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SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT
LEGISLATION COMMITTEE

Reference: Administration of Meat and Livestock Australia

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SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT LEGISLATION COMMITTEE

Wednesday, 9 March 2005

Members: Senator Heffernan (*Chair*), Senator Buckland (*Deputy Chair*), Senators Cherry, Ferris, McGauran and Stephens

Participating members: Senators Abetz, Allison, Mark Bishop, Boswell, Brown, George Campbell, Carr, Chapman, Coonan, Eggleston, Chris Evans, Faulkner, Ferguson, Greig, Harradine, Hogg, Hutchins, Knowles, Lightfoot, Ludwig, Lundy, Sandy Macdonald, Mackay, Mason, McLucas, Nettle, O'Brien, Payne, Robert Ray, Santoro, Tchen, Tierney, Watson and Webber

Senators in attendance: Senators Buckland, Heffernan and Stephens

Terms of reference for the inquiry:

To inquire into and report on:

The administration of Meat and Livestock Australia.

WITNESSES

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PIETSCH, Mr David Murray, Stakeholder Relations Officer, Meat and Livestock Australia 1

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SPURR, Mr Mark, Managing Director, Meat and Livestock Australia 1

Committee met at 10.36 a.m.

CROMBIE, Mr David, Chairman, Meat and Livestock Australia

HANSEN, Mr Scott, General Manager, Industry Affairs and Communications, Meat and Livestock Australia

HEATLEY, Mr Arthur Macedon, Deputy Chairman, Meat and Livestock Australia

PIETSCH, Mr David Murray, Stakeholder Relations Officer, Meat and Livestock Australia

PRENDERGAST, Mr Michael John, Manager, National Livestock Identification System, Meat and Livestock Australia

ROSE, Dr Reuben, General Manager, Livestock Production Innovation, Meat and Livestock Australia

SPURR, Mr Mark, Managing Director, Meat and Livestock Australia

CHAIR—I declare open this public hearing of the Senate Rural and Regional Affairs and Transport References Committee. The committee is hearing from representatives of Meat and Livestock Australia on corporate governance issues and recommendation 4 of the committee's report on the Australian meat industry's consultative structures and quota allocation. I welcome everyone here today. This is a public hearing, and a *Hansard* transcript of the proceedings is being made. The committee has authorised the recording, broadcasting and rebroadcasting of these proceedings in accordance with the rules contained in the order of the Senate of 23 August 1990 concerning the broadcasting of committee proceedings.

Before the committee starts taking evidence I place on the record that all witnesses are protected by parliamentary privilege with respect to submissions made to the committee and evidence given. Any act by any person which may disadvantage a witness on account of evidence given by him or her before the Senate or a Senate committee is a breach of privilege. While the committee prefers to hear all evidence in public, the committee may agree to take evidence confidentially. If the committee does take confidential evidence it may still publish or present all or part of that evidence to the Senate at a later date. The Senate also has the power to order production and/or publication of confidential evidence. The committee would consult the person whose evidence the committee was considering publishing before taking such action. I welcome you all here today. If you would like to give an opening statement, we would be grateful.

Mr Crombie—I will introduce the group. On my left is Don Heatley, who is a northern cattleman and the Deputy Chairman of Meat and Livestock Australia. Mark Spurr is the Managing Director of Meat and Livestock Australia. Mick Prendergast runs the National Livestock Identification System within Meat and Livestock Australia. We are expecting Reuben Rose; he is not here yet. He is the head of our research and development section. Scott Hansen runs our communications section within Meat and Livestock Australia, and David Pietsch is also within that section.

CHAIR—Don certainly has a cocky's hand, I notice!

Mr Crombie—What we would like to do, if it meets with your agreement, is thank you for the opportunity. We would like to address two issues today. The first is to give you an update on the red meat and livestock industry. I will ask our managing director, Mark Spurr, to do that. The second is that we want to report to you and your committee on what activities we have undertaken and what responses there have been to the Senate committee's report into the meat industry, which was released in December 2002. We would like to officially report back to you on what action has taken place since then.

CHAIR—We would be very grateful for that.

Mr Crombie—I will hand over to Mark Spurr to provide a brief update on the state of the industry.

Mr Spurr—I would like to take about 15 minutes to run through a bit of a snapshot of the industry. We have a PowerPoint presentation which will assist in that task.

