</td>
</tr>
<tr>
<td>Cootamundra</td>
<td>(02) 6942 1400</td>
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<tr>
<td>Deniliquin</td>
<td>(0358) 81 3010</td>
</tr>
<tr>
<td>Forbes</td>
<td>(02) 6851 1377</td>
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<tr>
<td>Glen Innes Business Assistance Office</td>
<td>(02) 6732 5177</td>
</tr>
<tr>
<td>Grafton &amp; District</td>
<td>(02) 6643 1967</td>
</tr>
<tr>
<td>Hastings</td>
<td>(02) 6583 3211</td>
</tr>
<tr>
<td>Hunter</td>
<td>(02) 4925 2566</td>
</tr>
<tr>
<td>Illawarra</td>
<td>(02) 4223 3185</td>
</tr>
<tr>
<td>Inverell</td>
<td>(02) 6722 5688</td>
</tr>
<tr>
<td>Lismore</td>
<td>(02) 6622 1933</td>
</tr>
<tr>
<td>Lithgow</td>
<td>(02) 6352 3600</td>
</tr>
<tr>
<td>Lower Hunter</td>
<td>(02) 4991 1722</td>
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<tr>
<td>Maclean</td>
<td>(02) 6563 1022</td>
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<tr>
<td>Manning-Gloucester</td>
<td>(02) 6551 2499</td>
</tr>
<tr>
<td>MIA</td>
<td>(02) 6964 1555</td>
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<tr>
<td>Moree Region</td>
<td>(02) 6752 3533</td>
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<tr>
<td>Region</td>
<td>Telephone</td>
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<td>--------------------------------</td>
<td>---------------</td>
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<tr>
<td>Mudgee Region</td>
<td>(02) 6372 6088</td>
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<tr>
<td>Murwillumbah</td>
<td>(02) 6672 5377</td>
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<tr>
<td>Orange</td>
<td>(02) 6362 0448</td>
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<tr>
<td>Parkes</td>
<td>(02) 6862 5511</td>
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<tr>
<td>Queanbeyan</td>
<td>(02) 6297 3121</td>
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<tr>
<td>Snowy Monaro</td>
<td>(02) 6452 5392</td>
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<tr>
<td>South East Region</td>
<td>(02) 6492 3944</td>
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<tr>
<td>Southern Tablelands</td>
<td>(02) 4822 1933</td>
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<tr>
<td>Tamworth &amp; District</td>
<td>(02) 6766 2290</td>
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<td>Tweed &amp; District</td>
<td>(02) 75524 6677</td>
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<tr>
<td>Upper Hunter</td>
<td>(02) 6572 1877</td>
</tr>
<tr>
<td>Wagga Wagga</td>
<td>(02) 6925 6588</td>
</tr>
<tr>
<td>Wellington-Orana</td>
<td>(02) 6845 2233</td>
</tr>
</tbody>
</table>
FORMATION MEETING
PROPOSED TRADING CO-OPERATIVE

DISCLOSURE STATEMENT

FOR REGISTRATION OF A CO-operative UNDER THE

NAME OF PROPOSED CO-operative:

DATE OF LODGEMENT WITH REGISTRAR: DD / MM / YY

DATE OF APPROVAL: DD / MM / YY

VALID FOR A PERIOD OF 6 MONTHS FROM DATE OF APPROVAL FOR
ISSUE WITHIN THE STATE OF NEW SOUTH WALES ONLY

(Code: TIS 7/1/98)
DISCLOSURE STATEMENT

CONTENTS

➤ Name of Proposed Co-operative
➤ Explanation of this Form
➤ Liability and Financial Involvement
➤ How will this Co-operative Perform its Activities
➤ How will this Co-operative be Managed
➤ Detailed Financial Information
➤ Annexures Including Cash Flow Budget Forecast and Forecast Profit and Loss Statement
➤ Further Investigation
➤ Disclaimer of Liability by the Registry of Co-operatives
➤ Certification

(Code: T/S 7/1/98)
DISCLOSURE STATEMENT

NAME OF PROPOSED TRADING CO-OPERATIVE:


EXPLANATION OF THIS FORM:

- One of the requirements that must be met before an application to register a co-operative is made is to present to the formation meeting a separate, written disclosure statement for the purpose of ensuring the prospective members are adequately informed of the nature and extent of a person's financial involvement or liability as a member of the trading co-operative. Co-operatives Act 1992, Section 17(2).

