



The Parliament of the Commonwealth of Australia

REPORT ON

**THE INTRODUCTION OF QUOTA MANAGEMENT
CONTROLS ON AUSTRALIAN BEEF EXPORTS TO THE
UNITED STATES BY THE MINISTER FOR
AGRICULTURE, FISHERIES AND FORESTRY**

**Report by the Senate Rural and Regional Affairs and
Transport Legislation Committee**

JUNE 2002

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ISSN 1038 - 2755

This document was produced from camera-ready copy prepared by the Senate Rural and Regional Affairs and Transport Legislation Committee, and printed by the Senate Printing Unit, Department of the Senate, Parliament House, Canberra.

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ABBREVIATIONS

ABARE	Australian Bureau of Agricultural and Resource Economics
AFFA	Department of Agriculture, Fisheries and Forestry
ALFA	Australian Lot Feeders' Association
AMC	Australian Meat Council
AMLC	Australian Meat and Livestock Corporation
CIG	Common Interest Group
CMG	Consolidated Meat Group
MLA	Meat and Livestock Australia
NMAA	National Meat Association of Australia
RMAC	Red Meat Advisory Council
USMIL	United States Meat Import Law
TRQ	Tariff Rate Quota
VFF	Victorian Farmers' Federation

CHAPTER ONE

THE COMMITTEE'S INQUIRY

Origin of Inquiry

1.1 On 16 May 2002 the following matter was referred to the Senate Rural and Regional Affairs and Transport Committee for inquiry and report by 27 June 2002:

The introduction of quota management controls on Australian beef exports to the United States by the Minister for Agriculture, Fisheries and Forestry (Mr Truss).¹

The Committee's Inquiry

1.2 Following the referral of the Inquiry, the Committee contacted beef producers, processors and exporters and invited them to provide submissions. The Committee also contacted Agriculture, Fisheries and Forestry Australia (AFFA) and all relevant peak bodies to invite submissions. A total of 44 written submissions were received (including two supplementary submissions). A list of written submissions is included at Appendix 1.

1.3 The Committee held public hearings on this matter on Monday 17 June 2002 and Thursday 20 June 2002. An *in-camera* session was also conducted as part of the hearing on Monday 17 June 2002.

1.4 The Committee heard evidence from key organisations such as the Australian Meat Council (AMC), the Cattle Council of Australia, the Australian Lot Feeders' Association (ALFA) and the Victorian Farmers' Federation Pastoral Group. The Committee also heard from representatives of individual exporting and processing companies, including Cudgegong (Abattoir) County Council, T & R Murray Bridge Pty Ltd, H W Greenham & Sons Pty Ltd, The Hunt Group and the Consolidated Meat Group (CMG). Officers from Agriculture, Fisheries and Forestry Australia provided evidence at both hearings. A complete list of witnesses who appeared at the hearings is included at Appendix 2.

1.5 On Friday 14 June 2002, the Committee was provided with a draft copy of the Australian Meat and Live-stock Industry (Beef Export to the United States of America) Order 2002.

1.6 Published submissions and the *Hansard* of the Committee's hearings are tabled with this report, together with all supplementary material provided to the Committee. The *Hansard* of the hearings is available at the Hansard site on the Parliament House homepage on the Internet (www.aph.gov.au).

1 Extract from *Journals of the Senate*, No. 13, 16 May 2002

Consideration of the Committee's Report

1.7 The Committee met on 25 and 26 June 2002 to consider its report.

Acknowledgements

1.8 The Committee acknowledges the assistance made to its Inquiry by all those who prepared written submissions at short notice. The Committee also acknowledges the assistance provided by all witnesses who attended the public hearings and the prompt provision of supplementary information requested by the Committee. The Committee also appreciates the assistance of the Department of the Parliamentary Reporting staff in providing the *Hansard* transcript of proceedings within a very short timeframe.

1.9 This assistance has allowed the Committee to prepare and present its report within a short period of time.

CHAPTER TWO

BACKGROUND

Introduction

2.1 The following chapter provides background information which places the current debate regarding the introduction of quota management controls on Australian beef exports to the United States by the Minister for Agriculture, Fisheries and Forestry, The Hon. Warren Truss, MP.

History of the US Market

2.2 Following the introduction of the United States Meat Import Law in the mid-1960's a system for allocating Australia's beef and veal access to the US was introduced in 1968.

2.3 During the 1960's and 1970's, in order to regulate exports to the United States and encourage the development of alternative markets, quota controls on shipments of beef to the US were based on:

- Diversification incentives - exporters were awarded entitlement to the US based on their export performance to other markets; and
- The transferability of quota.

2.4 In 1976, the system was changed to provide exporters with a greater level of certainty in relation to entitlement. The decision was made to base entitlement to the US on 'global performance' in the previous year.

2.5 In December 1976, as part of an incentive scheme to diversify away from the US market, the system was altered to allow 60% quota on the basis of 'global performance' the previous year and 40% on the basis of performance to all markets other than the US and Canada.

2.6 In 1978, there was a strengthening of the US market. As a consequence, diversification became a less significant issue and the quota system was revised to base quota entitlement on 'global export performance' in the previous year.

2.7 During the early 1980's the US quota allocation scheme was suspended as the US demand for imported beef was above Australia's capacity to supply. In 1986, a quota system was reintroduced and was allocated 100% on the 'global performance' earned in the previous year. It was intended that the new system would provide the incentive to diversify to alternative markets, with 'global performance' a more moderate indicator than full diversification. This system determined the allocation of US quota allocation (when US quotas were imposed) until the mid-1990's. In 1994,

when quota controls operated to the US, quota allocated on the basis of 'global export performance'.¹

United States Meat Import Law (USMIL) replaced by Tariff Rate Quota (TRQ)

2.8 In 1995, following the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) negotiations, the United States Meat Import Law (USMIL) was replaced by a Tariff Quota Rate (TRQ).

2.9 Those countries which were major suppliers of beef to the United States negotiated individual rates of quota as detailed in Table 2.1 below.

TABLE 2.1 - US BEEF IMPORT QUOTAS²

Country	Volume (Metric Tonnes)
Australia	378, 214
New Zealand	213, 402
Japan	200
Uruguay	20,000
Argentina	20,000
Other Countries	64, 805
Total	696, 407

2.10 In 1995, Australia's allocated 378,214 tonnes of TRQ was considerably higher than the amount of beef being shipped at the time. At the same time, mutton ceased to be a quota item, as it had been under the USMIL.

2.11 Exporters of beef to the US are required to pay a 4.4 cents/kg import duty if the shipment is within the TRQ. All imports to the US in excess of the quota incur a 26.4% tariff which acts as a major disincentive to shipments outside of the TRQ.

1 *Submission 12*, Red Meat Advisory Council, Attachment B, RMAC Submission to the Minister for Agriculture, Fisheries and Forestry, dated 19 March 2002, p 6, (A copy of the table summarising the history of quota allocation to the US market is provided at Appendix 3, original source, Hassal & Associates and Australian Meat Council)

2 *Submission 12*, Red Meat Advisory Council, Attachment B, RMAC Submission to the Minister for Agriculture, Fisheries and Forestry, dated 19 March 2002, p 5

2.12 Although there was a small amount of above-quota beef exported to the US during 2001 when the TRQ was triggered, the 26.4% levy is regarded by industry as being prohibitive.