A PowerPoint presentation was then given—

Mr Spurr—I would like to cover three things: the state of the industry; some of the threats and challenges that we see confronting the industry; and, very importantly, what MLA is doing as part of its strategy to address some of the emergent issues. At present the industry is in very good shape. Demand is strong, both domestically and internationally. It is also good to see that the supply scenario is improving. Obviously we have had good fortune in the last year or so, with the United States being out of the North Asian markets of Korea and Japan. But we should also look on the positive side of that—the Australian industry was ready and responded very well to the opportunity that came up in those markets.

The year 2004 has been a year of records for the Australian meat and livestock industry. We have had record prices for lamb and cattle. The value of red meat sales—the domestic market plus the FOB value of our export market—was \$13.3 billion, up 48 per cent on five years ago. So the industry is doing very well. We had the second highest beef and lamb production ever—about 2.1 million tonnes of beef and about 340,000 tonnes of lamb.

On the export side, Japan has emerged as our leading overseas market on both value and volume. It is now worth about \$2 billion. Exports to Korea are up by 50 per cent. We are expecting exports to Korea of about 115,000 tonnes. So that market is growing very well. Lamb exports are increasing—by seven per cent last year. Our biggest market is the United States but, very importantly, sales of lamb to Japan and China are increasing quite rapidly, and we are very pleased about those developments.

There are many challenges for a global and vibrant industry like meat and livestock. We have competition from other sources of protein, food safety issues, animal diseases, the ever present drought and the strength of the Australian dollar, which is also affecting us as we go forward.

In the couple of minutes available to me, I would like to outline some of the emergent country challenges that we feel will have an impact on us on the international stage. As a benchmark, Australia has about 27 million cattle—2.1 million production cattle and 1.3 million export cattle. I would like to talk briefly about Brazil. The Brazilians have a herd of 165 million cattle. They are overtaking Australia as the world's largest beef exporter. Their product is very competitive, and it is lower cost than Australia's. They are also very ambitious to grow, particularly in the export side of things. As I said, it is a big herd—six times that of Australia—and production is about four times Australia's. Restraining them at the moment is their foot and mouth disease status, but there is a lot of effort to overcome that issue. Simply put: we see Brazil as the emergent force in the global meat market.

CHAIR—So do I!

Mr Spurr—It is good that we agree at such an early stage. Let me talk briefly about India, very much an unheralded competitor. The Indians are making big inroads into our markets in South-East Asia. As well as competing on the beef side, they are also competing against our live exports, mainly in Indian buffalo beef, or 'caribou beef', as they call it. They sell 540,000 tonnes of it in South-East Asia. So they are coming up as an emerging competitor.

Let me speak briefly about China. The Chinese have the world's third largest herd. Their exports are at a fairly low level at present at 45,000 tonnes. The thing with China is that they can be seen as both a threat and an opportunity. They are a threat because, I believe, they are trying to improve their production and marketing systems. But I also believe that China is a great opportunity for Australia, particularly at the high end, in food service, hotels and catering. There is a class of very rich people in China, and they are looking more towards red meat consumption. It is also a very valuable market for Australian offals.

With those three competitors—and we see them as the emerging competitors—one thing is very clear: we will not compete with them on cost. Look at the scale—they will beat us every time. They have low-cost production systems. How are we going to compete going into the future with some of these very low-cost competitors?

We believe that the industry is very strong at the present time. We do believe very strongly that we can compete effectively by developing our very significant competitive advantages. I have shown there that differentiation is the key. We need to nurture a number of significant advantages that we do have. In top place is very much our clean, green and safe image. That is a most significant competitive advantage. We need to nurture it. We need to protect it and we need to develop it further.

It is very important that we develop products suited to export markets. We do not want to be at the low end on the export market chain. We want to migrate our products up to the higher value propositions within those markets. We have some very well-established supply chains around the world. We need to be improving those, making them seamless so that we are a very strong competitor going forward.