LIABILITY AND FINANCIAL INVOLVEMENT:

- Section 76(2) of the Co-operatives Act 1992 states that "a member of a co-operative with share capital is liable to the co-operative for the amount, if any, unpaid on the shares held by the member, together with any charges payable by the member to the co-operative as required by the rules of the co-operative".

1. Details of Liability and Financial Involvement

1.1 Share Capital cost per member $ 

1.2 Annual Subscriptions Levies etc $ 

1.3 Charges $ 

1.4 Other $ 

1.5 Any contracts, guarantees and indemnities, contingent liabilities, unresolved or pending law suits which the co-operative will assume once formed are listed below: (A copy of relevant contracts and other documents are included by way of annexure)


(Code: T/S 7/1/98)
1.6 Where an existing organisation is seeking to register as a co-operative, indicate its current name below and attach copies of the last 2 years’ profit and loss accounts and balance sheets.

2

WHO CAN BE A MEMBER OF THE CO-OPERATIVE?

Active Membership: The Co-operatives Act 1992, requires that a co-operative’s rules specify the manner and extent to which a member is required to actively support a co-operative. This support is measured against the co-operative’s primary activity (or a combination of primary activities). Members are obliged to use or support an activity, or activities, of a co-operative in order to retain the right to be a member, including the right to vote. Note: Before an active membership rule (or amendment) can be put to members the written approval of the Registrar is required.

2.1 The co-operative’s active membership rule identifies the co-operative’s basic reason for existence, or primary activity, as being:

2.2 and to maintain active membership of the co-operative, a member shall:

2.3 A co-operative may also have objects in addition to primary activities. (Any proposed objects should be listed below or attached as an annexure).

(Code: T/S 7/1/98)
3 HOW WILL THIS TRADING CO-OPERATIVE PERFORM ITS ACTIVITIES?

The following demonstrates the need for the trading co-operative, the resources available and the benefits expected to flow from its formation.

3.1 The co-operative intends to carry out its Primary Activity(ies)/Objects as follows:

*(A general statement of how the co-operative intends to carry out its primary activities is required here)*

........................................................................................................................................

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3.2 The members will have the following role in the co-operative's functioning *(eg supply produce; use common services)*

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3.3 The following physical resources will be used to carry out the activities of the co-operative *(eg office or factory space, furniture, equipment, plant, vehicles).*

........................................................................................................................................

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(Code: T/S 7/1/98)
3.4 The following products or services are to be provided to members by the co-operative.

4 HOW WILL THE CO-OPERATIVE BE MANAGED?

4.1 Directors: The names of those who have consented to being nominated for election as directors to fill the positions provided for in the rules, being ....... in number, are shown below.

(Note: Directors must be over 18 years of age)

(a)  Name  Occupation  Date of Birth  Place of Birth  Address  Relevant Experience

(b) Will any of the promoters or any of the proposed directors or members have a direct or indirect interest in any contract or proposed contract with the co-operative, other than an interest in a contract referred to in Section 241 of the Act?

☐ Yes  ☐ No

(In the case of a contract referred to in Section 241 the contract must be made in good faith, in the ordinary course of the business of the co-operative and on such terms that will be usual and proper in similar dealings between the proposed co-operative and its members.)

(Code: T/S 7/1/98)
If yes, the following details must be specified here or by way of annexure:

(i)  the nature of the contract;

(ii)  the name of the parties to this contract

(iii)  (A) the interest, remuneration, reward or commission which any promoter or proposed director or member will be entitled to receive; or

(B)  where the promoter or proposed director or member is a director, officer, shareholder or member of a body corporate or organisation, which is a party to the contract; the interest, remuneration, reward or commission which the body corporate or organisation will receive.

