
Rural and Regional Affairs and
Transport Legislation Committee

**The Australian meat industry consultative
structure and quota allocation**

Interim report: Allocation of the US beef quota

September 2002

© Commonwealth of Australia 2002

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.

MEMBERS OF THE COMMITTEE

Members

Senator Bill Heffernan	LP, New South Wales	Chairman
Senator Geoffrey Buckland	ALP, South Australia	Deputy Chairman
Senator John Cherry	AD, Queensland	
Senator Richard Colbeck	LP, Tasmania	
Senator Jeannie Ferris	LP, South Australia	
Senator Kerry O'Brien	ALP, Tasmania	

Participating Members

Senator Abetz	Senator Faulkner	Senator S Macdonald
Senator Bartlett	Senator Ferguson	Senator McLucas
Senator Boswell	Senator Greig	Senator Murphy
Senator Brown	Senator Harradine	Senator Payne
Senator Calvert	Senator Harris	Senator Ray
Senator Carr	Senator Heffernan	Senator Stephens
Senator Chapman	Senator Hutchins	Senator Tchen
Senator Coonan	Senator Knowles	Senator Tierney
Senator Eggleston	Senator Lightfoot	Senator Watson
Senator Evans	Senator Mason	

Committee Secretariat

Ms Robina Jaffray	(Acting Secretary)
Ms Trish Carling	(Acting Principal Research Officer)
Ms Shirani Visvanathan	(Executive Assistant)

Parliament House, Canberra
Telephone: (02) 6277 3511
Facsimile (02) 6277 5811

Internet: www.aph.gov.au/senate
Email: rrat.sen@aph.gov.au

TABLE OF CONTENTS

MEMBERS OF THE COMMITTEE	III
ABBREVIATIONS	VII
CHAPTER ONE	1
THE COMMITTEE'S INQUIRY	1
Origin of Inquiry	1
The Committee's Inquiry	1
Consideration of the Committee's Report	2
Acknowledgments	2
CHAPTER TWO	3
BACKGROUND	3
Introduction	3
History of the United States Market	3
The Role of the Red Meat Advisory Council (RMAC)	5
The Need for Quota Management	5
Senate Inquiry	8
The Truss Model	11
CHAPTER THREE	13
GLOBAL ALLOCATION PROPOSAL	13
Introduction	13
Australian Meat Holdings Global Allocation Model	13
Industry Support for Australian Meat Holdings Global Allocation Model	18
Criticisms of Australian Meat Holdings Global Allocation Model	22
Criticisms of the amended AMH model	26
CHAPTER FOUR	27
ALTERNATIVE PROPOSALS	27
Introduction	27
Response to the Current Quota Allocation Model	27
Alternative proposals	29
Country specific/market based proposal	31

CHAPTER FIVE	37
CONCLUSIONS AND RECOMMENDATIONS	37
Allocation of Quota Options	37
Conclusions and Recommendations	39
APPENDIX ONE	41
SUBMISSIONS	41
APPENDIX TWO	43
WITNESSES	43

ABBREVIATIONS

ABARE	Australian Bureau of Agricultural and Resource Economics
ABBA	Australian Branded Beef Association
AFFA	Agriculture, Fisheries and Forestry Australia
ALFA	Australian Lot Feeders' Association
AMC	Australian Meat Council
AMH	Australian Meat Holdings Pty Ltd
AMLC	Australian Meat and Livestock Corporation
CAAB	Certified Australian Angus Beef Pty Ltd
CCA	Cattle Council of Australia
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 27 June 2002 the following matters were referred to the Senate Rural and Regional Affairs and Transport Legislation Committee for inquiry and report by 31 October 2002:

- (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.¹

The Committee's Inquiry

1.2 Following the referral of the Inquiry, the Committee advertised the reference in both the *Australian* and *The Sydney Morning Herald*. The Committee also wrote to a number of key stakeholders to invite submissions. A total of 29 written submissions was received. A list of written submissions is included at Appendix 1.

1.3 During the initial stages of its Inquiry, the Committee noted the 1 October 2002 reporting date for the Government appointed Quota Management Panel. As a result, on 28 August 2002, the Committee announced its intention to table an interim report (on the issue of quota allocation to the United States) in September, to allow the Panel the opportunity to consider the Committee's report as part of its process.

1.4 The Committee will report at a later date on the issues of export quotas for Australian meat to Europe and the appropriateness of the current government advisory structures in the Australian meat industry.

1.5 The Committee held public hearings on the issue of quota allocation to the United States on Monday 19 August 2002, Tuesday 20 August 2002 and Wednesday 28 August 2002.

1.6 The Committee heard evidence from key organisations such as the Red Meat Advisory Council (RMAC), the Australian Meat Council (AMC), the Cattle Council of Australia and the Australian Lot Feeders' Association (ALFA).

1.7 The Committee also received evidence from representatives of individual export and processing companies, including Australian Meat Holdings (AMH), Rockdale Beef Pty Ltd, H W Greenham & Sons Pty Ltd, The Hunt Group, Northern

1 Extract from *Journals of the Senate*, No. 21, 27 June 2002

Co-operative Meat Company Ltd, Kilcoy Pastoral Company Ltd, Bindaree Beef Pty Ltd and Monbeef Pty Ltd.

1.8 Officers from Agriculture, Fisheries and Forestry Australia (AFFA) provided evidence at both the 19 and 28 August hearings. A complete list of witnesses who appeared at the hearings is included at Appendix 2.

1.9 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).

Consideration of the Committee's Report

1.10 The Committee met on 19 September 2002, 20 September 2002 and 23 September to consider its report.

Acknowledgments

1.11 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.

CHAPTER TWO

BACKGROUND

Introduction

2.1 The following chapter provides a history of beef exports to the United States, and a background to the Committee's current Inquiry into the Australian meat industry consultative structure and quota allocation. The chapter also provides an overview of the Rural and Regional Affairs and Transport Legislation Committee's recent Inquiry into the introduction of quota management controls on Australian beef exports to the United States.

History of the United States Market¹

2.2 In 1968, following the introduction of the United States Meat Import Law, a diversification system was introduced for allocating Australia's beef and veal quotas to the United States. The system, introduced with a view to encouraging operators to develop alternative markets, awarded entitlement to the US based on operators' export performance to markets other than the United States.

2.3 During the late 1960's and the 1970's the trend toward encouraging market diversification continued, with operators being awarded entitlement to the United States based on their exports to other markets.

2.4 In 1976, changes were made to the way quota was allocated. In order to provide exporters with a greater level of certainty, the decision was made to base US quota entitlement on an operator's global performance in the previous year.

2.5 In December 1976, further amendments were made to the US quota allocation system. As part of an incentive scheme to diversify away from the US market, the system was changed 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 Canada and the US.²

1 The section on the history of the US market is based on *Options for Managing Australian Beef Exports to the United States*, a report prepared for the Cattle Council of Australia by ACIL Consulting, 13 March 2002, pp 1-5 and Red Meat Advisory Council's Submission to the Rural and Regional Affairs and Transport Legislation Committee, Inquiry into the Introduction of Quota Management Controls on Australian Beef Exports to the United States by the Minister for Agriculture, Fisheries and Forestry, *Submission 12*, pp 2 -5

2 Red Meat Advisory Council Submission to Rural and Regional Affairs and Transport Legislation Committee, Inquiry into the Introduction of Quota Management Controls on Australian Beef Exports to the United States by the Minister for Agriculture, Fisheries and Forestry, *Submission 12*, p 6

2.6 In 1978, because of a strengthening US market, diversification became a less significant issue. The decision was taken to revise the system to one based on global export performance in the previous year.

2.7 Between the years of 1980 and 1986 export levels were well below the quota and the quota allocation scheme was suspended. In 1986, an allocation system was reintroduced with entitlement based on 100% of the global performance earned the previous year. It was intended that this system would encourage operators to diversify to markets other than the United States. This system was abandoned again in 1994, when allocation controls were no longer necessary.

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 Following negotiations, those countries which were major exporters of beef to the United States were awarded individual rates of quota as detailed in Table 2.1 below.

TABLE 2.1 - US BEEF IMPORT QUOTAS³

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

3 Red Meat Advisory Council Submission to Rural and Regional Affairs and Transport Legislation Committee, Inquiry into the Introduction of Quota Management Controls on Australian Beef Exports to the United States by the Minister for Agriculture, Fisheries and Forestry, *Submission 12*, Attachment B, RMAC Submission to the Minister for Agriculture, Fisheries and Forestry, dated 19 March 2002, p 5

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 Currently, 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. 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 prohibitive.