2.13 Until 2000, it appeared that Australia's TRQ was well above the demand of the US market. Currently, however, there is a strong expectation that Australian beef exports to the US will have filled the tariff quota of 378,214 tonnes by October 2002. There have been a number of contributing factors which have led to the current situation in relation to beef exports to the US - a situation which is expected to continue for several years.

2.14 In a report prepared for the Cattle Council of Australia, ACIL Consulting cite the following factors as having contributed to the current set of circumstances in the Australian beef industry:

- Strong demand in the US reflecting the continuing strength in the economy, despite the recent mild recession (which appears to be ending).
- The stage in the US cattle cycle which results in lower quantities available for consumption than during the upturn cycle.
- Weak demand in Japan, Australia's other main export market for beef, due to the BSE (mad cow disease) scare and aggravated by poor economic conditions.
- Inability of some potential competitors to export to the US because of foot and mouth disease, eg, Argentina.
- Growing beef output in Australia, partly for cyclical reasons but also in part an apparent upwards trend.
- The weak exchange rate of the Australian dollar against the US dollar which makes that market especially attractive.
- High prices for beef on the US market, currently around 20% above world prices (for similar types of beef from sources free of foot and mouth disease).³

The Need for Quota Management

2.15 The issue of quota controls to the US became a source of concern to some sections of the beef industry in early 2001. In raising the issue with AFFA in April 2001, the Council referred to the likely need for constraints during the coming year and highlighted the need for the industry to reach a consensus on how Australia's access to the US should be managed.⁴

3 *Options for Managing Australian Beef Exports to the United States*, Report prepared for the Cattle Council of Australia by ACIL Consulting, 13 March 2002, p 1

4 *Submission 21*, Australian Meat Council, p 4

2.16 In a Notice to Meat Exporters dated 18 December 2001, AFFA acknowledged that representations had been received from a number of industry organisations regarding the need for quota allocations during the 2002 shipping year. The notice advised exporters that Minister Truss had written to the Red Meat Advisory Council:

...indicating that his strongly preferred position at this stage is not to foreshadow a company-specific quota allocation system for the US market. The Minister also indicated that before he would consider any quota system, RMAC would need to make a very detailed and compelling case to the Government that quota regulation is in the interest of the industry overall, that such regulation would not lead to serious market distortions and that allocations are not made on a basis involving any retrospective change to the shipping record.⁵

Red Meat Advisory Council (RMAC)

2.17 Until 1998, the management of quota arrangements in relation to beef exports to the US was administered by the Australian Meat and Livestock Corporation (AMLC) (in consultation with industry). In July 1998, following a restructuring of the meat industry, the administration of quota management issues became the responsibility of the Department of Agriculture Fisheries and Forestry.⁶

2.18 As part of the restructuring of the industry, the Red Meat Advisory Council was formed, and became the industry's peak advisory body. The membership of RMAC includes representatives of the Cattle Council of Australia, the Sheepmeat Council of Australia, the National Meat Association, the Australian Meat Council, the Australian Livestock Exporters' Council Limited and the Australian Lot Feeders' Association.

2.19 Under a Memorandum of Understanding (MoU) between the Commonwealth Government and industry bodies, the Red Meat Advisory Council is required to consult with the Minister on agreed whole of industry matters arising out of licensing and quota administration. RMAC is also required to respond to the Minister on issues the Minister raises with the Council.⁷

2.20 On 8 December 2001, the Minister for Agriculture, Fisheries and Forestry, Mr Truss, formally wrote to the Chairman of RMAC requesting advice on whether it was necessary to implement procedures to regulate Australia's shipment of beef to the US and, if so, the type of allocation system to be adopted.⁸

5 Department of Agriculture, Fisheries and Forestry Australia, *Notice to Meat Exporters: Exports of Beef to the United States of America*, 18 December 2001, (A copy of the Notice is provided at Appendix 4)

6 *Submission 21*, Australian Meat Council, p 8

7 *Submission 12*, Red Meat Advisory Council, p 2

8 *Submission 12*, Red Meat Advisory Council, Attachment A, Letter from Minister Truss to Chairman of RMAC, dated 8 December 2001, (A copy of the Minister's letter is provided at Appendix 5)

2.21 Whilst the Minister's letter to RMAC indicates a reluctance to intervene directly in the meat export trade, reference is also made to a request for advice from industry bodies:

Through my Department I have, however, asked the National Meat Association of Australia (NMAA) and the Australian Meat Council (AMC) to develop an agreed processing industry position on the need for quota and, if so, what the quota administrative arrangements should be. If a compelling case can be made for company quota allocation I would be prepared to give it consideration, if there is wide industry support.⁹

RMAC Advice to the Minister - March 2002

2.22 Following the Minister's request for advice, RMAC conducted consultation across the industry, including an Industry Forum which was held in Sydney on 5 February 2002. The Forum provided industry representatives the opportunity to put their views to RMAC prior to a proposed Board meeting. In addition to industry consultation, RMAC also engaged consultants to provide expert advice.¹⁰

2.23 On 13 March 2002, following an RMAC Board meeting held on 6 March 2002, the Council wrote to Minister Truss and put forward its recommendations. This advice was followed on 19 March 2002 by a submission outlining RMAC's preferred position in more detail.

2.24 The RMAC recommendations provided to the Minister in March are summarised as follows:

1. Quota controls should be implemented as soon as possible. However tonnage bonded or arrived in the USA from 1 January 2002 should be debited against quota allocations for this year on the basis of individual quota holders.
2. For all US beef registered plants US quota should be allocated on the basis of performance back to processor, and as follows:

Year	US	Global (excluding US)
1	80%	20%
2	70%	30%
3	60%	40%

9 *Submission 12*, Red Meat Advisory Council, Attachment A, Letter from Minister Truss to Chairman of RMAC, dated 8 December 2001, p 1

10 *Submission 12*, Red Meat Advisory Council, p 1

3. However, quota should be allocated on a differential basis for US specialists (ie those companies with over/equal to 80% US market dependency) based on performance to the USA only in the first full year 1, and then to align with the above for years 2 onwards.
4. Shipments to USA over quota be included in performance over the 3 year period.
5. Quota be tradeable.
6. The base year for initial quota allocation in 2002 is the 2001 shipping year with subsequent allocations based on the previous year's performance.
7. A review of the quota arrangements be carried out at the end of the 3 year period.
8. Quota administration costs be recovered on a user pays basis (as with the EU markets).
9. No new entrants provision.
10. The need for a hardships provision to be addressed.¹¹

2.25 RMAC advised the Minister in its letter of 13 March 2002 that NMAA had abstained from voting on recommendations (2), (3), (4), (5), (7) and (8) and had indicated that, subject to instructions from its membership, it would inform the Minister separately of its reasons for abstaining.

Hardship Provisions

2.26 In its letter dated 13 March 2002, RMAC advised the Minister that during the course of the 6 March 2002 Board meeting it was resolved that there should be no new entrant or hardship provisions. In the submission subsequently provided to the Minister, RMAC indicates that the requirement for hardship provisions needed to be addressed.