(iv)  the name of each promoter or proposed director or member referred to in (iii) above, and in the case of (iii)(B), the position or office held.

(c) Will any of the proposed directors have a conflict of duty or interest within the provision of Section 234 of the Co-operatives Act 1992? If so, specify by way of annexure.

4.2  **Day-to-Day Management:** The name of the person who has agreed to be responsible to the board of directors for day-to-day management of the co-operative and brief details of his/her experience are as follows:

Management is to be  □ paid  or  □ voluntary

□ full-time  or  □ part-time

4.3  **Accounting:**

(a) The person named below has agreed to be responsible for general accounting and financial functions of the co-operative:

..........................................................................................................................................................

..........................................................................................................................................................
(b) This person has the following qualifications and experience relevant to this responsibility or this person belongs to a firm having the following qualifications and experience.

4.4 Auditing

(Note that the auditor must be a Registered Company Auditor within the meaning of the Corporations Law)

(a) The person named below has agreed to be responsible for auditing the co-operative’s accounts:

(b) Attached is written evidence of the auditor’s consent to appointment as the co-operative’s auditor

(a letter on the auditor’s letterhead, attached as a separate Annexure).

5 DETAILED FINANCIAL INFORMATION

5.1 Start-up Funding

(a) Internal Source of Funds

The number of persons who qualify for membership of the co-operative and have indicated in writing their intention to join the co-operative, is ...................... persons.

A list of the people who have indicated an interest in becoming members, and the number of shares each person is subscribing, is shown as an annexure marked “Members and Shares”.

(b) The total number of shares to be subscribed by these persons is ............. shares

(c) Total share capital to be subscribed is $..................
Total entrance fees are $..................
Total initial subscriptions or levies are $..................
Total other charges are $..................

(d) External Source of Funds

If the co-operative is to use grants, subsidies, donations or other financial support to be viable, documents of funding received or requested should be given as an annexure marked “Grants and Subsidies”.

(Code: TIS 7/1/98)
(e) If the co-operative is to borrow funds, indicate here the amount:

$........................

and attach, as an annexure marked "Loan Funds", a copy of the offer to extend finance and the terms of such loan(s).

5.2 Property and Assets

(a) If the co-operative is to purchase property or major assets, indicate here the current market value of the property or assets

$........................

Evidence of the availability of the property or assets should be attached as an annexure marked "Property - Assets - Freehold".

(b) If arrangements have been made, or are under negotiation, to lease property or major assets by the co-operative, evidence of this availability should be shown as an annexure marked 'Property Assets - Leasehold'.

(c) Improvements to the property or assets (for example, renovations, furnishings, plant or equipment), if they are to be made, are estimated to cost

$........................

Estimates for these costs should be detailed as an annexure marked "Property - Assets - Improvements".

(d) Shown below are detail of property or major assets other than any property or major assets it will own or lease that the co-operative will have the use of.

................................................................................................................................................
................................................................................................................................................
................................................................................................................................................

(Evidence of such arrangements must be provided by a letter of authorisation from the owner)

(Code: TIS 7/1/98)
5.3 Demand for Proposed Co-operative’s Goods/Services

Show here details of market research or analysis of demand, for the co-operative’s goods or services that has been conducted:

........................................................................................................................................................................
........................................................................................................................................................................
........................................................................................................................................................................
........................................................................................................................................................................

If insufficient space, attach details as an annexure marked ‘Market Research’.

5.4 Formation Expenses

(a) Expenses incurred prior to the formation meeting which are to be recouped once the co-operative is formed are:

$........................................

Description of these expenses:

........................................................................................................................................................................
........................................................................................................................................................................
........................................................................................................................................................................
........................................................................................................................................................................

If insufficient space, attach further details as an annexure marked “Formation Expenses”.

(b) Any contracts, guarantees and indemnities, contingent liabilities unresolved or pending law suits which the co-operative will assume once formed are detailed below

........................................................................................................................................................................
........................................................................................................................................................................
........................................................................................................................................................................
........................................................................................................................................................................