The Role of the Red Meat Advisory Council (RMAC)

2.12 Until 1998, the Australian Meat and Livestock Corporation (MLC), in consultation with industry, was responsible for the management of quota arrangements in relation to US beef exports.

2.13 In July 1998, following a restructuring of the meat industry, administration of quota management issues became AFFA's responsibility. The Red Meat Advisory Council (RMAC) was also formed in 1998 and took on the role as the industry's peak advisory body.

2.14 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.

2.15 The Committee will comment further on RMAC's role in its final report.

The Need for Quota Management

2.16 Until 2000, it appeared that Australia's TRQ was well above the demand of the US market. The situation has since changed however, and it now appears that the US quota will be filled during the current quota year and that this situation may continue for several years.⁴

2.17 There are a number of contributing factors which have led to the current situation in relation to beef exports to the United States, including:

- a) The strong US demand for beef;
- b) The current stage of the US cattle cycle and a growing beef output in Australia;
- c) The weaker Japanese market (due to the BSE scare);

4 *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

- d) The existence of foot and mouth disease in other source countries (such as Argentina);
- e) The low exchange rate of the Australian dollar against the US dollar; and
- f) The high prices being paid for beef on the US market.⁵

2.18 The issue of quota controls to the US became a source of concern to some sections of the beef industry early in 2001. The Australian Meat Council raised the issue with AFFA in April 2001, arguing that there was a need for the industry to reach a consensus on a strategy to manage Australia's access to the US market.⁶

2.19 The Minister for Agriculture, Fisheries and Forestry, The Hon. Warren Truss, MP, formally wrote to the Chairman of the Red Meat Advisory Council (RMAC) on 8 December 2001. The Minister requested the Council's advice as to whether it was necessary to implement a system to manage Australia's shipment of beef to the US and, if so, to recommend an appropriate system.

2.20 In a Notice to Meat Exporters dated 18 December 2001, AFFA acknowledged that several industry bodies had raised the issue of US beef quota management. Exporters were informed that Minister Truss had written to RMAC, seeking the Council's advice on possible management strategies in relation to the US beef quota. AFFA also noted the Minister's preferred position not to foreshadow a company-specific quota allocation system for the US market.⁷

RMAC proposal

2.21 In response to the Minister's request for advice (8 December 2001) RMAC organised a series of consultations with industry, including an Industry Forum, held in Sydney in February 2002. Following its consultation process, the Council put the first of its proposals, which included ten recommendations, to the Minister on 13 March 2002.

2.22 On 10 April 2002, the Minister's reply to the Chairman of RMAC indicated that he had concerns about a number of the Council's recommendations and the fact that industry remained strongly divided on the actual allocation mechanism. The Minister's concerns were based on the fact that representatives of the National Meat Association had abstained from voting on a number of the recommendations.

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, p 1

6 Australian Meat Council, Submission to Rural and Regional Affairs and Transport Legislation Committee, Inquiry into the Introduction of Quota Management Controls on Australian Beef Exports to the United States by the Minister for Agriculture, Fisheries and Forestry, *Submission 21*, p 4

7 Department of Agriculture, Fisheries and Forestry Australia, *Notice to Meat Exporters: Exports of Beef to the United States of America*, 18 December 2001

2.23 In an attempt to achieve consensus, the RMAC Board met again in Melbourne on 29 April 2002. The Board reached unanimous agreement and provided the following proposal (which included fourteen recommendations) to Minister Truss on 30 April 2002:

- a) A US Beef quota management scheme should be implemented as soon as possible;
- b) The target start up date for the management scheme should be 1 May 2002 with allocation based on quota available from 1 January 2002, ie 2002 clearances to be debited against entitlement;
- c) Quota should be transferable;
- d) Quota should be transferable with or without performance;
- e) Operators should be able to trade simultaneously in and out of quota;
- f) Quota allocation for 2002 should be based on a shipper of record system for the period 1 November 2000 to 31 October 2002, and respect commercial agreements in place between the processor and shipper of record. Allocation for 2003 should be based on performance back to the processor;
- g) 2002 allocations should be based on 2001, but if no quota administration scheme is in place by 1 July 2002 the allocations for 2003 quota year should be based on 2001;
- h) Any out of quota shipments to the USA should earn entitlement;
- i) AFFA's role in quota administration should be on a cost recovery basis (from the trade);
- j) The basis for allocation should be based on 60% USA/40% global exports, excluding the USA;
- k) 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;
- l) Companies given an allocation through the hardship provision should not be able to trade any allocation in that year;
- m) In relation to the administration of the hardship quota, applications would be called for within 30 days of public notification, and no allocations would be made until any applications from specialists (ie. those with over 80% market dependency) had been arbitrated; and

- n) RMAC would 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.⁸

Minister's response to the RMAC proposal

2.24 On 15 May 2002, Minister Truss announced the Government's decision to introduce quota management controls on Australian beef exports to the United States. Minister Truss indicated that, while he accepted RMAC's recommendation for a 60/40 division, he was also concerned that the proposal would impose an unfair penalty on processors already committed to the US trade and possibly provide windfall gains to operators with little or no commitment to the US trade.

2.25 The proposal announced by the Minister on 15 May 2002 recommended that:

- a) Limits be placed on the maximum losses and gains compared to past shipments. (The effect of which would be that no company would receive less than 85 per cent or more than 140 per cent of the 2001 export levels);
- b) Processors who supplied more than 90 per cent of their exports to the US would be allocated 90 per cent of their adjusted tonnage shipped to the US in 2001;
- c) Quota allocation for 2002 and 2003 would be based on processor of record exports in the period 1 November 2000 to 31 October 2001;
- d) Deliveries since 1 January 2002 would 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 would be set aside for those processors who were able to demonstrate hardship; and
- f) The system would be reviewed in June 2003, in time for the 2004 quota year.⁹

Senate Inquiry

2.26 Following the Minister's May announcement, the issue of quota management controls on beef exports to the United States was referred to the Rural and Regional Affairs and Transport Legislation Committee.

8 Red Meat Advisory Council Submission to Rural and Regional Affairs and Transport Legislation Committee, Inquiry into the Introduction of Quota Management Controls on Australian Beef Exports to the United States by the Minister for Agriculture, Fisheries and Forestry, *Submission 12*, pp 6-7

9 *Truss announces US beef export quota controls*, Media Release (107 of 02) dated 15 May 2002

Terms of reference

2.27 The following Terms of Reference were referred to the Committee on 16 May 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).¹⁰

Conduct of inquiry

2.28 Following the referral of the Inquiry, the Committee contacted individual beef producers, processors and exporters and invited them to provide submissions. The Committee also contacted the Department of Agriculture, Fisheries and Forestry (AFFA) and all relevant peak bodies to invite submissions.

2.29 The Committee received over 40 submissions and held two public hearings as part of its Inquiry. The Committee heard evidence from key organisations such as the Australian Meat Council (AMC) the Cattle Council of Australia and the Australian Lot Feeders' Association (ALFA).

2.30 The Committee also took evidence from representatives of individual export and processing operations such as 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).

Committee recommendations

2.31 Evidence provided to Committee's Inquiry indicated that the Minister Truss' May 2002 proposal did not have the support of peak industry bodies. Together with several processors (including a number of regional operators) the peak bodies argued that the proposal put forward by Minister Truss should not be proceeded with for quota year 2002.

2.32 The Committee also received submissions and heard evidence from operators who expressed support for the Minister's proposal. A number of individual processors and exporters, representing approximately seventy percent of exports to the US, recommended that the proposal be adopted unchanged.

2.33 The Committee tabled its report on *The Introduction of Quota Management Controls on Australian Beef Exports to the United States by the Minister for Agriculture, Fisheries and Forestry* on 26 June 2002.

2.34 The Committee's report expressed its concerns about the time taken for the Minister to finalise a proposal on the allocation of US beef quota. The Committee also

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

indicated that it was concerned that the "processes available for arriving at a decision regarding the beef industry may need serious review".¹¹

2.35 The Committee also noted that:

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.¹²

2.36 As a result of the Committee's concerns, and with a view to achieving a workable and equitable result for the management of quota allocation to the US for the quota year 2002, the Committee made a number of recommendations which related to both the immediate issue of the management of the 2002 quota and other long term issues:

Recommendation 1

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.

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.

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

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.