So what is MLA all about? MLA is about creating opportunities for all of the industry through the value chain right through from producers, exporters, processors and retailers, and we create those opportunities for the industry in the context of our three strategy platforms. Very simply, they are: building demand both here and overseas for red meat and livestock, increasing market access, and developing competitive advantage. In terms of building demand, we do a wide range of work in building demand. It goes from product quality and retail presentation right through to consumer perceptions of health and nutrition and developing those concepts

as we go forward. Community attitudes towards red meat are very much improving. I think that has been a huge feature of the very strong demand that we have had over the last five years in particular. Some of our programs such as the CSIRO 'Total Wellbeing Diet', which is a high-protein diet, and our 'Red Meat: Feel Good' campaign—singing butchers and so on—have been instrumental in improving demand.

Product quality is driving demand. The quality of beef and lamb has been improving. We are looking at MSA, which is our beef grading system and our sheep meat eating quality system, which has really improved the quality out there in the market. Retail presentation is improving. We work with the major supermarkets and also with the independent butcher chains in improving retail. I believe that some of our leading butchers, particularly in the independent butcher sectors, are leading the world in terms of point of sale, retail presentation and so on.

Of course we have a very vibrant advertising program. You may have seen the Sam Kekovich Australia Day ad. It caused a bit of a stir. We have our singing butchers, our 'Red Meat: Feel Good' programs, and they are really impacting and changing consumer attitudes. We ran out of lamb after the Sam Kekovich ad was aired and that is always a good story for advertising, so that was wonderful. I am pleased to say that MLA is being recognised as an outstanding advertiser of beef and lamb. You can see this article in the *Financial Review*, which we are pretty proud of, so I think our advertising is effective as we go forward.

I will turn very quickly to our export markets. We are the world's leading exporter of meat and livestock when you take into account beef and lamb and also the livestock we export. We export to over a hundred countries. I would just like to review some of the work that we are doing in Korea and Japan. I talked earlier about differentiation. Brand awareness and brand development are all about differentiating Australian product. It is very important in those countries. The very first brand you see there is called Hoju Chungjung Woo, which we use in Korea. Basically, that brand means, as it says at the bottom there, 'clean and safe'. That was judged Korea's leading meat brand over nine others in a recent poll. The others included some domestic brands as well, so it was a very popular brand.

The second one is Aussie beef. You will often see the Japanese doing this—imitating the Aussie beef—it is that well known. We have 99 per cent awareness and it is the leading beef brand in Japan. I am also pleased to report that the Japanese eat more Australian beef than any other beef, including their own. We have a premium position there. This branding is really very important. It is about awareness and it is about differentiating Australian product as clean, green and safe.

I will quickly move on to the second strategic platform: market access. We worked very closely with the government in the last year or so on the free trade agreements with the United States and Thailand. We also had a win with the government in removing an offal ban in Saudi Arabia, which means a lot of sales can go into that area. Of course, we see the China market as an emerging one. We opened an office in Beijing last year and we see that as a great opportunity going forward. At last count, there are about 20 different opportunities around the world that we work very closely with DFAT on in terms of improving our market access. It is a very important part of our strategy because at the end of the day it gives our producers more opportunities on the world scene to sell their production.

Let me quickly go to our third strategic platform—that is, building competitive advantage through R&D. At the end of the day, it is about productivity and sustainability, both at a farm level and at an industry level. Two of our programs I would like to highlight are our red meat integrity programs, which underpin our competitive advantage. It involves livestock production assurance systems; it involves Meat Standards Australia, which is about quality; and, very importantly, it involves traceability—NLIS and so on. These are the underpinnings of the integrity of our systems going forward, which is absolutely important. We need to continue developing those and improving them as we go forward.

We also have a very strong role in developing productivity and sustainability tools. There is the Breedplan for breeding better cattle. Forty per cent of the cattle in Australia now go through Breedplan, which is a genetic improvement initiative. There is Lambplan for breeding better sheep. I mention genomics because that is on the next horizon. We are looking at genomics in the sheep industry and we are hoping that that is going to give us a break in the next 10 to 15 years. It is stuff that is out on the next horizon, but we always must balance the short and medium term and in this case the longer term. Our extension programs, such as Edge, Network and Primetime, are world class. That is really about taking ideas and putting them into action. About 12,000 producers participated in our extension programs last year, which included Edge, Primetime and More Beef from Pastures. We are converting those ideas into action as we go forward.

In conclusion, the industry is in good shape at the present time. We have to use this strength to nurture and develop our competitive advantage. We are very confident going into the future. MLA's role is to make sure that it is out there assisting industry in creating opportunities and, very importantly, ensuring differentiation so that we can compete, and complete well, going into the future.