2.27 RMAC's submission to the Minister noted the difficulties associated with providing allocations to exporters suffering exceptional circumstances, particularly when attempting to define:

....what adverse circumstances are totally beyond the control of individual processors, and whether it is equitable that other exporters be forced to forgo some of the quota they would otherwise be allocated.¹²

11 *Submission 12*, Red Meat Advisory Council, Attachment B, RMAC Submission to the Minister for Agriculture, Fisheries and Forestry, dated 19 March 2002, p 3

12 *Submission 12*, Red Meat Advisory Council, Attachment B, RMAC Submission to the Minister for Agriculture, Fisheries and Forestry, dated 19 March 2002, p 15

Sunset Clause

2.28 RMAC's submission also raised a specific concern about the need for there to be a comprehensive review of any quota scheme prior to the end of the three year period it would operate. RMAC suggested that:

Such a review would have to be completed before the end of the second year in order to provide processors and exporters with an understanding of the basis of any quota allocation arrangements that would operate from year four.¹³

Minister's response to RMAC's March advice

2.29 There were early indications that the Minister was concerned about the lack of industry consensus on the March recommendations and RMAC continued to work toward an agreed industry position.

2.30 Minister Truss formally replied to the Chairman of RMAC on 10 April 2002. The Minister indicated that he had considered the RMAC proposal and confirmed that he had concerns about the lack of consensus within the industry:

...I am however concerned that the RMAC proposal does not seem to deliver the key requirement of a compelling case for management of the quota supported by the large majority of the industry. The fact that industry remains strongly divided on the actual allocation mechanism needs to be addressed.¹⁴

2.31 The Minister also stressed that the Government would be reluctant to take on the role of regulating the quota if an industry consensus could not be reached.

I appreciate that the issues are difficult but I want to again emphasise the importance of achieving an industry consensus, if you wish the Government to intervene to regulate this quota.¹⁵

RMAC Advice to the Minister - April 2002

2.32 Following the Minister's response, the RMAC Board met again in Melbourne on 29 April 2002 with a view to achieving a consensus, particularly between the processor members.

13 *Submission 12*, Red Meat Advisory Council, Attachment B, RMAC Submission to the Minister for Agriculture, Fisheries and Forestry, dated 19 March 2002, p 15

14 *Submission 12*, Red Meat Advisory Council, Attachment C, Letter to the Chairman of RMAC from Minister for Agriculture, Fisheries and Forestry, dated 10 April 2002, p 1 (A copy of the Minister's letter is provided at Appendix 6)

15 *Submission 12*, Red Meat Advisory Council, Attachment C, Letter to the Chairman of RMAC from Minister for Agriculture, Fisheries and Forestry, dated 10 April 2002, p 1

2.33 The RMAC Board reached unanimous agreement and provided the following proposal to Minister Truss on 30 April 2002 at a meeting attended by the Minister and his advisors:

1. A US Beef quota management scheme to be implemented as soon as possible.
2. The target start up date to be 1 May 2002 with allocation based on quota available from 1 January 2002, ie 2002 clearances to be debited against entitlement.
3. Quota to be transferable.
4. Quota transferable with or without performance.
5. Operators can trade simultaneously in and out of quota.
6. Quota allocation for 2002 to be based on shipper of record - 1 November 2000 to 31 October 2002, and respecting commercial agreements in place between the processor and shipper of record. Allocation for 2003 to be based on performance back to the processor.
7. While 2002 allocations would be based on 2001, if no quota administration scheme is in place by 1 July 2002 the allocations for 2003 quota year should be based on 2001.
8. Out of quota shipments to the USA to earn entitlement.
9. Quota administration by AFFA to be cost recovered from the trade.
10. The basis for allocation be 60% USA/40% global excluding USA.
11. A hardship provision of 15,000 tonnes should be set aside to be allocated one year at a time. Hardship would apply where applicants can demonstrate severe disadvantage. This provision should be administered through an independent arbitration process.
12. No company given an allocation through the hardship provision can trade any allocation in that year.
13. In the administration of the hardship quota, applications will be called for within 30 days of public notification, and no allocations will be made until any applications from specialists (ie. those with over 80% market dependency) have been arbitrated.

14. RMAC to press the Commonwealth Government to ask the US government for additional access to the United States beef market consistent with the industry strategy on this issue.¹⁶

2.34 Following the 30 April meeting with Minister Truss, representatives of RMAC met with officers from AFFA regarding possible compromises to the quota allocation systems put forward in the RMAC proposal.

2.35 On 6 May 2002, in a media release, Minister Truss announced that he was giving consideration to the new advice provided by RMAC and indicated that he had asked AFFA to consult further with the industry regarding some aspects of the RMAC proposal.¹⁷

2.36 On 13 May 2002 Minister Truss advised the RMAC Chairman of his decision and indicated that he was prepared to reconsider his decision if RMAC was able to provide him with 'compelling reasons to do so'.

2.37 On 15 May 2002, following a meeting of Directors, RMAC responded to the Minister and advised that all RMAC Directors were unanimous in their support of the proposal put to the Minister on 30 April 2002.¹⁸

Minister's proposal

2.38 On 15 May 2002, Minister Truss announced his decision to introduce quota management controls on Australian beef exports to the United States. Mr Truss stated that the likelihood of Australia exceeding its beef quota to the US during the shipping year, the Government was proposing to introduce a quota administration scheme to ensure 'an orderly flow of beef to the market'.

2.39 The Minister also indicated in his 15 May media release that while he accepted RMAC's proposal of a 60/40 division; he was concerned that 'this arrangement would unfairly penalise those processors heavily committed to the US trade and provide windfalls to processors who have little or no commitment to the US trade'.¹⁹

2.40 The Minister was therefore proposing that:

- a) Limits be placed on the maximum losses and gains compared to past shipments. (The effect of which will be that no company will receive less than 85 per cent or more than 140 per cent of the 2001 export levels).

16 *Submission 12*, Red Meat Advisory Council, pp 6-7

17 *Truss considering new industry recommendations on US beef quota*, Media Release AFFA02/82WT, dated 6 May 2002

18 *Submission 12*, Red Meat Advisory Council, p 7

19 *Truss announces US beef export quota controls*, Media Release (107of02) dated 15 May 2002

- b) Processors who supplied more than 90 per cent of their exports to the US will be allocated 90 per cent of their adjusted tonnage shipped to the US in 2001.
- c) Quota allocation for 2002 and 2003 will be based on processor of record exports in the period 1 November 2000 to 31 October 2001.
- d) Deliveries since 1 January 2002 will be counted against quota allocations in accordance with Ministerial advice provided to processors on 18 December 2001.
- e) An amount of 14,000 tonnes of the quota will be set aside for those processors who were able to demonstrate hardship.
- f) The system would be reviewed in June 2003, in time for the 2004 quota year.²⁰

CHAPTER THREE

RESPONSES TO THE THE RED MEAT ADVISORY COUNCIL (RMAC) PROPOSALS OF MARCH AND APRIL 2002 AND THE MINISTER'S MAY 2002 QUOTA MANAGEMENT REGIME

Introduction

3.1 This chapter deals with the following matters: the Minister and AFFA's approach to the RMAC March 2002 Proposal, the issue of 'hardship' provisions, the alternative positions developed by industry participants, the effects on regional employment, and the problems associated with implementing the Minister's proposal for the balance of quota year 2002.