11 Report of the Senate Rural and Regional Affairs and Transport Legislation Committee, *The Introduction of Quota Management Controls on Australian Beef Exports to the United States by the Minister for Agriculture, Fisheries and Forestry*, June 2002, p 23

12 Report of the Senate Rural and Regional Affairs and Transport Legislation Committee, *The Introduction of Quota Management Controls on Australian Beef Exports to the United States by the Minister for Agriculture, Fisheries and Forestry*, June 2002, p 23

Recommendation 3

The Committee notes that the United States has been reported as having increased its share of the Japanese market recently and the Committee recommends that, in the 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.¹³

The Truss Model

2.37 Following the tabling of the Committee's report, the Minister's 27 June 2002 media release announced the introduction of the new regulations and indicated that the date for the gazettal of the revised Orders would be 28 June 2002. The revised Truss model provided for the following:

- a) The inclusion of 30,000 tonnes discretionary allocation as per the Committee's recommendation (an increase from the 14,000 tonnes the Government had originally proposed);
- b) The 30,000 tonnes required for the discretionary provisions to be deducted evenly from all quota allocations (all processors would have their allocations reduced by approximately 4.5 percent);
- c) The quota to be allocated on the basis of 60 percent US performance and 40 percent global, with a minimum allocation of 85 percent of 2001 US deliveries and a maximum of 140 percent;
- d) Quota to be fully transferable;
- e) The establishment of an independent tribunal to allocate the discretionary 30,000 tonnes;
- f) The tribunal's role to include the on-going provision of advice on the allocation of all quotas in the red meat industry; and
- g) The tribunal to report by 1 October 2002 on any required amendments to the arrangements for the distribution of quota for 2003.¹⁴

13 Report of the Senate Rural and Regional Affairs and Transport Legislation Committee, *The Introduction of Quota Management Controls on Australian Beef Exports to the United States by the Minister for Agriculture, Fisheries and Forestry*, June 2002, pp 23-25

14 *US beef quota management plan*, Media Release (AFFA02/158WT) dated 27 June 2002

CHAPTER THREE

GLOBAL ALLOCATION PROPOSAL

Introduction

3.1 During its Inquiry, the Committee received submissions and heard evidence from major stakeholders in the Australian meat industry, a number of whom put forward specific proposals regarding the future management of quota allocation. The proposal put to the Committee by Australian Meat Holdings Pty Ltd (AMH), a global allocation proposal, has received considerable industry support.

3.2 The following chapter outlines the quota allocation model proposed by AMH and the arguments in support of other quota allocation systems based on a global model. This chapter also summarises arguments and proposals put forward by those stakeholders who argue against a global model for the distribution of quota to the United States.

Australian Meat Holdings Global Allocation Model

3.3 Australian Meat Holdings (AMH) provided the Committee with a major submission which outlined the company's position on quota allocation. The submission also provided details of a model for industry restructure and included a detailed proposal for a new system of quota allocation.

3.4 The AMH proposal argued that "Quota allocation for 2003 and future years should reflect more contemporary "real-time" activity rather than historical activity"¹. The model proposed by AMH is a global based system where entitlement is based on real-time export activity, by establishment and assessed at quarterly intervals.² AMH argued that a global allocation model more accurately reflects a more diversified export focus.

3.5 AMH pointed to the fact that the meat processing industry is significantly affected by both seasonality in production and market demand. AMH argued that its new model takes account of these factors and allows this reality to be reflected in the quota scheme.³

3.6 The proposal put to the Committee is based on the following elements:

- a) Quota allocation for 2003 based on a global allocation model;

1 *Submission 3A*, Australian Meat Holdings Pty Ltd, Attachment 3

2 *Evidence*, RRA&T, 19 August 2002, p 7

3 *Submission 3*, Australian Meat Holdings Pty Ltd, p 1; *Evidence*, RRA&T, 19 August 2002, p 7

- b) Quota allocation for 2003 and future years based on more contemporary 'real time' activity, rather than historical activity (operated on a quarterly basis for each establishment);
- c) Four equal allocations of quota each year;
- d) Companies to advise AFFA by 1 October each quota year that the entitlement will be utilised by the end of the quota year. In the event that the quota is not able to be utilised the entitlement reverts to AFFA for reallocation;
- e) No discretionary 'hardship' provisions for 2003 and no new entrant provisions;
- f) Allocation based on a commitment to competitiveness enhancement; and
- g) Quota being completely tradeable.⁴

Quota Allocation for 2003 based on a global allocation model

3.7 AMH argued strongly for a global export based model given the diversification which has now taken place in the industry generally and within the AMH itself. They stated:

Our company is the biggest meat processor in Australia. We process in excess of 1.3 million grown cattle annually. We are responsible for the export of around 25 percent of Australia's exports. We are also responsible for approximately 25 percent of Australia's exports to the US. We would argue that we have led the way for the Australian industry in terms of investment and improved competitiveness for the last 10 years. Our shareholders have committed hundreds of millions of dollars in support of the AMH business to get it where it is today.⁵

3.8 AMH argued that a global model "is a clear attempt by us to develop a model that reflects current activities at a processor establishment level and enables maximum efficiency and equity in quota allocation."⁶ They also argued that their commercial decision to establish a global business in order to maximise the value from its product range and to minimise reliance on a single market is reflective of the Industry Commission Report on Meat Processing and government policy to encourage diversification⁷. The Committee notes that there has been an increased diversification

4 The outline of the AMH proposal is based on *Evidence*, RRA&T, 19 August 2002, pp 7-13; *Submission 9B*, Australian Meat Council, Attachment 1; *Submission 3*, Australian Meat Holdings Pty Ltd, pp 1-5 and *Submission 3B*, Australian Meat Holdings Pty Ltd, pp 1-6;

5 *Evidence*, RRA & T, 19 August 2002, p 7

6 *Evidence*, RRA & T, 19 August 2002, pp 7-8

7 Industry Commission, *Meat Processing, Report No. 38*, April 1994, p 49

of product away from the US market in the period from May 2002 (date of Minister Truss' 60:40 capped model).

3.9 AMH acknowledged that a global model for quota allocation may have a negative impact on those processors committed to the US trade. The company therefore supported the Minister's decision to base quota allocation on both global and US exports in shipping year 2002.

Quota entitlement based on 'real time' activity and allocated on a quarterly basis

3.10 AMH argued that the meat industry is affected by seasonality in both livestock products and beef marketing and that operators are often faced with making commercial decisions in which time is an important variable. AMH also asserted that processors and producers are constantly dealing with a dynamic, ever-changing market in which they attempt to predict outcomes and act accordingly.

3.11 AMH was of the view that entitlement and quota allocation for 2003 should reflect more contemporary real-time activity rather than historical activity and that it should be assessed on a quarterly basis for each establishment.

Allocation of quota

3.12 AMH proposed that 8000MT of the 378 214MT quota would be set aside to allow for reconciliation of AFFA and US Customs data. The remaining balance of 370 214MT would be allocated in four equal tranches of 92 553.5MT on the following basis:

- a) Four equal allocations of quota each year - on 1 November, 1 February, 1 May and 1 August
- b) Allocation at these dates to be based on global export performance for the previous quarter;
- c) However, for 2003, the first allocation of quota would be 1 November 2002, based on global exports for the previous quarter (ie 1 August to 31 October 2002). (If AFFA considers this to be an onerous process, consideration could be given to a one month lag (ie 1 July to 30 September).

3.13 Under the AMH proposal, processors must notify AFFA in writing by 1 October 2003 that they will utilise the US entitlement in their account by 31 December 2003. If processors are unable to utilise the allocated quota, the quota shortfall would immediately be returned to AFFA for re-allocation. Re-allocation would then be based on performance over the period 1 August 2002 to 31 July 2003.

3.14 It is also proposed that any unused entitlement in a processor's account as at 31 December 2003 would be debited against their 2004 account in the event an entitlement allocation system is put in place for that period.

3.15 It is envisaged that the principles listed above would also apply for any quota years beyond 2003.

Tradeability of quota

3.16 The AMH proposal would allow processors the full shipping year to use quota, ie it does not have to be used in the three-month period in which it was allocated. In the event a processor is unable to use a full quota entitlement it would be returned to AFFA for re-allocation or the processor may choose to trade it.

3.17 Under the proposed model, when an operator sells quota it is the buyer who becomes the shipper of record and it is the buyer who would generate entitlement rather than the seller or trader of the quota.

3.18 It is envisaged that if an operator sells any part of quota entitlement they would not be eligible for allocation of that quota in the next round. AMH argued that because it is an activity based model, the operator would be required to buy the quota back, when and if they decided to re-enter the market.

Hardship provisions

3.19 The model does not include discretionary hardship provisions for 2003. AMH argued that the discretionary allocation was introduced to take into account events in 2001, prior to the introduction of the quota scheme. AMH also expressed the view that now the quota scheme is in place, there is no justification for extending this provision.