5.5 Forecast Cashflow Budget and Forecast Profit and Loss Statement

(a) Attach as an annexure marked ‘Cash Flow Budget Forecast’ details of both capital and revenue items anticipated for the first year of operation.

(b) Attach as an annexure marked “Forecasted Profit and Loss Statement” details for the first year of operation including where appropriate: sales, cost of goods sold, gross profit margin, rebates, dividends.

A form is provided on pages 11 and 12 for each of the above budgets.

(Code: T/S 7/1/98)
6 **ANNEXURES**

Show here which annexures are attached to this formation statement *tick appropriate boxes*.

<table>
<thead>
<tr>
<th>Annexure</th>
<th>Box 1</th>
<th>Box 2</th>
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<tbody>
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<td>Contracts Etc</td>
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<td>Feasibility Study</td>
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<td>Existing Organisation Accounts</td>
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<td>Business Plan</td>
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<td>Auditors Letter</td>
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<td>Members and Shares</td>
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<td>Cash Flow Budget Forecast</td>
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<td>Market Research</td>
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*Code: T/S 7/1/98*
FURTHER INVESTIGATION:

Further investigation by the prospective member may be necessary. This disclosure statement is not necessarily a full statement of the liability and financial involvement of a prospective member. Prospective members please note the disclaimer below.

DISCLAIMER OF LIABILITY:

No responsibility as to the contents of: (i) the Disclosure Statement and attachments and annexures that form part of this document; and (ii) the associated Rules which all collectively make up the formation documentation, is to be taken by the Registrar of Co-operatives, the Department of Fair Trading or by any of its servants or agents.

Each prospective member is advised to make any investigations (including the obtaining of professional advice) which that person believes to be necessary to satisfy himself or herself about the contents of this formation documentation or the decision of whether or not to join the proposed co-operative.

It should be clearly known that the Registrar of Co-operatives, the Department of Fair Trading or any of its agents or servants are not engaged in the provision of legal or other professional services to the public, prospective members or co-operatives. If legal or other expert advice is required, the services of a competent professional person should be sought.

CERTIFICATION:

We the undersigned, certify that this is a copy of the disclosure statement which was presented to the formation meeting on ....................... (date) for the purpose of forming a co-operative to be known as:

......................................................... (name of co-operative)

......................................................... Chairperson of Formation Meeting

Signature

......................................................... Secretary of Formation Meeting

Signature

Note: This certification is signed at the Formation meeting which is held after the draft formation documentation which includes the Rules and the Disclosure Statement have been approved by the Registry and returned to the sponsors of the proposed co-operative.

(Code: T/S 7/1/98)
CASH FLOW BUDGET FORECAST
FOR FIRST YEAR OF OPERATION

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<th>OPENING BANK BALANCE</th>
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<tbody>
<tr>
<td>CASH IN</td>
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<tr>
<td>Issue of Shares to members</td>
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<tr>
<td>Grants &amp; Subsidies</td>
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<tr>
<td>Subscriptions &amp; Donations</td>
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<tr>
<td>Commercial Revenue</td>
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<td>Loans Raised</td>
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<table>
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<tr>
<th>TOTAL CASH RECEIPTS</th>
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<td>Wages &amp; Salaries</td>
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<td>Capital Expenditure</td>
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<td>Tax</td>
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<td>Sundries</td>
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</table>

<table>
<thead>
<tr>
<th>TOTAL CASH PAYMENTS</th>
</tr>
</thead>
</table>

| CLOSING BANK BALANCE |

Please note:

* the forecasted Cash-Flow Budget and Profit & Loss Statements are provided as examples only. You may want to add additional items appropriate to your proposed co-operative;

* show your calculations and any assumptions for individual items on a separate sheet, eg cost of shares per member x number of members = total issue of shares to members in $;

* check all items of income and expenses included;

* check arithmetic.

