

**SENATE RURAL AND REGIONAL AFFAIRS AND
TRANSPORT LEGISLATION COMMITTEE**

**Government Response to the Reports on
the Australian Meat Industry Consultative Structure
and Quota Allocation**

First report: Allocation of the US beef quota
(24 September 2002)

Second report: Existing government advisory structure
in the Australian meat industry
(12 December 2002)

**GOVERNMENT RESPONSE TO THE
SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT
LEGISLATION COMMITTEE REPORT ON THE AUSTRALIAN MEAT
INDUSTRY CONSULTATIVE STRUCTURE AND QUOTA ALLOCATION**

Introduction

On 27 June 2002 the following matters were referred to the Senate Rural and Regional Affairs and Transport Legislation Committee for inquiry:

- a) The performance and appropriateness of the existing government advisory structures in the Australian meat industry; and
- b) The most effective arrangements for the allocation of export quotas for Australian meat, both to the United States and Europe.

The Committee received submissions and heard evidence from interested parties and presented its report in two stages. The first report on the allocation of the US beef quota was tabled in the Senate on 24 September 2002 and the second report on the existing government advisory structures in the Australian meat industry was tabled on 12 December 2002.

The Government response to both reports is as follows.

FIRST REPORT: Allocation of the US Beef Quota

Recommendation 1. *The Committee recommends that the following model be adopted as an ongoing model for the allocation of United States beef quota to exporters:*

- a) *Quota to accrue to the company or group of companies and not to the establishment;*
- b) *Company performance to determine quota entitlement rather than shipper or processor of record;*
- c) *The first allocation of quota to a company to be on 1 November, based on the exports for the entire previous shipping year;*
- d) *Quota to be allocated in three equal tranches, ie on 1 November, 1 March and 1 July, with the allocation of each tranche being based on performance over the preceding 12 month rolling period;*
- e) *Both performance and entitlement to be tradeable;*
- f) *Companies to assure AFFA by 1 September each year that their entitlement will be utilised;*
- g) *Where a company cannot use their entitlement, any unused entitlement to be returned by 1 September to a quota pool for re-allocation;*
- h) *Re-allocation of unused quota to be consistent with the EU high quality beef quota scheme;*

- i) *Where a company has failed to notify AFFA and failed to use its quota entitlement, the amount not used in a shipping year will be debited from that company's account in the following shipping year.*

Recommendation 2. *The Committee recommends the following transition provisions:*

- a) *As a transition provision for 2003, those companies who were more than 70% reliant on the US market in export year 2001, be allocated the equivalent of their total 2002 US quota allocation, ie their initial allocation and any discretionary allocation that the company may have received;*
- b) *The remainder of the 2003 US beef quota tonnage be allocated on a global basis;*
- c) *As a transition provision in 2004, companies who remain more than 70% reliant on the US market in 2003, the 2004 allocation be 85% of the 2003 allocation;*
- d) *The remainder of the 2004 US beef quota tonnage be allocated on a global basis.*

Government Response. Recommendation 1(e) is accepted in part but all other sub-sections of Recommendations 1 and 2 have not been accepted. The Government has accepted the model recommended by the independent Quota Management Panel that was set up to advise on quota allocation arrangements for 2003 and beyond. The components that have been adopted by the 80:20 US-Inclusive Model are:

- Allocation will be based on shipper of record.
- Allocation formula will be 80% US:20% global including US.
- Over-quota shipments in 2002 as part of the 378,214 tonne TRQ have been counted towards the granting of quota. However, out of quota shipments will not be counted towards the granting of quota in 2003 or in future years (except where it contributes to the global component of quota entitlement calculations).
- Quota allocation will be calculated on a three year rolling average based on the previous shipping year (1 November to 31 October). In 2003, the allocation will be based on the average of 2001 and 2002. In 2004, the allocation will be based on the average of 2001, 2002 and 2003. From then on, quota allocation will be based on the three year rolling average.
- As a special "one-off" measure for 2003, 15,000 tonnes of quota will be set aside as a discretionary provision for exporters adversely affected by the change from "processor of record" to "shipper of record" or by abnormal events in the base years.
- Quota will be transferable, except for those related to discretionary quota.
- Where allocation is made to a shipper of record, the shipper needs to hold a meat export licence issued under section 10 of the *Australian Meat and Live-stock Industry Act 1997*.

Recommendation 3. *The Committee further recommends that a review of the necessity for the transition provisions be undertaken within 18 months.*

Government Response. Recommendation 3 is accepted in principle with the timing for the formal review of the allocation system to be undertaken in 2005.