New entrants

3.20 The AMH model does not allow for the provision of quota to new entrants. AMH argued that new entrants would be able to commence operations without any quota. New operators would be required to sell to diversified markets for the first three months to qualify for entitlement to the US. In order to export to the US, they would be required to buy entitlement from another operator.

Allocation based on a commitment to competitiveness enhancement

3.21 AMH also submitted that quota allocation should also be based on an operator's commitment to enhancing and maximising its competitiveness in the market.

Benefits of the global allocation model

3.22 Australian Meat Holdings argued that a global model for the allocation of quota would have the following benefits:

- a) It would support the fundamental principles of efficiency and fairness and allow businesses to be managed in an orderly and efficient manner;
- b) It would promote activity and continued competition for cattle amongst processors, and therefore maximise the value of quota;

- c) It would seek to promote diversification without the need for an arbitrary system of entitlement, based on supplying some percentage of the US market and some percentage of other markets; and
- d) It would be consistent with the four major government objectives - minimal market distortion, minimal disruption to commercial relationships, ease of administration and a minimum of discretionary decisions (ie a minimal role for government).⁸

Amendments to Australian Meat Holdings global allocation model

3.23 Following a meeting of the Quota Management Panel and industry participants, held in Sydney on Wednesday 11 September 2002, AMH provided the Committee with a further submission.⁹ The supplementary submission provided details of amendments AMH had made to its original proposal for quota allocation.

3.24 The amendments made, can be summarised as follows:

- a) Quota to be allocated in four equal tranches of 94 533.5MT, given AFFA's advice that there was no requirement for a set aside provision;
- b) Quota to accrue to the company or group of companies and not to the establishment;
- c) Company performance to determine quota entitlement rather than shipper or processor of record;
- d) The first allocation of quota to a company in any quota year to be based on the exports for the entire previous shipping year, however, the date of quota allocation remains 1 November;
- e) The inclusion of a one-year transition mechanism for companies that were more than 80% reliant on the US markets for the period from 1 November 2001 to 31 October 2002. Companies in this category would receive 80% of their share of US shipments that they would have received under the current model; ie the 2002 model together with the discretionary allocation.¹⁰
- f) Both performance and entitlement would be tradeable;
- g) New entrants to be given an entitlement after a maximum of three months; and

8 *Submission 3*, Australian Meat Holdings Pty Ltd, pp 3-4

9 *Submission 3B*, Australian Meat Holdings Pty Ltd, attachment titled, *Mechanics of an Activity Based United States Quota Allocation Model for 2003 and Future Years - as at 16 September 2002*

10 Oral advice from Mr John Keir, Australian Meat Holdings Pty Ltd

- h) Re-allocation of unused quota would be consistent with the high quality beef quota scheme.¹¹

Industry Support for Australian Meat Holdings Global Allocation Model

3.25 There was broad-based industry support for the Global Allocation Model presented by AMH. Peak industry bodies, including the Australian Meat Council, the Australian Lot Feeders' Association, and the Cattle Council of Australia expressed their approval for the proposal.

3.26 Beef producers such as Certified Australian Angus Beef Pty Ltd and Stanbroke Pastoral Company Pty Ltd indicated their preference for a 100% global model and were supportive of the AMH proposal. Although the Australian Beef Association stated their opposition to a quota system generally, they did agree that there was some merit in a quarterly review and allocation system.

Peak industry bodies

3.27 In addition to putting forward the views and concerns of their membership, peak industry bodies, including the Australian Lot Feeders' Association and the Australian Meat Council, supported the AMH proposal.

Australian Lot Feeders' Association

3.28 The Australian Lot Feeders' Association expressed its support for the AMH global allocation model in the following terms:

There is no doubt that the proposal meets all the major principles that are required from an equity and efficiency basis, as well as providing little, if any, market distortion or disruption to trading...

The lot feeding industry commend to Senators this proposed US quota allocation model, as a clever, simple and workable alternative to the inequitable and subjective arrangements currently in place.¹²

3.29 In addition, the Australian Lot Feeders' Association indicated its preference for keeping administrative intervention to a minimum. Mr Sewell told the Committee that ALFA considered the current quota allocation system to be inequitable and argued that the current system of the 'processor of record' being used to allocate

11 Under the High Quality Beef Quota Scheme, allocation of 100% of the quota is made on the basis of shipper of record. Entitlement for HQB is calculated by dividing total available quota by total recorded shipments for 200-2001 quota year. This gives the first factor, and exporters' individual recorded shipments are then multiplied by this factor to give a preliminary allocation. Any exporters with shipments <12 000 are then excluded. This calculation is then repeated to give the second factor, this is then multiplied by the remaining exporters' individual recorded shipments to give the final allocation.

12 *Submission 14A*, Australian Lot Feeders Association, p 1

entitlement as well as receive and own the allocated quota, was particularly problematic.¹³

Australian Meat Council

3.30 The Australian Meat Council (AMC) expressed a similar opinion on the issue of government intervention and argued that quota administration being included as part of the Department of Agriculture, Fisheries and Forestry's responsibilities is "inconsistent with Government policy on industry self-regulation".¹⁴

3.31 AMC also indicated that whilst it supported the Red Meat Advisory Council's compromise position of a 60% US: 40% global split, its original position was in support of a globally based system.¹⁵ The Council did however, stress the need to develop a model that can be used over a long period of time, whether or not quota was triggered in any particular year:

In some years [quota] may not get triggered. But if it is there and if it is a good scheme, it will encourage people to export to the US as well as to other markets. If we do have a scheme, and using the sheepmeat one as an example because it has lasted for 20 years, without tinkering around with it, at least the industry can then get on and make some long-term decisions regarding investment.¹⁶

Cattle Council of Australia

3.32 The Cattle Council of Australia advised the Committee that it had commissioned a report on the feasibility of an auction system for the distribution of quota entitlement.¹⁷ However, the Council stated that its formal policy was one that remained supportive of the 100% global system.

3.33 The Cattle Council expressed its in-principle support for the model on the following basis:

- a) The model utilises a 100% global approach, strongly favoured by the vast majority of industry because of its positive effect on diversification of marketing by exporters and on the distribution of economic rent throughout the processing and, via 'trickle-down', producing sectors; and

13 *Evidence*, RRA&T, 20 August 2002, p 67

14 *Submission 9*, Australian Meat Council, p 3

15 *Submission 9*, Australian Meat Council, p 5

16 *Evidence*, RRA&T, 19 August 2002, p 28

17 *Submission 7*, Cattle Council of Australia, p 1

- b) With emphasis on quarterly, rather than yearly, performance, the model is significantly dynamic in reflecting real-time expansion and contraction activity by individual works.¹⁸

Processors and exporters

3.34 The global allocation model proposed by AMH also received support from operators such as Rockdale Beef Pty Ltd, Kilcoy Pastoral Company, Valley Beef Pty Ltd, Stockyard Pty Ltd, Q-Exports International Pty Ltd, John Dee Warwick Pty Ltd and Norvic Foods Pty Ltd. Naturally Australian put forward its own proposal for a levy system, but described the AMH proposal as having some positive elements.

Rockdale Beef Pty Ltd

3.35 Rockdale Beef Pty Ltd's initial submission to the Committee indicated that the company would strongly support a quota allocation scheme for 2003 (and subsequent years) based on 100% of an operator's global performance over the last three years. The submission outlined the company's own proposal for quota allocation which included specific amounts of tonnage to be set aside to cater for US specialists, cases of proved hardship and new entrants to the industry.¹⁹

3.36 The Committee received a subsequent submission from Rockdale Beef indicating that the company was in favour of the global allocation model being proposed by AMH and that it would support the proposal.²⁰ [Further details regarding the model proposed by Rockdale Beef are provided in Chapter Four, paragraph 4.14].