Mr Crombie—We can pause there for questions because the second part of our presentation is really about our response to the Senate committee report. We could pause for questions on the industry or would you like me to go ahead and talk about our response?

CHAIR—I think you had better get the second bit done because we have to knock off at half past 11. We will have questions at the conclusion of your comments.

Mr Crombie—I will go straight ahead with our response. This section of our presentation is about our response to the Senate committee's report.

CHAIR—Would it be possible to table that presentation?

Mr Crombie—Certainly. What I was hoping to do now was to go ahead and talk about the company's response to the Senate committee's report of December 2002. There are three main areas: past and ongoing consultation that we have undertaken with our members on the board selection process; what is happening with our membership, the level of participation in the affairs of the company and in the AGM; and I would also like to outline a new initiative, which is a proposal we are putting forward to review options for making the voting entitlement process easier and more inclusive. They are the three areas I would like to cover.

The first area is in the board selection process. If you look back to December 2002, you will see that the Senate committee recommended that MLA consult better with our membership on the reform of the board selection process. We have done that and we are continuing to do it. We conducted extensive consultation during 2003 following the Senate report. The volume of the messages we got from our membership—and we got a whole lot of messages—was to stick with the selection process but put it in the hands of membership. We put changes to the 2003 annual general meeting that put the membership in charge of the selection process. They got 73 per cent support of the annual general meeting, just short of the 75 per cent so it was not carried, because 75 per cent is required for constitutional change.

Of the 27 per cent who opposed it there were mixed responses. Some said that we went too far; some said that we did not go far enough. Basically, while the constitutional changes did not get up, we have seen a far more active membership. Our membership is currently over 30,000 and we are forecasting a 10 per cent increase this year. We are actively encouraging new members. Over 14 per cent of our members cast votes at the 2004 annual general meeting. That was up from nine per cent in 2003. We can compare that to other industries. I think that wool was 14 per cent and dairy was 11 per cent so I think that was pretty competitive when you compare it with other public company responses.

Importantly, we get very strong support at our annual general meetings. We get about 500 to 600 people attending our annual general meetings. In 2004 when we were in Tamworth we had something like 500 members there. We had morning seminars on MLA programs, detailed presentations on what we do as a company, and in the afternoon we conducted the AGM. It went for 5½ hours. We had 13 resolutions and motions for constitutional change. We had a barbecue afterwards, and I would venture to say that nobody went home with any ammunition left. I think that anybody who wanted to ask a question had the opportunity to do so. So I think that the annual general meeting process is pretty inclusive.

Where do we go next? We are constantly looking to improve the system. We are commissioning an independent report. We want to look at the possibility of giving automatic membership to all levy payers. We want to look at an automatic calculation of voting entitlements. At the moment members have to put a declaration form forward on their voting entitlements and then that is verified and they are informed. We are trying to make that an automatic calculation. The proposals that we have put forward have been endorsed by government and by industry and we are looking forward to a report later this year. We will take any recommendations from that for any appropriate change to our annual general meeting in November. To summarise, we do not believe that there is a perfect industry structure. We think the MLA structure is working. We are serious about working with our members and we are serious about constantly seeking improvements. That is where we are.

CHAIR—Clean, green and safe—very important—and obviously maintaining that international image is very important. What lessons do you think we have to learn from the Wagga tip episode—the Brazilian beef?

Mr Crombie—We have to look at science based systems. We have to protect the integrity of our clean, natural production system. We have to make sure we are not importing diseases from overseas. We have to be mindful of the importance and the interests of our trading partners. There are two elements.

CHAIR—You would be aware from questions we put to you at estimates that the chief government vet, Biosecurity Australia and other important players were not up on what had happened. It was a bureaucratic decision, and we have not got to the bottom of it yet. We have OIE tick-off, which is the protocol that was put in place and reviewed in the nineties, and they say it is okay. I actually think it is not okay, but that is my position. They gave it a tick, but we did not actually know what the internal traceability was. We have no idea what their border protection is like. They have this quaint system with one their adjoining countries across the river and they count the stock if they think there is an intrusion. If you can get sixpence on one side of the river and three and six on the other, you are obviously going to send a few over the river. Even in our own circumstance here, when we had that exercise a couple of years ago, I do not understand how you define it. We are fully in favour of zoning, obviously. If we ever get into trouble, we will want to go to zoning but I am unsure how you stop a feral pig at midnight walking across the border in Australia, let alone what they do over there. Do you think that to give a process like that a tick-off from a WTO perspective without the local inspection is fraught with danger?