CONCLUSION

The Government has not accepted the majority of the Senate Committee recommendations. The Government believes that commercial considerations should drive the establishment of new markets, rather than Government imposed quota allocation systems. A 100% global model would have the effect of forcing costly

market diversification practices on certain sectors of the industry and artificially distorting price signals and market forces. In particular, the adoption of the 100% global model would significantly shift quota away from companies that have built a market share in the US and reallocate it to globally oriented companies. A significant number of smaller and mid-sized regional abattoirs with a heavy dependence on the US market would have been particularly affected by this change.

The Government believes the 80:20 Model recommended by the independent Quota Management Panel and implemented from 1 January 2003 to be the most efficient, fair, equitable and transparent system to administer. Industry has generally accepted the 80:20 Model.

SECOND REPORT: Existing government advisory structures in the Australian meat industry

Recommendation 1. *The Committee recommends that the Minister initiate discussions with the signatories to the MOU concerning reformed advisory arrangements. The Committee recommends that following these negotiations the Minister engage in detailed and open consultation with all sections of the Australian meat industry on options for a reformed or alternative industry advisory structure.*

Government Response. Recommendation 1 is accepted. The Government is aware that industry is considering the Committee's report and has written to industry participants seeking their views on the arrangements. As a signatory to the MOU the Government is willing to participate in industry discussions on options for reform, and to consider views put to it by industry participants. The Government notes nonetheless that the main impetus for change should necessarily come from industry given the principles of industry ownership and self-determination underpinning the existing institutional arrangements.

Recommendation 2. *The Committee recommends that any new advisory body established for the Australian meat industry be empowered to initiate advice to the Minister. Notwithstanding this, individual industry participants, whether represented on the advisory body or not, must retain the right to make representations to the Minister on any matter of concern.*

Government Response. Recommendation 2 is accepted. All sectors of the industry are currently free to approach the Government on any matters of concern.

Recommendation 3. *The Committee recommends that any organisations appointed by the Minister to the list of Prescribed Industry Bodies be eligible for appointment to the industry advisory body, and that the view of existing advisory body members should not necessarily determine the success of the appointment or membership of the advisory body.*

Government Response. Recommendation 3 is accepted. All parties appointed by the Minister to the list of Prescribed Industry Bodies are presently eligible for appointment to the industry advisory body. The Government, however, is not able to insist that an eligible Prescribed Body should be appointed to the advisory body. This is a matter for the advisory body to determine and is subject to the Prescribed Body becoming a signatory to the MOU.

Recommendation 4. *The Committee recommends that the MLA Board consult with its membership on democratic reform of the MLA's Articles of Association. In the absence of progress on this matter before the 2003 MLA Annual General Meeting, the Committee recommends that the Minister engage in detailed and open consultation with levy payers on reform options for a more democratic board selection process.*

Government Response. Recommendation 4 is accepted in principle noting that any change to the MLA Articles of Association or the board selection processes is a matter for the MLA Board and membership to consider. The Government further notes that MLA is a company formed under the Corporations Act and the Government has no direct power to intervene on these matters. The Government nonetheless has encouraged MLA to consider making the board selection process more democratic and open to participation by MLA members.

Recommendation 5. *The Committee recommends that the Minister negotiate with signatories to the MOU on alternative arrangements for the disbursement of earnings of the Red Meat Industry Reserve Fund.*

Government Response. Recommendation 5 is accepted in principle. However, the Government notes that, as an MOU co-signatory, the Commonwealth cannot unilaterally instigate changes to the funding arrangements. The Government nonetheless has encouraged the Red Meat Advisory Council (RMAC) and other industry members to examine these matters and the Government is willing to consider advice received.

Recommendation 6. *The Committee recommends that the advisory body develop a detailed industry strategic plan, and that consideration be given to the use of competitive contract to deliver elements of the strategic plan.*

Recommendation 7. *The Committee recommends that the selection committee for the contracts include an independent probity auditor and a representative of AFFA.*

Recommendation 8. *The Committee recommends that the size and recipient of these contracts, and outcomes delivered, be placed on the advisory body's web site, and reported by AFFA to the Minister.*

Government Response. Recommendations 6, 7 and 8 are accepted. The Government understands that RMAC is reviewing the existing industry strategic plan. The Government is willing to consider advice from RMAC on the administrative arrangements for delivery of the strategic plan.

CONCLUSION

The Government notes that the existing arrangements were put in place to provide for greater industry ownership and self-determination on matters relevant to industry participants. The Government believes that any changes to the arrangements are primarily a matter for industry to consider. As a signatory to the MOU the Government is willing to encourage industry to consider ways of improving its consultative arrangements and service delivery. In this context, the Government has written to signatories of the MOU seeking their views on the existing arrangements, and encouraging them to consider reforms, where appropriate.

While the Government accepts that the validity of engaging the industry on the issues raised by the Committee, it notes that any actions it can take are limited and that it is ultimately up to industry to carry forward any reforms.