Kilcoy Pastoral Company Ltd

3.37 Representations received from Kilcoy Pastoral Company argued that the implementation of any quota allocation scheme must be supportive of the industry's long term strategies. It was also argued that any quota management scheme should seek to discourage exports to the United States (to remove pressure on that quota controlled market) and encourage exports to diversified markets.²¹

3.38 Following consideration of the AMH proposal, Kilcoy Pastoral Company indicated that it was supportive of the basic principles of the model, and argued that it "benefits the entire industry and is both efficient and fair". The company also indicated that it would be in agreement with all the terms of the proposal, subject to the following amendments:

- a) Quota allocation for 2003 and future years to be based on 'six month real time' activity, rather than three month;

18 *Submission 7A*, Cattle Council of Australia, p 1

19 *Submission 8*, Rockdale Beef Pty Ltd, pp 11-12

20 *Submission 8A*, Rockdale Beef Pty Ltd, p 1

21 *Submission 16A*, Kilcoy Pastoral Company Limited, p 3

- b) Quota being allocated over two consecutive six month periods of the shipping year (to balance out seasonal cycles and minimise administration);
- c) The periods of first allocation to be: preceding April to September shipments for the following 1 November to 30 April quota allocation; and
- d) The periods of second allocation to be: preceding October to March shipments for the following 1 May to 31 October quota allocation.²²

3.39 Kilcoy Pastoral Company also recommended that the terms of the amended AMH model be implemented by the end of September 2002 to "facilitate prudent business planning for 2003".²³

Valley Beef, Stanbroke Pastoral Company and Stockyard

3.40 The Committee received a joint submission from Valley Beef Pty Ltd, Stanbroke Pastoral Company Pty Ltd and Stockyard Pty Ltd. The submission indicated strong support for a global allocation system and argued that a system based on an operator's global performance in the preceding year would encourage exporters to seek additional alternative markets:

... every kilogram of beef sold to an alternative export market will secure that exporter with additional performance. There is strong incentive for exporters to increase their share of the global market and thereby achieving additional quota. This model ensures that Australia optimises its access to all markets, including the USA market in terms of product and returns.²⁴

3.41 In response to the Committee's request to consider the proposal put forward by AMH and provide written comment, representations from the group expressed strong support for the AMH model.

3.42 The following comments were received from Stanbroke Pastoral Company:

After further study and discussion with AMH of their proposal we believe this model would be best for the Australian industry to commence operation for 2003. We consider the model to be fair to all processors and producers, simple to operate and easy to manage in regards to its administration. We strongly recommend that the Senate Inquiry recommend this proposal to the Government for implementation in 2002 for 2003.²⁵

3.43 Similarly, Stockyard Pty Ltd also advised the Committee that following discussions with representatives of AMH and a more detailed consideration of the

22 *Submission 16B*, Kilcoy Pastoral Company Limited, p 2

23 *Submission 16B*, Kilcoy Pastoral Company Limited, p 2

24 *Submission 21*, Valley Beef Pty Ltd, Stanbroke Pastoral Company Pty Ltd and Stockyard Pty Ltd Joint Submission, p 3

25 *Submission 21A*, Stanbroke Pastoral Company Pty Ltd, p 1

model (in relation to the company and the industry as a whole) the company was prepared to support the AMH proposal as presented. Stockyard argued that the model:

- a) Optimises access to all markets, including the United States;
- b) Is transparent, simple and equitable;
- c) Provides flexibility for new entrants and seasonal factors;
- d) Allows market forces to work in equilibrium;
- e) Ensures that competition for cattle is maximised;
- f) Will provide certainty for sound planning within the industry (subject to its early introduction); and
- g) Encourages exporters to diversify and develop new markets for Australian product.²⁶

Criticisms of Australian Meat Holdings Global Allocation Model

3.44 While the AMH proposal received substantial support in some sectors, there was also significant criticism of the proposal. This criticism came from those who are primarily dependent on the United States market, such as the hot boner operators. These companies were especially concerned that they will be disadvantaged under current proposals.

3.45 The major issues of concern to those opposed to the AMH's global allocation model were:

- a) The global basis of the allocation vis-à-vis country specific; and
- b) Quarterly assessment of allocations.

The global basis

3.46 Many of the stakeholders opposed to the AMH proposal supported a country specific model, ie where the quota allocation is based on a company's exports to designated countries over a given period of time. The basis of the concern over the global proposal is the view that companies who have worked and invested to develop specific markets for a specialised product should not have their quota allocation diminished by allocations to companies who have not previously exported to those markets and have not previously made the necessary investment.

3.47 A further criticism of a global allocation, whether based on short or long term performance, is the stimulation of paper trading in quota and the consequential effect of exporting a large proportion of the premium that can be earned from the quota

market offshore.²⁷ The capacity for a windfall gain in tradeable quota, at the expense of companies which have built up specific markets and which have firm contracts in the United States, is an issue of particular concern to critics of the global allocation option.

3.48 It was argued that the ultimate impact of the 100% global proposal with quarterly allocation of quota would be:

- a) Seasonal production facilities such as the hot boners would become uneconomic;
- b) The US market focussed abattoirs would be severely disadvantaged; and
- c) Globally diversified conglomerates would be the winners.²⁸

3.49 The Committee received a supplementary submission from Hunt Partners, which argued against the amended AMH model of 16 September 2002, for the following reasons:

- a) The Japanese market is recovering and there is a diminishing need to put product into the US market;
- b) The submission questions the equity or economic benefit in a system that requires US specialists to purchase quota from globalists, arguing that it is economic madness to dump 90 cl beef into the Asian market once companies have run out of quota, while other companies are utilising quota for 85 cl and 65 cl meat, for which there is no premium;
- c) The claims of the need for allocation systems which encourage diversification cannot be intellectually supported. The submission cites the ACIL report²⁹ which argued that "the case for diversification, if it was ever valid, is no longer relevant given the diversification which has been achieved";
- d) The system will enable subsidisation of discount sales to other markets;
- e) A global allocation system would increase US market sales of some processors by more than 1 500% and other processors would receive US beef quota allocations, despite the fact that they have not historically exported to

27 *Submission 29*, Hunt Partners, p 2

28 *Submission 29*, Hunt Partners, p 3

29 ACIL consulting, *Options for Managing Australian Beef Exports to the United States*, 13 March 2002 [A Report to the Cattle Council of Australia]

the US market. The gains to these globalists would be at the expense of those companies which have built their business on the US market; and

f) Under a quarterly or six months allocation system, Bindaree Beef (and all the other small abattoirs) would be vulnerable to predatory acquisition practices by the large processors.³⁰

Quarterly allocation of quota [real-time allocation of quota]

3.50 AMH has recommended allocation of quota based on quarterly activity. Specific concerns about quarterly allocation are that it would:

- a) Impose a significant administrative burden on the allocators, the costs of which would have to be recovered from industry; and
- b) Discriminate against seasonal producers/operators and/or those who may be undergoing redevelopment or experiencing industrial action.

3.51 According to one submission, quarterly allocation of quota not only discriminates against seasonal producers but would enable predatory pricing pressure to be placed on livestock prices. Such a system would benefit operators such as AMH and Nippon:

North and Central Queensland processors that have to close during the "wet" and processors who experience fluctuating seasonal supplies of cattle, would be disadvantaged during peak production periods because their quota for that period would be allocated on the basis of the previous quarter's low production figures. AMH and Nippon own a number of abattoir spread through differing regions which can absorb the effects of these seasonal fluctuations on an internal "swings and roundabout" compensation basis.

Under the AMH "real-time" quota allocation system, large processors would be able to exert enormous predatory pricing pressure on livestock prices during a given quarter ...forcing smaller operators out of the market and resulting in a bigger allocation to the large processors in the following quarter. In the long term, this would result in less competition for livestock, resulting in lower returns to the producer.³¹

The administrative burden

3.52 AFFA expressed concern that the administrative burden would be onerous and that a quarterly allocation system would "be a nightmare not only for us but for the

30 *Submission 29A*, Hunt Partners, pp 1-13

31 *Submission 29*, Hunt Partners, p 1

industry"³². Mr Sutton argued that there would be a multiplication factor of four on the department's resources, which would have to be passed on to the industry.³³

If you have to be locked into discretionary decisions each three months, it is a much more time intensive process for everyone. I cannot imagine the industry would be looking forward to being involved in negotiations with the quota management panel or us on the detail of their case every quarter.³⁴

Subject to the avoidance of the need for decisions on the adjustment of the previous period, I suspect that the pressure on the system in delivering quota allocations would be very difficult to manage.³⁵

In all likelihood, the resources, the people, the staff and the cost of delivering something like that would increase given the additional workload, given the additional computations that may be necessary and that sort of thing. So there certainly is an increase in the complexity in terms of administration.³⁶

The discriminatory effect

3.53 Some industry members were concerned that the quarterly allocation of quota would prejudice those producers who operated on a seasonal basis or, where special circumstances such as industrial action or plant redevelopment, might have impacted on their production tonnages.

3.54 The Midfield Meat Group of Companies indicated strong opposition to the AMH proposal, describing it as "seriously flawed and heavily biased towards the majority of the big Australian processors".³⁷ The Midfield Group argued that the AMH proposal fails to make allowance for processors that may operate on a seasonal basis or those that have a traditional slow down during the year due to livestock supplies.