AFFA and Minister's Approach to the RMAC March 2002 Proposal

3.2 Mr Sutton of AFFA noted that the basis of the Minister's approach to quota management is:

I should put on record that the minister made it very clear, from early stages in the consideration of whether there was a need for US quota allocation, that there were four major government objectives that he would like to see represented in the ultimate proposal: (1) that it would result in minimal market distortions; (2) that it would create minimal disruption to commercial relationships; (3) that it needed to be simple to administrate and not vulnerable to challenge—in other words, discretionary decisions needed to be avoided; and (4) that there was a minimal role for government.¹

3.3 The corollary of the Minister's approach was that the initial RMAC proposal (referred to in detail in Chapter 2) of March 2002 needed to address issues of equity between processors and:

He believed there was an equity issue involved in that the arrangement needed to recognise that many firms that had specialised and developed the market needed to have their investment recognised. It also needed to recognise that other players had freely pursued other markets and it was a downturn in another market that had precipitated the pressure in the US market rather than the US TRQ being the instigator of pressure on the trade at this point. In response to the compromise proposal, the minister recognised the goodwill of RMAC in trying to broker a compromise, and he accepted the major elements of that compromise proposal, but he believed that the equity issues were so serious as to require addressing.²

1 *Evidence*, RRA& T 17 June 2002, p 3

2 *Evidence*, RRA& T 17 June 2002, p 4

3.4 The Committee also sought advice on how the Minister's proposal would affect processors who had previously been specialist exporters to the Japanese market, a market that has undergone a severe downturn in 2000-01.

The extent to which the government should take on board the consequences of the Japanese market downturn, in terms of the administration of US quota, is a judgment call for the minister. He has decided that he would prefer that the government role be minimal and that he should not be in a position where he is being asked to identify what tonnage should come from US specialists, or firms that have traditionally been in that market, and reallocate wholesale to those firms that you have identified.³

3.5 In relation to how the Minister sees the future allocation of quota - ie. for 2003 and beyond - would be handled (should that prove necessary), the Committee was told by Mr Sutton that:

The view of the minister is that he did not wish to cut across commercial arrangements that were in place, that the arrangements he would put in place would have minimal distortion of what would have been in place if the quota had not been in place. That was the basis for his judgment. He has also indicated that, for the out years 2004 and beyond, he is prepared to have a review of the arrangements in mid-2003, and he has been noncommittal in terms of the form of any allocation that might be imposed after 2003.⁴

3.6 AFFA officials noted that the models of quota allocation were to:

1. Maintain the status quo (the 'do nothing' option);
2. The RMAC proposal;
3. A compromise model of the RMAC proposal with some adjustment of allocation;
4. A quota auction model;
5. A 100% shipper of record to the US model; or
6. A 100% global shipper of record model.⁵

3.7 AFFA confirmed for the committee that Option 3 - the RMAC compromise model - was chosen because it offered 'equity, efficiency and industry preference for a wider distribution of the US market'.⁶

3 *Evidence*, RRA& T 17 June 2002, p 7

4 *Evidence*, RRA& T 17 June 2002, p 9

5 *Options for Managing Australian Beef Exports to the United States*, Report prepared for the Cattle Council of Australia by ACIL Consulting, 13 March 2002, pp 3-6

'Hardship' Tonnage

3.8 The Minister's proposal allows for a 'hardship' allocation of quota of 14,000 tonnes for year 2002. In response to questioning by Senator Ferris, Mr Sutton told the Committee that, whilst the tonnage allocated as hardship tonnage was not adequate:

The policy intent was to identify a period where rent-seeking behaviour was not relevant; hence 2001. In terms of the criteria for hardship, that is a matter that will be addressed in guidelines, not the order. We have had a number of discussions with an industry working group, an RMAC executive committee—essentially the chief executive officers of RMAC—and we are trying to identify eligibility criteria for the allocation of the hardship tonnage. To some extent, a compromise is being achieved in that the department would have preferred objective criteria, as I think you will recall I indicated at the estimates committee, whereby decisions are made on facts.

On the other hand, the industry has quite a contrary view: that there should be considerable discretion and that the hardship criteria should not be set until we have a clearer idea of the situation of industry. Rather than having a rigid set of criteria, they would prefer that the guidelines for administration of hardship be shaped when the overall industry situation is known. So that is the reason we have not been able to bring hardship criteria forward to you at this stage. They are being developed with industry. I suspect we will have a compromise of some objective criteria and some discretionary criteria. We will be looking for industry advisers on a committee drawn from RMAC peak bodies to consider with us, jointly, the applications for hardship criteria.⁷

3.9 Mr Greenham of HW Greenham & Sons noted, however, that

The RMAC decision, as written, said 15,000 tonnes of quota would be set aside for hardship provisions. The first people to get a chop at those 15,000 tonnes were those hot boners or specialist abattoirs who processed for the USA. That is the way it was written. That is the way it was taken down by Bob Coombs; that is the way the paper was written. When it got to Minister Truss, it was changed by somebody, and it said the 15,000 tonnes was for hardship and the special allowance for people who have 80 per cent or more was dropped. I do not know why nor who did it.⁸

3.10 ALFA indicated that it had no clear concept of how the hardship provisions would work:

This refers to 15,000 tonnes. Again, remember that we are about compromise, we are about sharing the pain, so that everybody gets on with

6 *Options for Managing Australian Beef Exports to the United States*, Report prepared for the Cattle Council of Australia by ACIL Consulting, 13 March 2002, pp 6-7

7 *Evidence*, RRA&T, 17 June 2002, p 9

8 *Evidence*, RRA&T, 17 June 2002, p 63

it. Everybody will be hurt—some a little more than others and some will gain more than others. But that is why we took all those months to try and come to it. If you get a hardship, sure, but it did not specifically say that it only had to go to specialists. It also said that there might be some others out there. In that case we were saying that a committee would be formed by RMAC and that committee would look at and interview people and people would put forward their hardship case and it would be taken case by case.⁹

3.11 The Hunt Group took this view of the hardship quota:

In other words, if something like 30,000 tonnes was given to those processors on the list who supplied below 35 per cent to the US, they would be brought up to close to the national average. It would have been a higher amount, on my figuring, than those particular processors would have received under the RMAC proposal, either in the March proposal or in the April proposal. The proposition was also put to the minister, but it is a proposition that has not been taken up by anybody that I am aware of; nor has anyone put to me a reason or rationale that it does not actually work.

The proposal was simply that 30,000 tonnes, which is less than 10 per cent, be a special allocation to those most disadvantaged. Then you leave everybody else to simply have quota in accordance with their last 2001 shipments, and they would then all be operating in accordance with their normal trading patterns. The specialist hot boners are okay, and the people in the middle are all roughly somewhere between 50 or 55 per cent and 35 per cent, which is their normal pattern in accordance with their normal custom and trade and cattle supplies. Someone was saying that there is not a perfect system. My submission is that there probably is one out there and that this is it and it would have solved the problem but it has not been picked up on. Perhaps it is too late for it to be picked up on. Certainly we have attempted to put it to RMAC, but I am advised that RMAC decided not to consider it.¹⁰

Analysis, criticisms and alternative positions developed by industry participants

3.12 Mr Ian Kennedy of the Australian Meat Council pointed out that peak industry groups were critical of the Minister's adaptation of the RMAC model:

The minister's plan was presented as an industry compromise. This is misleading in that, after 12 months of debate, the RMAC recommendation, as presented on 29 April, was indeed industry's compromise, balancing the competing interests in this issue. To move away from it was to unravel it. The proposed changes have undermined the existing compromise, not generated one. RMAC began with a global position but, understanding the need to seek an industry consensus, compromised to the 60 per cent US/40 per cent global component. That was part of the RMAC agreement—a