(Code: TIS 7/1/98)
FORECASTED PROFIT AND LOSS STATEMENT

Year One

<p>| | |</p>
<table>
<thead>
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<tbody>
<tr>
<td><strong>SALES</strong></td>
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<td>Less: Cost of Goods Sold</td>
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<tr>
<td><strong>GROSS PROFIT</strong></td>
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<td>Add: Other Income</td>
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<tr>
<td><strong>TOTAL INCOME</strong></td>
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<tr>
<td>Less: Fixed Costs</td>
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<td>Operational Costs</td>
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<td><strong>OPERATING PROFIT/LOSS</strong></td>
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<td>Less: Income Tax attributable to Operating Profit</td>
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<td><strong>OPERATING PROFIT/LOSS AFTER TAX</strong></td>
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<tr>
<td>Less: Proposed rebates/dividends</td>
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<tr>
<td><strong>RETAINED PROFITS</strong></td>
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(Code: TIS 7/1/98)
AGRICULTURAL CO-OPERATIVE ENTITIES

GENERAL CHARACTERISTICS

Definition
is a corporate entity that is owned and controlled by the producers who use it - its members. It is operated to meet the mutual needs of its members without interference in the members own business.

Incorporated status
a co-operative entity may be incorporated under Co-operative Law - a 'Co-operative' (must have the word co-operative in its name) or Corporations Law - a 'Co-operative Corporation' (must not have the word co-operative in its name). There is no requirement under Corporations Law for a Co-operative Corporation to adopt all the co-operative principles and therefore some of the following 'distinguishing features' may not be incorporated in this type of co-operative entity.

Separate legal entity
lives on even though members may come and go.

Limited liability
if a member owns fully paid shares he has no further liability or responsibility for the debts and liabilities of the co-operative.

Self help organisation
built on the strong unified determination of a group of producers to achieve greater success in obtaining their goals ie marketing their product, which are not achievable on an individual basis.

Income tax advantages
co-operatives do not pay income tax if 90% of their turnover is for or with their members and the profits are rebated to the members, on the basis of the members use of the co-operative.

DISTINGUISHING FEATURES

Producer owned
shares with voting entitlements can only be held by active producer members.

Producer controlled
one vote per member - voting based on membership and not the number of shares held, election of directors - the chairman and the majority of directors must be active members of the co-operative.

Producer focussed
eliminates conflict between the producer and the investor, and: exists to maximise the return to the producer.
Active membership criteria

Based on member compliance with primary activities of the co-operative which must be contained in the rules of the co-operative.

Transferable long term delivery rights

Long term transferable delivery rights impose obligations of supply on the member and purchase on the issuing entity. The rights can only be held by active members who hold voting shares and the one member one vote principle attaches to the shares. The issue of delivery rights and one member one vote shares are fundamental to the so called New Generation Co-operatives which are becoming popular as structures for value adding by way of processing in the U.S. of A.

Profits

Are distributed on the basis of use and not the number of shares held. Provides incentive (loyalty) by rewarding the user (not the investor) of the co-operative. The biggest user receives the biggest share of profits.

Dividends

Are paid on the number of shares held, and;
the maximum rate is capped to 5% above the Commonwealth Bank of Australia rate for 2 year term deposits.

Share buy back

The co-operative must buy back the shares of a member exiting the industry or who stops using the services provided ie an inactive members shares. The co-operative’s rules must contain active membership criteria.

Expulsion and suspension criteria - is based on a member:

Failing to discharge his obligations to the co-operative;
Preventing or hindering the co-operative from carrying on its primary activity or activities,
Brought the co-operative into disrepute, or,
Acting in a manner that has been contrary to one or more of the co-operative principles and in so doing has caused the co-operative harm.

Benefits

Identify and research markets;
Communicate market research findings to members enabling required product to be produced;
Aggregation of large volumes of specified products;
Uniform quality and quality assurance standards can be introduced and enforced;
Provide buyers with precisely what they want in terms of product type, quality, packaging, delivery times, continuity of supply and after sales service;
Producers have an opportunity to have their say in determining strategies of the co-operative;
An efficient co-operative makes it more difficult for large local, national, or multinational firms to dominate an industry, and;
Enables producers to band together to achieve industry best practices by the employment of management skilled in all facets of the operations - production - processing - marketing.
producer owned, controlled and focussed and therefore eliminates the producer / investor conflict of a commercially competitive service / benefit based operation versus a return on investment operation.