Mr Crombie—When we heard of the importation, we went to the minister's office and expressed concern from our industry. Our interest was to ensure that the safety of our industry was totally guaranteed. We support the review that is being undertaken. As I say, what we really want to do is to maintain our security. We think that has to be paramount. We really want to make sure that our trading activities are also taken into account in any further direction. We went to the government and asked them to review the policy and we asked them to consider Brazil's compliance with that policy. That was our request to government immediately we heard that a Brazilian product had been imported.

CHAIR—You have to be more careful than I. I do not want to create an international incident but we have a proposition where we have put in place a protocol that is well within the law. No-one is arguing that anyone did anything wrong by allowing fresh meat from a country within whose borders there is foot and mouth and without whose borders there is foot and mouth in Uruguay and Bolivia. Internally—I noticed in the press the other day—they had to send 2,000 soldiers up into a part of Brazil to sort the farmers out. I do not know how we could have the confidence that some bunch of bureaucrats in the WTO will say: 'She'll be right. It's all right out there mate, just go ahead.' It beggars belief in my view. I would like to think that you, in a much more diplomatic manner than I, can convince people that we need to protect the clean, green, safe image. I will not get into the technical arguments of the importer and why it got scattered about amongst other providers but I do know that the average farmer was pretty alarmed.

Mr Crombie—I can respond quite simply. We share your concerns. We have to protect probably the strongest thing we have going for us, which is our clean, natural production system.

CHAIR—Today is not the time to go into the technical details of how you protect an internal border. I do not know whether you have any idea. We certainly do not have a template to take over there and test their border arrangements, but certainly it is my intention to go and have a look privately.

Mr Crombie—We support the review. We have our own views—Mark Spurr lived in Brazil for many years and understands the Brazilian situation. Our response when we found out about this was twofold: we needed to secure the product, and we needed to have a review of the policy and the Brazilian compliance with that policy. That was our immediate response.

CHAIR—As an organisation do you have a reflection on how we got to that point, on how a protocol that allowed that to happen was in place? It is not within my knowledge—we intend to get the knowledge. How is it that some people here have sat down and said, 'That's all right'? Are you across the detail of how that all occurred? I do not necessarily want the detail.

Mr Crombie—I think the detail of government procedures is in the hands of government. We have sought assurances that there will be consultation with industry in the future.

CHAIR—I apologise in advance to the industry if I have made an error. I intend to be pretty robust about this, I have to let you know. We will get away from the Brazilian situation—obviously the figures speak for themselves in terms of the challenge to our market share. One of the curiosities for me is that we have done pretty well in Japan. Why haven't we done as well in China, given they are just across the way? Is it the grade of beef?

Mr Crombie—We have done a lot of market development in Japan over a very long period of time. I think we have a high level of credibility with Japanese importers in terms of the clean natural production system that we have and, increasingly, in terms of quality of the product we are sending there.

CHAIR—Is part of the reason we have done so well—and I appreciate obviously that we have all been very lucky to have got where we are with the Japanese market—that they have been out here and some of the integration that has happened? I see there is a bit of risk in terms of transfer pricing and avoiding import duties and all those sorts of things. Should we, could we or shouldn't we contemplate, if we want to get into that same area in the Chinese market, some joint venture arrangement on feedlots with the Chinese?

Mr Crombie—I think there are two issues in China. It is a major threat and a major opportunity. We are seeing enormous growth at the top end of the market in terms of consumer dollars. We think there are two approaches we need to adopt. One is establishing a presence in Beijing, and we have done that with the opening of an MLA office which is basically to establish the protocols and the contacts. So, as the trade increases, we have had a presence there and we have built relationships. We think relationships are very important. That is the first thing.