9 *Evidence, RRA&T, 17 June 2002, p 78*

10 *Evidence, RRA&T, 17 June 2002, p 85*

compromise that was in the spirit of reaching an industry consensus. The rejection of RMAC as the government endorsed vehicle for delivering that consensus grossly underestimates its value on an issue of this sensitivity and puts into question the whole issue of industry self-regulation—so loudly promulgated by government.¹¹

3.13 In its submission the Cattle Council of Australia (CCA) put a similar view on the process followed by the Minister:

The RMAC scheme was a huge compromise. It was a compromise between the 100 per cent global model and the 100 per cent US model. It was a scheme that all the peak councils signed up to and could support. Topping and tailing the entitlements means that it has been swung back towards the US-only model; therefore, it provides monopoly powers to a few and will do nothing for cattle prices. Our interest is in the benefits to the whole of Australia, particularly the cattle producers. Once you provide a monopoly and lock a market up, the cattle price will just free-fall and any benefits and economic gains out of that market stop in the bank accounts of those who hold the monopoly. That is a major concern to us.¹²

3.14 The Cattle Council's view was clear: that the RMAC model should be implemented - but that it could not be implemented before the commencement of 2003 due to administrative, process and market factors.¹³

3.15 Mr Toohey clarified the Cattle Council's view for the Committee:

Our position is very strongly in favour of the RMAC model. It is the compromise that has been struck by industry and accepted by the Cattle Council as the only alternative to the 100 per cent global model. As far as the implementation of the model is concerned, we support it standing from 1 January 2003. The reason we have said that there should be nothing this year is that we would sooner have nothing than have the Truss model. However, if the Senate has some view that the RMAC model could be implemented for the remainder of this year, we would support that. We support the RMAC model; we do not want Truss's model in place. So we will go with nothing if the Senate cannot ensure that the RMAC model is implemented earlier. We would put the RMAC model in from 1 January. That is the Cattle Council's firm position. We have not walked away from the RMAC model.¹⁴

3.16 With the exception of the Hunt Group, Greenham and CMG, witnesses spoke in favour of the Minister's proposal being dropped and that no quota management be introduced for 2002, with the RMAC model (or a variation) to be introduced in 2003.

11 *Evidence, RRA&T, 17 June 2002, p 16*

12 *Evidence, RRA&T, 17 June 2002, p 26*

13 *Evidence, RRA&T, 17 June 2002, p 29*

14 *Evidence, RRA&T, 17 June 2002, p 43*

3.17 Other industry groups, most notably AMC and ALFA made it clear that the RMAC 'compromise' was an arrangement that was at the limit of the RMAC process; that no further 'compromise' - or modification - of the second RMAC proposal would be acceptable.¹⁵

3.18 An alternative view put to RMAC by the Hunt Group was:

The effect of the RMAC proposal, especially the April one, is to turn everything on its head. Those that had been the suppliers, those that had bet their farms, as it were, on the US market, end up with the least access. Those that had been betting their farm on the Japanese market ended up with the most. Yet it has been put forward as equitable, it has been put forward as a compromise. But the 29 April proposal by RMAC was far less advantageous to the hot boners or the US specialist suppliers than the March one was. In the March one we got 80 per cent in the first year, 70 per cent in the second year and moving to 60-40 in the third year. So between March and April, after the minister asked for a compromise, RMAC moved away from the middle back towards those putting forward a 100 per cent global based proposal. So if there was a compromise I suspect it was the March one, but I am not convinced that the April one can be so designated.¹⁶

Regional Employment Effects

3.19 A principal effect of the model not addressed either by the RMAC proposal, or by the Minister's model is the likely or predictable effect of the proposals on regional employment issues.

3.20 Mr Sutton told the Committee, as part of AFFA's evidence, that the reason was:

...because it is impossible to predict what impacts there will be on individual plants. There will be attempts by firms to diversify to markets, driven by commercial factors, as opposed to the effect of only the US export quota allocation. There is a very strong incentive for firms to seek alternative markets. While it is logical for firms to put the worst case scenario to this committee, of course every firm will be looking to see what commercial opportunities there are for it and will be eagerly seeking those opportunities.¹⁷

3.21 A specific concern of a number of processors, producers and regional areas with a strong employment profile in meat processing was the likely effect of the Minister's proposal on local employment.

15 *Evidence, RRA&T, 17 June 2002, pp 70-72*

16 *Evidence, RRA&T, 17 June 2002, p 86*

17 *Evidence, RRA&T, 17 June 2002, p 6*

3.22 Members of the Committee asked Cattle Council for their views on regional impact, and were advised:

There is an understanding and a realisation across the industry that, by the simple fact that we are going to trigger the quota and that there is going to be a regulation scheme, it does have an impact. It has an impact on prices, and that has to flow right through. As I say stated earlier, we are price takers. Ultimately, we bear the brunt of it all. Because of that, there will inevitably be some rationalisation.¹⁸

On that objective, if you are referring to the potential plant closures—we have seen some numbers of 11 plant closures, potentially, in the regions—you are looking at \$1.2 billion or \$1.3 billion of throughput for those 11 plants, and there is about a four to one injection of funds into the local economy, so it is going to be quite significant.¹⁹

3.23 The Committee was told that the effect on a small community, such as King Island, Mudgee and Murray bridge would be considerable:

The SBA plant on King Island employs 70 people. We are the largest employer on that island. We are the major contributor to the King Island economy, and the vast majority—100 per cent—of producers on King Island support that plant. Without the abattoirs on King Island, there is no market for cattle on that island. The only alternative would be for producers to ship the cattle off the island to the mainland at significant cost and penalty to themselves. The King Island plant, under its present ownership—and I have been going down there for 11 years—has spent 11 years developing the market in conjunction with the producers. We have established alliances there and we owe it to the producers to diversify and gain access to global markets. The Truss scheme will deny producers that access. The impact on King Island is a classic example of the impact on regional abattoirs. You can multiply that impact several times over when you start looking at rural Australia.²⁰

3.24 Mr Harvie of the Cudgegong Abattoir, Mudgee told the Committee:

We have a work force that is made up of beef employees and mutton and lamb employees. As you would have seen from our submission, we are quite large in sheep and lamb, and we would certainly be one of the largest abattoirs in southern Australia, I suspect, if you put them together. We have major concerns in that if we are not competitive on beef it will overflow into our mutton and lamb operation, because there are a lot of fixed costs that are shared between the two operations, and, ultimately, if the beef is not competitive and we have to curtail activities, a whole range of unit costs flow from that. If we were unable to sustain a beef operation, the mutton and

18 *Evidence*, RRA&T, 17 June 2002, p 33

19 *Evidence*, RRA&T, 17 June 2002, p 33

20 *Evidence*, RRA&T, 17 June 2002, p 39

lamb activities would then bear the total cost of the organisation, notwithstanding that there would be adjustments to all the variable costs and to some of the fixed ones.²¹

Problems with Implementation of the Minister's Proposal for the Balance of Quota Year 2002

3.25 Four industry groups (Cattle Council, Australian Meat Council, Australian Lot Feeders' Association and the Common Interest group) have put to the Committee that, in view of the apparent barriers to implementation of the Minister's proposal in 2002, that the Committee should recommend that the proposed statutory instrument giving effect to the Minister's proposal - *the Australian Meat and Live-stock Industry (Beef export to the United States of America) Order 2002* - should be disallowed upon its tabling in the Senate.