CO-OPERATIVE LEGISLATION

is under review;
the WA Act will then be compatible with other Australian Co-operative Acts;
subject to the following two points it will not change the way WA co-operatives operate; a) will result in simplified and less expensive capital raising procedures by substituting information statements for prospectus requirements;
   b) will allow national co-operatives to emerge by removing Corporations Law restrictions on ‘cross border’ membership;
provides additional flexibility for raising capital by the issue of subordinate debt instruments which can be listed on a stock exchange, and;
enables the practice of issuing non voting shares to continue by the creation of ‘Co-operative Capital Units’, which under certain conditions can be listed on a stock exchange.

INCORPORATION UNDER CO-OPERATIVE LAW OR CORPORATIONS LAW

This is a very complex issue and should be determined on a case by case basis. A large Australian capital intensive co-operative with a turnover in excess of $1 billion, spent approximately $500,000 in addressing the issues involved and the resulting decision was to retain the controlling structure as a co-operative.

Some suggested relevant criteria when addressing this issue are:
a requirement for capital in excess of that which the members are able or willing to fund and the co-operative is prudenty willing to borrow;
operating in an industry requiring major capital investment in long term fixed assets;
the anticipated high rate of activity in members leaving and joining the co-operative and its effect on the cash flow of the entity, and;
the potential for conflict of interest problems between the producer and investor.

An often stated benefit of a co-operative corporation is that:
it provides the flexibility to avoid Co-operative Law restrictions in the areas of investor (non active member) participation by:
   listing members voting shares on a stock exchange;
   the ability to raise capital from investors ie. non members, and;
   eliminates the principle of one member one vote - reverts to votes based on the number of shares held.

The first two points are not applicable owing to the flexibility attaching to the conditions of issue of CCU’s and the ability to issue subordinated debt instruments under Co-operative Law. One member one vote is only a problem if the largest users or the investors want to operate the co-operative for their benefit and not for the benefit of all users.

It should be noted that:
the main advocates of co-operative corporations are financial advisers, such as stock brokers and not those involved in the co-operative industry, and,
the large number of co-operative corporations registered in Victoria results from the then inappropriate trading Co-operative Law, necessitating incorporation under Corporations Law and not an inherent weakness in the co-operative structure.

**STEPS IN THE FORMATION OF A CO-OPERATIVE**

Determine the needs critical because the needs will materially influence every choice where an option exists i.e. under which law incorporation takes place, introduction of investors.

Form a representative committee - to develop a preferred structure for approval by producers to include - a) at least two potential users (producers) - b) persons with expertise in i) co-operative structures and operations ii) marketing, finance and law (which ever is the most relevant) and if applicable a representative from the SMA and / or relevant government department.

Prepare business plans and cash flows - usually prepared or reviewed by external consultants.

Consider the various options of organisational structures
- co-operative - incorporated under Co-operative Law or;
- co-operative corporation - incorporated under Corporations Law or;
- company - Corporations Law - Pty. Ltd. or Ltd. - ASX listed or not listed or;
- trust, or;
- partnership.

Present preferred option, with reasons, to producer meetings, gain their acceptance, and proceed with formation and incorporation.

**RESERVATIONS ABOUT CO-OPERATIVE ENTITIES**

*Co-operatives may not be suited to Australia owing to some having failed.*
*Producer dominated boards are not able to compete in our competitive world.*
*The standard of employed management is almost always poor.*
*One member one vote - belief that smaller producers will dominate the co-operative.*

Research has:
- determined that failure does not result from some inherent weakness with the co-operative structure;
- identified the causes of failure as resulting from - lack of grower support - inadequately skilled boards of directors - poor management - lack of marketing expertise - insufficient capital - failure to communicate with producers, and;
- not disclosed any situations where smaller producers have imposed policies on a co-operative that have disadvantaged larger producers.