The second thing is really in terms of supply chains. We think with increasing globalisation we are going to be dealing more and more with supply chains. In the Chinese market, as with Japan and other markets, we think we are going to be dealing with global users of product. I think that the Carrefours and the Tescos and the other major supermarket chains are probably going to have worldwide standards, and Australia will be a recognised supplier to those. So I think it will be a number of supply chains building, and I think China will be an opportunity for us. We are gearing up a lot of our promotional activities and development activities to becoming part of those supply chains. As to whether it in fact ends up with the Chinese investing in Australia, my guess is that commercial reality will dictate that.

CHAIR—I appreciate the Sam Kekovich ad was pretty successful. You say we ran out of lamb. Then why did the bloody price drop if we ran out? I declare an interest! I got \$3.20 this week at Southern Meats. They have got contracts out for \$4 for the winter—I can put that on the public record. Was there some reason why, if the campaign was so successful, there was a downturn at the yards? Is that related to the dollar and the export market?

Mr Crombie—Why the campaign was so successful?

CHAIR—If you ran out of lamb the price should not have gone down—just from a farmer's perspective. This is just a cheeky question, mind you.

Mr Spurr—I would just respond to that. When I said 'we ran out of lamb', we had heard that the butcher shops were running short. I think there were a few legs of lamb left afterwards.

CHAIR—I was picking you up on it.

Mr Spurr—Speaking colloquially, it was a very successful campaign.

CHAIR—I know, I was just being cheeky.

Mr Spurr—Can I just go back, if you do not mind. I just want to add a dimension to this China issue. One thing I think we should also appreciate is that China is only just starting to open its borders to Australian meat. It has been very restricted up till now. I am sure you are very much aware we are getting a lot of plants in Australia accredited to export to China. It has very much been a market access issue. That is improving and I think that will be the springboard going into the future, where we will be able to build much greater sales in China.

CHAIR—Finally, before I hand over to my colleagues, on the auto voting entitlement: under the present system you have to register?

Mr Crombie—Yes.

CHAIR—What was the take-up of registration? I think auto voting is a great idea, because a lot of blokes just could not be bothered (1) getting the forms and (2) filling them out.

Mr Crombie—We had 22 per cent of votes actually confirmed by members, and of those 14 per cent were voted at the annual general meeting.

CHAIR—Thanks very much.

Senator BUCKLAND—I want to get your overall view of recommendation 4 of that report. Earlier on I certainly had some criticism about the democratic process that you used in elections. I am just wondering what your view of that recommendation is, as a beginning.

CHAIR—Before you answer that, I might just say that Senator Buckland actually has to declare an interest.

Senator BUCKLAND—Sorry, I do declare an interest.

CHAIR—He is now a cattleman.

Mr Crombie—The process for board election, as you would be aware, is that positions are advertised—we have a selection committee, which handles those advertisements—the selection committee then narrows it down, interviews and puts candidates to the annual general meeting for election. The selection committee as it was set up in the original constitution of the company consisted of three nominated by peak councils, three from the board and three from the floor of the annual general meeting. The proposal we put forward was to drop off two of the board nominees and replace them with two from the floor of the meeting so that the floor of the meeting would be putting five of the nine on the selection committee. This was in response to communication with our members throughout 2003, when we went to our members and the general view we got—and there was a whole range of views, not everybody agreed—and the general thrust from our membership told us that they felt the selection process probably worked. There was a range of other alternatives, but they felt the selection process probably worked—but we should look at making it more democratic. That was the basis of the motion we took to the annual general meeting.

Senator BUCKLAND—Even so, it was not successful in that you did not get the numbers.

Mr Crombie—It achieved a 73 per cent support.

Senator BUCKLAND—But you need 75.

Mr Crombie—It needed 75 per cent to change the constitution.

CHAIR—Wouldn't you resubmit that?

Mr Crombie—We have done it twice now. We did it once before; it might have been in 2000 we put that forward. We took that initiative very early in the piece and it was defeated, and then we resubmitted it following the Senate recommendation and industry consultation.

CHAIR—Will you resubmit it?

Mr Crombie—I do not know if we would do it again; we have done it twice. But we are not precluding any eventuality, because we really do have a genuine commitment to improve the system.

CHAIR—Do you think there are people who would like to remain outside so that they can pee into the tent? Will you always have a percentage of people like that?

Mr Crombie—I think that all industry organisations have groups that have differing views. I encourage that. The whole idea of the annual general meeting is for producers—

CHAIR—Yes, you want to have a bit of biff.

Mr Crombie—to have clear and unfettered opportunity to come and state their views.