3.26 This view is:

The year has dragged on and on, despite the fact that this debate has been on the table for at least 12 months and been under active consideration since the beginning of this year. Time is getting away from us, and this year is becoming very distorted already. We have heard about computer upgrades being required. It looks as though there is some sort of in-built time delay, and that is going to cause more problems. We have heard from the processing side that there will be some severe impacts because of the modifications being made by the minister—and we have heard about plant closures in certain areas—but, as far as producers are concerned, producers right across the country are interested in the price of cattle.²²

Clearly, the minister's model is unacceptable to the Cattle Council and many others within the industry. We are saying, on the industry's behalf, that the industry is willing to put up with that pain for the remainder of this year. I think Meat and Livestock Australia still holds the view that October may well be the trigger point, so we could well see some price drops from then on. We have seen some significant price drops over the last month, brought on by a range of factors such as weather, the dollar—which is slowly creeping in—certainly the Japanese situation and, of course, the indecision over the US position. We are getting used to price drops and we are coming from a fairly high base.²³

3.27 and

I answer by looking at two particular phases in time; one is this year and one is from January onwards. Let me just put a caveat to this: we do not operate at the processing level, so we are taking advice from a great many processors and there are a lot of issues for us to try to deal with second-

21 *Evidence*, RRA&T, 17 June 2002, p 53

22 *Evidence*, RRA&T, 17 June 2002, p 26

23 *Evidence*, RRA&T, 17 June 2002, p 28

hand. Based on that advice, and on anecdotes as well, if the minister's model is put in place, much of the US quota entitlement has already been swallowed up, in many cases by smaller processors in the regional areas.

That means that, from 1 July, they will have nothing. From that date forward, they will have to look elsewhere to satisfy their marketing and they will be looking into discount markets. It is our belief that the quota that remains for allocation from 1 July would be swallowed up by a couple of regionals and certainly by three or four of the majors. They have the greatest capacity to diversify anyway. The concern is pushing this 1 July date. In our mind, this year we are better off having nothing and allowing commercial forces to reign.²⁴

3.28 A processor noted that distributing quota was a very difficult and uneven approach:

Difficult too in this circumstance is the fact that we are now eight months into the shipping year. Eight months have expired. People have made decisions earlier in the year based very much on the collapse of the Japan market, which we estimate will be down some 150,000 tonnes this year. Our company will ship 25,000 metric tonnes shortfall there. Obviously, that product had to go somewhere and the United States was one market. We will find ourselves in a situation of having shipped in excess of 80 per cent of our quota. If, as is intended at the moment, 85 per cent is allocated and there is no real scheme to ship into the US and pay the duty, I believe we will be forced to rationalise our production and perhaps to shut plants.²⁵

3.29 Mr Slinger of CIG noted that:

If we did nothing at all, we would all be in the same situation, and that is that we would all be on a level playing field. When the 378,000-tonne market access is complete, we will all be paying the duty and we will all be putting it into bond. That is really what our common interest group is about. It is about a level playing field for all processors in Australia. The comments out of this panel before you today are about the pain that we are prepared to take on board for the rest of this year to ensure that we get a system that does not stifle us in the future.²⁶

24 *Evidence*, RRA&T, 17 June 2002, p 31

25 *Evidence*, RRA&T, 17 June 2002, p 40

26 *Evidence*, RRA&T, 17 June 2002, p 45

CHAPTER FOUR

CONCLUSIONS AND RECOMMENDATIONS.

Introduction

4.1 In 2000, this Committee expressed strong concerns about the processes involved in formulating and putting into effect equitable, timely and proper management arrangements in respect of Australia's EU beef quota.

4.2 It is unfortunate that the Committee again finds that it has to address evidence of further unsatisfactory management processes, in this case the US beef quota - a quota of much larger tonnage and a very important market for the Australian beef industry.

4.3 Evidence to the Committee indicates that the Minister's May 2002 proposal does not have the support of the peak councils of the industry (expressed through RMAC). These bodies, together with several processors, including a number of smaller regional processors, told the Committee that the Minister's May 2002 proposal should not be proceeded with for quota year 2002.

4.4 The Committee also received representations and submissions from processors and exporters representing some seventy percent of current exports to US, that the Minister's proposal be adopted unchanged.

4.5 The Committee is concerned that the process followed in the formulation and finalisation of the Minister's proposal means that a proposal was delayed until May 2002. The unsatisfactory and time-consuming development of RMAC's and the Minister's proposals leaves the Committee concerned that the processes available for arriving at a decision regarding the beef industry may need serious review.

4.6 For several reasons, the Minister's communications to industry (both to exporters and to RMAC) in late 2001 and early 2002, did not result in a timely, adequate or agreed approach which the Minister could implement for the benefit of all participants in the industry.

4.7 In light of these matters, and with the aim of achieving a workable and equitable result for management of the US beef quota for quota year 2002, the Committee makes a number of recommendations in relation to both the immediate question of the management of the 2002 quota and other long term issues.

Recommendation 1

The Committee recommends that:

a) The proposal for the current quota year formulated by the Minister for Agriculture, Fisheries and Forestry be varied in that a discretionary tonnage be

allocated from the remaining unfilled quota to current US suppliers which is sufficient to minimise disruption to the Australian beef industry. The Committee considers this tonnage should be in the order of 30,000 tonnes. This discretionary tonnage approximately doubles and replaces the 'hardship' tonnage allowance contained in the Minister's 2002 scheme.

b) For US beef quota years 2003 and beyond, in lieu of the Minister's May 2002 proposal, a new proposal be formulated by the Minister convening a round-table forum of all industry participants.

c) This forum should have as its principal task the formulation of a management plan for quota year 2003 and following years.

4.8 Implementation of this recommendation will provide a first step for reinstating a cooperative approach to the management of the quota for 2003 while putting in place interim arrangements designed to manage the quota for the remainder of this quota year. The Committee also believes that changes are required to current beef industry arrangements to provide for more effective consultative mechanisms.

4.9 Bearing this aim in mind, it is imperative for the short and long term management of quota and other issues - that may prove necessary from time to time - that the role and effectiveness of industry consultative groups (principally RMAC) are reviewed.

4.10 In addition to presenting this report, the Committee intends moving in the Senate as soon as possible for establishment of a further Inquiry by this Committee with the following terms of reference:

That the Rural and Regional Affairs and Transport References Committee inquire into the:

1. Performance and appropriateness of the existing government advisory structures in the Australian meat industry.
2. The most effective arrangements for the allocation of export quotas for Australian meat, both to the United States and Europe.

The Committee to report to the Senate on these matters by 31 October 2002.

Recommendation 2

The Committee notes the difficulties that re-allocation of beef quota will pose for industry in the current quota year and recommends that the Australian Government actively pursue with the United States Government the allocation of the US discretionary tonnage of beef to Australia.

Recommendation 3

The Committee notes that the United States has been reported as having increased its share of the Japanese beef market recently and the Committee recommends that, in light of this development, and evidence to the Committee during this Inquiry of strengthening demand in Japan, that the Government support intensified Australian beef marketing initiatives in Japan.