3.55 The Midfield group summarised its opposition to the AMH proposal in the following way:

... this proposal is weighted in favour of the large operator who currently has a diverse range of markets and is able to operate all year round. Midfield Meat International sees this scheme as being detrimental to the continued

32 *Evidence*, RRAT, 28 August 2002, p 133

33 *Evidence*, RRAT, 28 August 2002, p 133

34 *Evidence*, RRA & T, 28 August 2002, p 131

35 *Evidence*, RRA & T, 28 August 2002, p 132

36 *Evidence*, RRA & T, 28 August 2002, pp 132-133

37 *Submission 28*, Midfield Meat Group of Companies, p 1

viability of the smaller specialised operator who does not necessarily have the backing of a large multi-national parent company.³⁸

Criticisms of the amended AMH model

3.56 The Committee sought and received comments on the amended model proposed by AMH. Concern centred around the flexibility that would accrue to the larger operators as a result of the amendment from establishment to company.

3.57 Concern was expressed that the benefits which would accrue to the large processors would further advantage them over single processing works and toll processors, owing to the effective portability of quota that the amendment enables.³⁹ It was further argued that:

(i) if the AMH “Real-Time” model was accepted, it would advantage AMH and the other big conglomerates who own a number of abattoir spread throughout different regions which would enable them to absorb the deleterious effects of seasonal fluctuations in particular abattoir on an internal “swings and roundabouts” basis, and

(ii) the smaller single abattoirs regional companies would be conversely disadvantaged.⁴⁰

38 *Submission 28*, Midfield Meat Group of Companies, p 2

39 Mr J Glendining, Hereford Prime, E-mail dated 19 September 2002

40 Correspondence from Hunt Partners, 18 September 2002

CHAPTER FOUR

ALTERNATIVE PROPOSALS

Introduction

4.1 The following chapter outlines details of a number of alternative models proposed by sections of the meat industry during the Committee's Inquiry.

Response to the Current Quota Allocation Model

4.2 The Committee noted that there was limited support for the current quota allocation system as amended by Minister Truss in June 2002.¹ A number of operators argued that retaining the quota arrangements in their current form for 2003 would result in financial hardship for a number of exporters. Industry bodies such as the Cattle Council also expressed concerns about the current quota allocation model.

Processors and exporters

4.3 The Director of Rockdale Beef Pty Ltd, Mr Paul Troja, told the Committee that he believed a number of export establishments would not be able to continue to operate without access to the US market. Mr Troja also expressed the view that:

....the Truss model was a disaster and is a disaster to our industry. It has divided our industry. It has put people in a very difficult position. I can quote a number of abattoir operators who are just hanging on. They have shareholders and they have lost millions of dollars over the last three or four months.²

4.4 Kilcoy Pastoral company argued that there was a need for a quota allocation model which "facilitates and embraces a Diversification Scheme as part of a whole of industry solution to the impending oversupply situation".³ When questioned about whether the company would support Minister Truss' model being carried forward to the 2003 quota year, Chairman, Ian Kennedy provided the following response:

No, I certainly would not. Our company would have to give very serious consideration to closing down and winding up if that program were continued next year without significant discretionary assistance.⁴

1 See Chapter Two, paragraph 2.38 for details of the Truss Model

2 *Evidence*, RRA & T, 19 August 2002, p 43

3 *Submission 16A*, Kilcoy Pastoral Company Limited, p 3

4 *Evidence*, RRA & T, 20 August 2002, p 81

4.5 Louis Dreyfus Australia Pty Ltd advised the Committee that the company still held concerns about "serious shortcomings in the present quota arrangements" and noted in particular that:

Current arrangements do not meet the requirements of the principles and objectives set by the Minister;

Current arrangements do not recognise the contribution that toll processors like Louis Dreyfus Australia have made to this market and the industry in general and, moreover, do not ensure fair and equitable treatment to them;

The current 'processor of record' system does not properly provide for the treatment of quota allocations to those who have previously processed but are no longer operational; and

The quota available under the hardship provisions is totally inadequate for its intended use and to maintain a strong toll processing sector.⁵

Peak industry bodies

Cattle Council of Australia

4.6 The Cattle Council of Australia expressed strong support for the use of a 'rolling previous year' as the base year for any new quota allocation scheme. It argued that the use of a 'rolling previous year' reflected more accurately and directly the efforts made by processors to diversify under a global scheme. Based on this argument, the Cattle Council indicated that it would not support the Truss Model being replicated for use during the next quota year.

4.7 The Cattle Council also voiced concerns about the inequitable distribution of any economic benefit gained under the current scheme. Mr Toohey argued that:

...the existing model has provided no evidence of [that] economic rent trickling back through the producing sector to the bottom level or the top level, whichever way you want to look at it. It has been effectively locked up. The more you go from a global model to the US based model, the more you remove incentives for that trickle down. So we would be very unhappy if the existing model just flowed through to next year.⁶

Australian Lot Feeders' Association

4.8 The Australian Lot Feeders' Association was also critical of the current quota allocation system. ALFA stated that its philosophical position was one of minimal or

5 *Submission 22*, Louis Dreyfus Australia Pty Ltd, p 1

6 *Evidence*, RRA&T, 19 August 2002, p 18

no administrative intervention from Government and the Association expressed its support for the compromise proposal achieved by RMAC.⁷

4.9 ALFA also argued that there was now strong evidence to suggest that the Minister's decision to significantly disregard global performance "has had a reverse effect to the required diversification away from the US market".⁸ Mr Bob Sewell, Executive Director of ALFA, told the Committee:

.....we still believe the current system is inequitable. We believe it is wrong, for the same reasons that we argued last time: it was a subjective assessment by the Minister to top and tail the recommendation from RMAC; it took away the ability of a lot of those who were having some great problems in the Asian markets to move into the US market; and it was different from what historically was the case.⁹

Alternative proposals

4.10 During its Inquiry, a number of alternative proposals were put to the Committee. Some proposals made recommendations for a completely new quota allocation system, while others recommended specific amendments to the Minister's current scheme.

Northern Co-operative Meat Company Ltd

4.11 The Northern Co-operative Meat Company described itself as a unique facility because it operates purely as a "dedicated service processing operation for a large number of independent meat operator/clients".¹⁰

4.12 Mr Gary Burridge, General Manager of Northern Co-operative, told the Committee that the company was a 100% Australian owned company with 1 796 producer members. Mr Burridge also told the Committee that the present quota allocation model had devastated a number of its light cattle operator clients and reduced the company's own quota allocation by 28%.¹¹

4.13 Northern Co-operative Meat Company also argued that there was a need for an alternative quota allocation model, and proposed a modified version of the current Truss model, which would operate as follows:

- a) The 60:40 maximum 140%, minimum 85% calculation would be modified so that the 60:40 component was made redundant;

7 *Submission 14*, Australian Lot Feeders' Association, pp 3-5

8 *Submission 14*, Australian Lot Feeders' Association, pp 3-5 and *Evidence*, RRA&T, p 67

9 *Evidence*, RRA&T, 20 August 2002, p 67

10 *Submission 4*, Northern Co-operative Meat Company Ltd, p 2

11 *Evidence*, RRA & T, 19 August 2002, p 58

- b) The 140% maximum would be removed so that all processors receive 90% of their pro rata adjusted US shipments in the 2001-2002 quota year;
- c) The relinquished 10% would be placed in a discretionary account for hardship allocation;
- d) No processor would be allowed access to quota from the discretionary account while they retain more than a pro rata equivalent to two months quota in their account; and
- e) All calculations for the 2002-2003 quota year would be based on the 2000-2001 quota year. Thereafter, 2002-2003 and subsequent years should be based on the preceding year's performance.¹²

Rockdale Beef Pty Ltd

4.14 Rockdale Beef Pty Ltd argued in support of a global allocation scheme (based on operators' global performance over the past three years). The company provided the Committee with an outline of its proposal for quota allocation, a model in which:

- a) A specific tonnage would be set aside (or carved-out) of the year's access amount to cater for the reasonable requirements of the 'US specialists' (which might, for example, equate to their average shipments to the US over the last three years);
- b) A further specific tonnage would be set aside for allocation in cases of proved hardship (perhaps based on some or all of the criteria set out in paragraph 4.3 in Schedule 1 of the 2002 Order);
- c) A further specific tonnage would be set aside for allocation to cover the reasonable requirements of new entrants to the industry;
- d) The remaining balance of the access amount for the year would be allocated among all Licensed Meat Exporters based on 100% global performance; and
- e) There would be provision for performance and entitlement to be traded, on a similar basis to that which has customarily prevailed in the past.¹³

4.15 Representatives of Rockdale Beef subsequently indicated that they had reviewed the submission put forward by AMH and were supportive of the global allocation model being proposed¹⁴ [see Chapter Three, paragraph 3.36].

12 *Submission 4*, Northern Co-operative Meat Company Ltd, p 5

13 *Submission 8*, Rockdale Beef Pty Ltd, pp 11-12

14 *Submission 8A*, Rockdale Beef Pty Ltd, p 1

Valley Beef, Stanbroke Pastoral Company and Stockyard

4.16 The Committee received a joint submission from Valley Beef Pty Ltd, Stanbroke Pastoral Company Pty Ltd and Stockyard Pty Ltd. The submission recommended the following model for 2003 quota year and beyond:

- a) Quota allocation based on 100% global performance of beef and veal shipments to all export destinations;
- b) Performance to be exclusive of domestic sales;
- c) Performance to be based on the preceding shipping year (1 November to 31 October shipment);
- d) Quota and performance to be fully transferable;
- e) No quota to be reserved for 'new entrants'. (This aspect would be handled through the transfer of quota); and
- f) Out of quota shipments to the USA to be included in the global performance account.¹⁵

4.17 As mentioned in the previous chapter [paragraph 3.41], the group subsequently indicated its support for the proposal put forward by AMH, stating that they considered the AMH model to be simple to administer as well as fair to both processors and producers.¹⁶

Country specific/market based proposal

4.18 The Committee notes the views put forward by those sections of the industry which support a country specific/market based model. The Committee notes in particular, the views put forward by the Hunt Group (which includes HW Greenham & Sons, Midfield Meat International, Monbeef and E C Throsby and Bindaree Beef).

4.19 The Hunt Group concludes that, in order to maximise the economic returns to Australia, the quota allocation should be based on historical performance to the United States with a discretionary allowance for new entrants and special circumstances. The model proposed is one which:

- a) Is 95% based on historical performance to the US, using 2001 as the base year, and

15 *Submission 21*, Valley Beef Pty Ltd, Stanbroke Pastoral Company Pty Ltd and Stockyard Pty Ltd Joint Submission, p 1

16 *Submission 21A*, Stanbroke Pastoral Company Pty Ltd, p 1

b) Includes a 5% discretionary allocation for new entrants and special circumstances.¹⁷

4.20 The Hunt Group argued that under its proposal, "there would be no closures, no consequent unemployment and the quota would be spread equitably amongst the regions in accord with a historical dependence upon supplying the US market."¹⁸

4.21 In support of a market based allocation system, Hunt Partners also cited the High Quality EU quota allocation system, which is based on a market specific model - as was the US lamb quota, questioning why the beef market should be any different. Hunt partners also referred to an AMH submission to the Quota Management Panel requesting hardship allocation, which argues that each establishment requires a different percentage access to the US market, depending on the type of facility, the type of cattle in the region and the existing customer market base.¹⁹

4.22 Hunt argues that a global allocation system would increase US market sales of some processors by more than 1500% and other processors would receive US beef quota allocations despite the fact that they have not historically exported to the US market. The gains by these globalists would be at the expense of those companies which have built their business in the US market.

4.23 It should be noted that the percentage increase is not significant in itself, but that if you start from a small US base but have much larger non-US exports then you get a windfall gain of quota into the US out of proportion to the historical activity and, more importantly, quota that might not be realisable by the company concerned if they are unable to produce appropriate product. Hunt gives as examples the Rockdale, Nippon and AMH abattoirs. Companies that are geared up to supply the US market and produce the product they want then have to purchase that quota.

4.24 The submission poses the following questions:

a) How can the Cattle Council argue that the various global allocation schemes that it has supported are in the best interests of the Industry and the nation as a whole, when its commissioned report from ACIL advised them that, on balance, a market specific allocation system would be preferable and then, by its own admission, it chose to ignore that advice.

b) How can the opinion of the Australian Lot Feeders Association whose members produce a product primarily designed for the Japanese market and the high quality end of the Australian market, rank equally with the opinion and interests of those sectors of the Industry who have historically serviced the United States market?

17 *Submission 29*, Hunt Partners, p 3

18 *Submission 29*, Hunt Partners, p 3

19 *Submission 29A*, Hunt Partners, p 5

4.25 The Hunt submission also criticises a quarterly allocation system. It suggests that, under a quarterly or six months allocation system, Bindaree and all the other small abattoirs, would be vulnerable to predatory acquisition practices by the large processors.

4.26 The Committee also notes that the Hunt Group's fall-back position is to use the 2002 model with the same discretionary allowance for each company.²⁰

Auction system

4.27 The concept of an auction system was given in-principle support by Certified Australian Angus Beef Pty Ltd. Mr Michael Pointer, told the Committee that there were a number of benefits in the auction option. It was argued, for example, that organisations such as CAAB would benefit from the opportunity to acquire quota in their own right, ensuring that their own product had access to the reduced tariff component of the US market.²¹

4.28 At the same time CAAB conceded that the use of an auction system could also raise problems in relation to administration. CAAB noted that there may be concerns about the ability of operators to plan their forward use of the quota and the capacity of some small operators to participate.

4.29 The Committee also received representations from those opposed to the idea of an auction system, including Northern Co-operative Meat Company, the Australian Beef Association and the National Meat Association of Australia, which argued that an auction system would result in a reduction in payments to cattle producers of between \$40 and \$60 per head.²²

4.30 Australian Meat Holdings also opposed an auction system and argued that the process of redistributing rents accrued to the industry would necessitate government intervention. AMH was also of the view that any transaction cost per head of cattle would provide a considerable cost advantage to exporters of live cattle.²³

4.31 The Cattle Council informed the Committee that it had been canvassing the viability of various options for the distribution of beef quota to the United States, including an auction system. The Council indicated that it had commissioned ACIL Consulting to research the idea and provide a report on the issue.²⁴

4.32 In a subsequent submission, the Cattle Council told the Committee that following its analysis of the report provided by ACIL on the efficacy of the auction

20 *Submission 29A*, Hunt Partners, p 10

21 *Evidence*, RRA&T, 20 August 2002, p 75

22 *Submission 17*, National Meat Association of Australia, p 2

23 *Submission 3*, Australian Meat Holdings Pty Ltd, p 5

24 *Submission 7*, Cattle Council of Australia, p 1

approach, the Council had concluded that "the auctioning option not be pursued any further, either through the Red Meat Advisory Council or direct to the Senate Committee".²⁵

Levy system

4.33 A proposal for a levy system for the allocation of quota was also put to the Committee during the Inquiry. Representations from Naturally Australian, a processing company based in Queensland argued that the main strengths of a levy system are that it negates the need for debate regarding an appropriate quota management scheme, and it is equitable to all operators.

4.34 Naturally Australian's proposal was outlined as follows:

- a) Meat entering the United States after the quota is triggered would have the excess duty paid out of an industry fund;
- b) Funds would be collected via a levy per kilogram;
- c) Proceeds to the fund would be collected by a group acceptable to the industry;
- d) All contributing US registered plants would have access to the US market even after triggering of the annual allowance;
- e) There would be a rebate based on the price for meat sold;
- f) The levy amount would be regularly monitored against US imports; and
- g) Restrictions would be placed on the export of low value beef items.

4.35 Mr Ross Tancred, Director of Naturally Australian told the Committee that the levy system had been considered by a number of industry players in the past, and argued that it had "probably not been given adequate consideration, due to historical biases or comfort with existing systems"²⁶. Mr Tancred also acknowledged that a levy system was just one of the proposals discussed at a meeting attended by a number of industry stakeholders and "although the levy system by far may not come out on top, it certainly got a good hearing".²⁷

4.36 The Committee noted that there was neither strong opposition, nor strong support for a levy scheme. Northern Co-operative Meat Company, which had indicated its opposition to both a global allocation model and an auction system

25 *Submission 7A*, Cattle Council of Australia, p 1

26 *Evidence*, RRA&T, 20 August 2002, p 94

27 *Evidence*, RRA&T, 20 August 2002, p 94

indicated that it would be receptive to the idea of a levy system. It was argued that a levy system would be:

...flexible by nature and afford the entire Australian industry the opportunity of retaining access to the US market regardless of individual and collective US Quota status. This concept also removes the issues of new entrants, hardship, discretionary allocation and the multitude of confrontations that have existed to date between the different factions in this current US Quota debate.²⁸

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

Allocation of Quota Options

5.1 The Committee considers that the options available for the future allocation of beef quota to the United States are:

- a) A 100% global model (as proposed by AMH); and
- b) A country specific/market based model - 95% of exports to the United States with 5% discretionary allowance (as proposed by Hunt Partners).