Recommendation 4

The Committee recommends that the Australian Meat and Live-stock Industry (Beef Export to the United States) Order 2002, when prepared, complies with the recommendations made by the Committee in this report.

Senator Winston Crane

Chairman

26 June 2002

APPENDIX ONE

LIST OF SUBMISSIONS

Submission No.	Author
1	CONFIDENTIAL
2	Rangers Valley Cattle Station
3	Hereford Prime
4	G H Keily Meat Exporters
5	Norvic Food Processing Pty Ltd
6	Bindaree Beef Pty Ltd
7	Stanbroke Pastoral Co Pty Ltd
8	Waltell Pty Ltd (Pride Meats)
9	John Dee Warwick Pty Ltd
10	Australia Meat Holdings Pty Ltd
11	Consolidated Meat Group
12	Red Meat Advisory Council Limited
13	McPhee Bros (Exports) Pty Ltd
14	Midfield Meat Group of Companies
15	OBE Beef Pty Ltd
16	G & K O'Connor Pty Ltd
16	Rockdale Beef Pty Ltd
18	Cattle Council of Australia
19	Stockyard Pty Ltd
20	E C Throsby Pty Ltd
21	Australian Meat Council

22, 22A	Louis Dreyfus Australia Pty Ltd
23	H W Greenham & Sons Pty Ltd
24	Certified Australian Angus Beef Pty Ltd
25	Northern Co-operative Meat Company Ltd
26	Cluranee International Trading Pty Ltd
27	Kilcoy Pastoral Co Ltd
28	Cudgegong (Abattoir) County Council
29	Australian Beef Association
30	VFF Pastoral Group
31	Tabro Meat Pty Ltd
32	Australian Lot Feeders' Association
33	South West Lean Young Beef Group Inc
34, 34A	CONFIDENTIAL
35	CONFIDENTIAL
36	I.M.T.P.
37	United Dairy Farmers of Victoria, Warrnambool Branch
38	Export Meat Packers Pty Ltd
39	The Tasman Group
40	Ovens River Pty Ltd
41	Hunt Partners
42	Cattle Council of Australia, Australian Lot Feeders' Assoc, Common Interest Group, Australian Meat Council Ltd

APPENDIX TWO

LIST OF WITNESSES

Canberra Monday, 17 June 2002

Department of Agriculture, Fisheries and Forestry

Mr Paul Sutton, General Manager, Meat, Wool and Dairy
Mr Roland Pittar, Manager, Meat and Livestock
Mr Jim Paradise, Executive Officer, Meat and Livestock
Mr Terry Sheales, Chief Commodity Analyst, ABARE

Australian Meat Council

Mr Ian Kennedy, Chairman AMC US Quota Committee and Chairman
Kilcoy Pastoral Company
Mr Malcolm Slinger, Director AMC and representative of the Tasman
Group
Mr Dennis Carl, Director AMC and representative Riverina Australia
Pty Ltd
Mr Bill Hetherington, Chief Executive Officer
Mr Stephen Martyn, General Manager, AMC

Cattle Council of Australia

Mr Keith Adams, President
Mr John Wyld, Vice President
Mr Justin Toohey, Executive Director

Common Interest Group (CIG)

Mr Simon Quilty, Managing Director, Q-Exports International
Mr Ted Brorsen, Managing Director, Tabro Meat Pty Ltd
Mr David Larkin, Managing Director, Pride Meats

Cudgegong (Abattoir) County Council

Mr John Harvie, General Manager

T & R Murray Bridge Pty Ltd

Mr Brian James, Director

H W Greenham & Sons Pty Ltd

Mr Peter Greenham, Managing Director (and member of National Meat Association)

Australian Lot Feeders' Association

Mr Sandy Maconochie, President
Mr Rob Sewell, Executive Director

Victorian Farmers' Federation Pastoral Group

Mr Peter Owen, United Dairy Farmers of Victoria
Mr Bill Bray, Pastoral Group, VFF

The Hunt Group

Mr Norman Hunt, Solicitor, Hunt Partners
Mr Andrew McDonald, Managing Director, Bindaree Beef Pty Ltd

Consolidated Meat Group

Mr Ray O'Dell, Executive Chairman
Mr Neil Butler, General Manager, Sales and Marketing

GH Keily Meat Exporters

Mr Greig Keily, Managing Director

Teys Bros (Holdings)

Mr Bradley Teys, Chief Executive Officer
Mr Paul Day, General Manager, Executive Service

Canberra Thursday, 20 June 2002Department of Agriculture, Fisheries and Forestry

Mr Paul Sutton, General Manager, Meat, Wool and Dairy
Mr Roland Pittar, Manager, Meat and Livestock
Mr Jim Paradice, Executive Officer, Meat and Livestock
Mr Terry Sheales, Chief Commodity Analyst, ABARE

Consolidated Meat Group

Mr Raymond O'Dell, Executive Chairman and Joint Chief Executive

Cattle Council of Australia

Mr Justin Toohey, Executive Director

APPENDIX THREE

HISTORY OF QUOTA ALLOCATION TO THE US MARKET

Year	Quota System	Rationale
1968	Diversification system under the USMIL. <ul style="list-style-type: none"> • Exporters were awarded entitlement to the US based on their export performance to other markets • Diversification factors (the amount of US quota awarded per lb exported to markets outside the US) • Quota was transferable. 	System to regulate exports to the US. Encourage the further development of alternative markets.
1976	System was changed to base entitlement to the US on Global Performance in the previous year.	- To provide greater certainty of entitlement around which exporters could base their production decision.
Dec 1976	System was altered to allow 60% quota on the basis of Global Performance during the previous year and 40% on basis of Performance to all markets outside the US and Canada.	- Provided an incentive to diversify away from the US market.
1978	System revised to base entitlement on Global export Performance in the previous year.	- Strengthening US market allowed the diversification element
1980-1981	US quota allocation scheme was suspended.	- US imported beef demand was well above Australia's capacity to supply.
1982-1983	First come first served basis.	- Export levels remained below Quota levels negotiated by Australia. Some bonding required.
1984-1985	No controls.	- US imported beef demand was well above Australia's capacity to supply.
1986	Allocated 100% on the basis of the Global Performance earned in the previous year.	- Incentive to diversify to alternate markets required based on the more moderate Global Performance rather than full diversification.
1992	Controls introduced from 1 June.	- Inequities generated by June start.
1993	Controls implemented from the start of the year.	- Large carryover, USMIL likely to be triggered early.
1994	Last year of implementation.	USMIL was replaced with a TRQ on beef and veal in 1995 of 378,214 tonnes.
1995-2000	No scheme required.	Shipments well below TRQ.
2001	TRQ triggered but no Quota controls.	No consensus for a scheme.

Source: Hassal & Associates/ AMC

APPENDIX FOUR

NOTICE TO MEAT EXPORTERS

Department of
AGRICULTURE
FISHERIES &
FORESTRY -



NOTICE TO MEAT EXPORTERS: EXPORTS OF BEEF TO THE UNITED STATES OF AMERICA

Exporters will be aware that the United States of America (US) annual beef quota of 378,214 tonnes for 2001 was filled in early December. Commencing 1 January a similar amount will be available to Australian exporters to the US for calendar year 2002.

Following representations from industry organisations and individuals covering a range of views on the need or otherwise for company specific quota allocations for 2002 the Minister for Agriculture, Fisheries and Forestry, the Hon Warren Truss, has written to the Red Meat Advisory Council (RMAC) indicating that his strongly preferred position at this stage is not to foreshadow a company-specific quota allocation system for the US market. The Minister also indicated that before he would consider any quota system, RMAC will need to make a very detailed and compelling case to the Government that quota regulation is in the interest of the industry overall, that such regulation would not lead to serious market distortions and that allocations are not made on a basis involving any retrospective change to the shipping record.

Exporters need to be aware that data on all shipments of Australian beef custom cleared to enter the US from 1 January 2002 will be recorded. If the Government subsequently decides later in 2002 to implement a quota allocation scheme it may contain a provision that any product custom cleared into the US from 1 January 2002 (whether from bond or ship) will be taken into account in respect of any allocated amount of quota a processor/exporter may receive under such a quota allocation scheme.

Enquiries regarding USA beef exports should be directed to:

The Quota Administration and Statistics Unit,
Meat, Wool and Dairy,
Agriculture, Fisheries and Forestry - Australia
GPO Box 858 Canberra, ACT 2600

Edmund Barton Building
Barton ACT
GPO Box 858
Canberra ACT 2601
ph +61 2 6272 3933
fax +61 2 6272 5161
www.affa.gov.au

18 December 2001

APPENDIX 5

MINISTER'S LETTER DATED 8 DECEMBER 2001



HON WARREN TRUSS MP
Minister for Agriculture, Fisheries and Forestry

Mr Bill Whitehead
Chairman
Red Meat Advisory Council
PO Box 286
JAMISON CENTRE ACT 2614

- 8 DEC 2001

Dear Mr Whitehead

I would like to congratulate you on your election as Chairman of the Red Meat Advisory Council. I look forward to working with you over the next 12 months.

I have received a number of approaches from industry organisations and individuals regarding Australia's beef Tariff Rate Quota (TRQ) access to the US market, in which a range of views on the need or otherwise for company quota allocations for 2002 and beyond have been argued.

It appears likely Australia's US quota limit will be reached in December. I am aware, however, there are commercial options available to importers, such as placing product in bond store until the New Year, and that many in the industry are making arrangements to cover this possibility. The main issue appears to be the potential for distortions in the US trade in early 2002, as some Australian shippers may believe they will be advantaged by accelerating imports into the US ahead of the announcement of any company-specific quota allocation system.

As I have indicated previously, I am extremely reluctant to intervene in this important trade. Experience shows that government-imposed quota allocation arrangements can never suit everyone, and often introduce costs and market distortions which may be worse than if government left the industry to manage a difficult and complex market situation itself.

Through my Department I have, however, asked the National Meat Association of Australia (NMAA) and the Australian Meat Council (AMC) to develop an agreed processing industry position on both the need for quota and, if so, what the quota administrative arrangements should be. If a compelling case can be made for company quota allocation I would be prepared to give it consideration, if there is wide industry support.



Centenary of Federation

I understand the processing industry is still discussing the issues involved, and I have encouraged industry leaders to bring forward a proposed industry position paper agreed by the NMA and the AMC. This paper will need to be circulated to all exporters, including non-packers, so that they are fully aware of what is being proposed and have an opportunity to make their views known. This is particularly important in terms of who it is proposed should receive any quota, and how product that enters the US after 1 January is regarded. I intend to then seek the Red Meat Advisory Council's (RMAC) views on that proposal, from a whole of industry perspective.

My strongly preferred position at this stage is to not foreshadow a company-specific quota allocation system for the US market. Before any quota system can be considered, RMAC will need to make a very compelling case to the Government that quota regulation is in the interest of the industry overall, that such regulation would not lead to serious market distortions and that allocations are not made on a basis involving any retrospective change to the shipping record.

I am aware of arguments that if there is no quota allocation arrangement announced soon there will be a rush of US export activity in coming months which will result in the Australian quota being filled by around September 2002, and which will mean no Australian exports to, and presence in the US market for the remainder of the year.

I appreciate there are a variety of views around regarding the beef supply and demand outlook, as well as whether the export pattern in 2001 will be repeated in 2002. The US quota is a very large quota to fill and I would have hoped that the commercial issues involved could be cooperatively managed by importers and exporters, in much the same way as the trade does in the Japanese market to avoid the triggering of the tariff snap-back provisions.

I have requested that ABARE urgently prepare forecasts and likely scenarios for Australia's future beef trade with the US and Japan, to assist the industry and the Government develop a better understanding of the market outlook.

In preparing your later advice to me on this matter, it should take into account that if a quota allocation system was to be considered by the Government for 2002 there are data limitations on which my Department might base allocations. I am advised that it is likely the only basis available to calculate quota for 2002 may be "shipper of record". Such an approach would be consistent with the EU beef quota arrangements and the former US lamb meat quota but I am aware that there are other preferred options. Proposals other than a company specific quota system should also be considered.

One of the policy reasons for any system being based on shipper of record to the US is that it would largely avoid the significant paper trade in quota that would inevitably arise from adoption of a global performance based allocation arrangement. Amongst other concerns, a global performance based allocation would benefit many with no trade history in the US market, and measures would need to be developed to avoid the emergence of the sorts of problems evident in the former EU quota allocation arrangement. However, any allocation system must offer appropriate opportunity for new market development in the US.

I will forward the joint NMAA and AMC quota issues paper to RMAC for advice as soon as it becomes available.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Warren Truss', written in a cursive style.

WARREN TRUSS

APPENDIX 6

MINISTER'S LETTER DATED 10 APRIL 2002



HON WARREN TRUSS MP
Minister for Agriculture, Fisheries and Forestry

10 APR 2002

Mr Bill Whitehead
Chairman
Red Meat Advisory Council Ltd
PO Box 286
Jamison Centre
JAMISON ACT 2614

Dear Mr Whitehead

Thank you for your letter of 8 March 2002 and the subsequent detailed submission provided on 19 March 2002 regarding the Red Meat Advisory Council's (RMAC) consideration of Australia's beef tariff rate quota (TRQ) access to the US market.

I appreciate RMAC's efforts in attempting to achieve an outcome acceptable to all in the industry and have considered the proposal you have put to me. I am however concerned that the RMAC proposal does not seem to deliver the key requirement of a compelling case for management of the quota supported by the large majority of the industry. The fact that industry remains strongly divided on the actual allocation mechanism needs to be addressed.

I appreciate the fact that RMAC is currently working towards a greater level of consensus within the industry and I strongly encourage this course of action. I understand that a meeting is to be called to discuss US quota management during the next two weeks. I commend this initiative and ask that you convey my best wishes to the meeting. I appreciate that the issues are difficult but I want to again emphasise the importance of achieving an industry consensus, if you wish Government to intervene to regulate this quota.

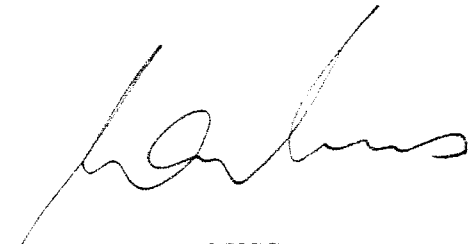


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I have asked my Department to continue to liaise with the RMAC Secretariat as consideration of this matter is progressed. In a bid to achieve industry consensus

I look forward to any further advice that RMAC may provide on this important issue.

Yours sincerely



WARREN TRUSS