The current Truss model and the RMAC model

5.2 The Committee is conscious that the current quota allocation system, as amended by Minister Truss in June 2002, has received limited support from the Australian meat industry. Various industry stakeholders argued that retaining the current arrangements would result in severe financial hardship for a number of operators.

5.3 The Committee also notes other alternatives, including the RMAC model¹, have received no significant or consensus support.

The Global Allocation Model

5.4 The Committee notes that the global model for the allocation of beef quota proposed by AMH received broad support across much of the industry. Those stakeholders who indicated their support for the model, argued strongly that the AMH proposal would provide equity across the industry, that it would be efficient and that it would provide little disruption to trading.

5.5 The Australian Meat Council stated:

The principles of the AMH proposal have we understand, received strong support from the major four packers in Australia, the Australian Meat Council, the Cattle Council of Australia and the Australian Lot Feeders Association. It also represents a significant consensus of opinion from the vast majority of processors and exporters in Australia, irrespective of their industry affiliation. AMC's suggested adjustments in points c) and d) have been canvassed widely and have received similar strong support. This is the strongest **commercial** consensus yet on the US Beef Quota issue ...²

1 See paragraph 2.23 for details of the RMAC Proposal dated 30 April 2002.

2 *Submission 9B*, Australian Meat Council, p 2

5.6 At the same time, however, the Committee notes that support for the AMH proposal largely comes from those sections of the meat industry which are not primarily dependant on the US market and which will benefit either from an increased quota allocation within which their product can be shipped to the US or from a tradeable allocation of quota if they cannot themselves utilise the allocation.

The Australian Meat Council set aside tonnage

5.7 The Committee had put to it a the suggestion by the Australian Meat Council in its supplementary submission to the effect that specific tonnage be set aside to cover CMG's Lakes Creek plant for the first activity quarter of production.³

5.8 The Committee rejects that suggestion for a number of reasons, not least of which is the impact of the AMH amendments to their global allocation system. However, the Committee also is of the view that setting aside tonnage to assist particular operations to re-enter the market is unacceptable. Should the Consolidated Meat Group wish to re-enter the market with production from the Lakes Creek facility, then the Committee is of the view that re-entry should be on the same basis as for other new entrants, ie demonstrated export performance.

Qualified support

5.9 Some companies expressed support but with some qualification. These included Kilcoy Pastoral Company, which supported the adoption of real time activity but argued for a 6 month rather than 3 month activity period to even out the impact of seasonality, with quota to be distributed in two six-monthly instalments.⁴

5.10 ALFA argued that there were two major inequities in the current system not addressed by the AMH model:

- a) Quota performance is currently allocated to the processing establishment regardless of who is the exporter. This situation is exacerbated where number of service plants/toll operators, having received extra discretionary quota on behalf of service clients, are not required to pass this entitlement to those companies who owned, exported and marketed the product;
- b) The administration charge of \$3 million currently being applied by the Quota Management Panel on a per annum basis. The fee is currently paid by exporters, however it is passed on to the production sector through corresponding reductions in cattle prices.⁵

3 *Submission 9B*, Australian Meat Council, p 1

4 *Submission 16B*, Kilcoy Pastoral Company Limited, p 2

5 *Submission 14A*, Australian Lot Feeders' Association, pp 1-2

5.11 ALFA recommended a joint industry and AFFA panel to allow contestability and transparency in the setting of fees.

Conclusions and Recommendations

5.12 The Committee considers that, on balance, due to the limited support for alternative proposals, the global allocation model proposed by Australian Meat Holdings should be the basis for any ongoing quota arrangement, but with a revised transition provision.

Committee modifications to the global model

Transition arrangements for 2003

5.13 The Committee notes that the global model for the allocation of beef quota is likely to present those non-US dependent processors with a windfall gain of tradeable quota allocation. Those who are likely to be the most disadvantaged under the proposal are those processors who are almost solely dependent on exporting to the United States. For these reasons, the Committee proposes giving US dependent processors a special allocation for quota years 2003 and 2004, to allow time to adjust to the altered quota management arrangements

Quarterly allocation

5.14 The Committee is also concerned that quarterly allocation might disadvantage smaller or single plant operators. For this reason the Committee is of the view that allocation on a quarterly basis is not desirable and that allocation should be on a longer term basis. The committee considers that the allocation of quota should be in three equal tranches each year, the basis of each tranche's allocation being the performance history over the previous 12 month period divided by three.. The longer assessment period ensures that the allocation is based on a sustained export history, while the rolling basis will ensure currency.

Recommendations

5.15 The Committee makes the following recommendations:

Recommendation one

5.16 The Committee recommends that the following model be adopted as an ongoing model for the allocation of United States beef quota to exports:

- 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 Two

5.17 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.

Recommendation Three

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

Senator Bill Heffernan

Chairman

23 September, 2002

APPENDIX ONE

SUBMISSIONS

Submission No:	Author
1	Luttick Australia Pty Ltd
2	Weddel Swift (Australasia) Pty Lt
3	Australian Meat Holdings Pty Ltd
4	Northern Co-operative Meat Company Ltd
5	Hunt Partners on behalf of Consolidated Meat Group Ltd;H W Greenham & Sons Pty Ltd; Midfield Meat International Pty Ltd; Monbeef Pty Ltd and E C Throsby Pty Ltd
6	Hunt Partners on behalf of Bindaree Beef Pty Ltd
7	Cattle Council of Australia
8	Rockdale Beef Pty Ltd
9	Australian Meat Council
10	Naturally Australian
11	Towers Thompson (Australia) Pty Ltd
12	Red Meat Advisory Council Ltd
13	Australian Beef Association
14	Australian Lot Feeders Association
15	Sheepmeat Council of Australia
16	Kilcoy Pastoral Company
17	National Meat Association of Australia
18	Hines Group Australia
19	Consolidated Meat Group
20	Certified Australian Angus Beef Pty Ltd

- 21 Valley Beef, Stanbroke Pastoral Company & Stockyard Pty Ltd
- 22 Louis Dreyfus Australia Pty Ltd
- 23 Q-Exports International Pty Ltd
- 24 John Dee Warwick Pty Ltd
- 25 Norvic Food Processing Pty Ltd
- 26 H W Greenham & Sons Pty Ltd
- 27 Australian Branded Beef Association
- 28 The Midfield Group of Companies
- 29 Hunt Partners

APPENDIX TWO

WITNESSES

Canberra Monday 19 August 2002

Department of Agriculture, Fisheries and Forestry

Mr Paul Sutton, General Manager
Mr Roland Pittar, Senior Manager
Mr Jim Paradise, Executive Officer

Red Meat Advisory Council

Mr Bob Coombs, Secretary
Mr Bill Whitehead, Chairman

Australia Meat Holdings Pty Ltd

Mr John K Berry, General Manager, Corporate Affairs
Mr John R Keir, Joint Chief Executive Officer
Mr Peter J White, Joint Chief Executive Officer

Cattle Council of Australia

Mr Keith Adams, President
Mr Justin Toohey, Executive Director

Australian Meat Council

Mr Dennis M Carl, Director
Mr Roger J Fletcher, Chair
Mr Stephen J Martyn, General Manager
Mr Malcolm R Slinger, Director

Rockdale Beef Pty Ltd

Mr Paul A Troja, Director and General Manager

Hunt Group

Mr Norman Hunt

Northern Co-operative Meat Company Ltd

Mr Garry Burrridge, General Manager
Mr Andrew Negline, Manager, Hereford Prime
Mr David Scarrabelotti, Managing Director,
Green Mountain Trading Pty Ltd

Canberra Tuesday, 20 August 2002Australian Lot Feeders Association

Mr Sandy Maconochie, President
Mr Robert Sewell, Executive Director

Certified Australian Angus Beef Pty Ltd

Mr Stephen G Blair, Director
Mr Derek G C Lotz, Director
Mr Brian J Mobbs, Director
Mr Michael A Pointer, Executive Chairman

Kilcoy Pastoral Co Ltd

Mr Ian P Kennedy, Chairman

Consolidated Meat Group

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

Naturally Australian Food Pty Ltd

Mr Ross F Tancred, Director

Stanbroke Pastoral Co.

Mr Ian M Ball, Beef Marketing Group Manager
Mr Lachie Hart, General Manager, Stockyard Pty Ltd

Australian Beef Association

Mr John E Carter, Chairman

Canberra Wednesday, 28 August 2002Department of Agriculture, Fisheries and Forestry Australia

Mr Paul Sutton, General Manager
Mr Roland Pittar, Senior Manager

Greenham & Sons Pty Ltd

Mr Peter H Greenham

Monbeef Pty Ltd

Mr John D Kilmartin

Bindaree Beef Pty Ltd

Mr Andrew McDonald