Senator BUCKLAND—There are direct voting rights for producers and then there are peak councils. My recollection is that some councils or breeder associations were not given rights to be represented on the board.

Mr Crombie—If you looked at the original constitution of the company you would find that MLA did not write its own constitution; it was written by the industry as a whole. There were submissions from right across the industry. The constitution made allowance for four industry organisations to be special members of the company: the Cattle Council of Australia, the Sheepmeat Council of Australia, the Goat Industry Council of Australia and the feedlot sector. There were four special memberships created at that time; that is in the constitution. When the constitution was written they were given special veto powers. We took that to a special general meeting and had those veto powers removed.

Senator BUCKLAND—When it comes to voting, is there a quota?

Mr Crombie—The voting at an annual general meeting is by members. Each member is entitled to one vote as a member, and they are entitled to submit to the company to receive their full entitlement, which is based on their transactions. So they can either get one vote automatically or receive their full entitlement of votes by disclosing their transactions for the year.

Senator BUCKLAND—How would transaction voting work if I were a producer and decided that I wanted to vote?

Mr Crombie—There is a sliding scale. Depending on the amount of transaction levy that you pay, you are entitled to a certain number of votes. It is on a sliding scale which is set in our constitution.

Senator BUCKLAND—What proportion of producers take the option of declaring their transactions?

Mr Hansen—Twenty-two per cent of the members take up that option.

Mr Crombie—Twenty-two per cent of members have registered their full entitlement of votes and 14 per cent exercised those votes.

Senator BUCKLAND—What is the voting entitlement of the associations?

Mr Crombie—They do not have a voting entitlement.

Senator BUCKLAND—They do not have a voting entitlement but they have automatic membership of the board?

Mr Crombie—They have a special membership which is established under corporate law. The only right that they have is to vote against a resolution that materially affects their interests.

Mr Spurr—They can vote against a resolution that affects their rights; that is correct.

Senator BUCKLAND—So an association that is not one of the designated four still has no chance of gaining board membership or representation?

Mr Crombie—It is not a matter of gaining board membership. The Cattle Council and the Sheepmeat Council does not have membership; they have seats around the selection table.

Senator BUCKLAND—Those organisations do not have seats on the selection table; I apologise for calling it a board.

Mr Crombie—There are three seats on the selection table that are set aside for the three major peak councils. We sought to change the balance of that selection process by having five nominated from the annual general meeting. When we sought to change that, it received 73 per cent support, which was very strong but not quite enough.

Senator BUCKLAND—It was two per cent short.

CHAIR—You can only lead a horse to water.

Mr Crombie—I would like to add that the information we have is that there were two groups in the 27 per cent who voted against it: some said it did not go far enough; some said it went too far and that we should be sticking with what we had.

Senator BUCKLAND—How do you become eligible for a seat on the selection committee? Do you nominate?

Mr Crombie—There are nine people on the selection committee as it currently stands. The Cattle Council nominates one person, the Sheepmeat Council nominates one person, the lot feeders nominate one person, the board nominates three people, and there are three who are nominated from the floor of the annual general meeting. Our proposal was to have the three peak councils remain, and have one from the board and five from the floor of the meeting. That was the proposal that we have put forward twice.

Senator BUCKLAND—Has there been some change in attitude?

Mr Crombie—In what sense?

Senator BUCKLAND—Has there been a change in attitude of the management to making it more democratic?

Mr Crombie—We have really tried in that process on two occasions to make it more democratic. In the study we are looking at we would hope to streamline the process for members. Following our first annual general meeting we found there were a number of anomalies in our constitution. We consulted widely, took them to a special meeting and got a whole lot of those anomalies changed. Company people could not have a vote. The constitution required a number of signatures on a document, which was just too cumbersome. The peak councils had the power of veto. We believed that was unreasonable. Motions in relation to all of those matters—and there was a whole swag of them—went to a special general meeting following our first annual general meeting. I think we did a lot of streamlining in that first go. We have had two attempts at modifying

the selection process since. I do not believe there is a perfect model out there. We believe, and I think the support of our members suggests, that the system works. We are constantly trying to make it better.

CHAIR—I think you will probably get more interest the first time the market gets a bellyache.

Senator STEPHENS—I suppose I should declare my interest too. Gentlemen, I want to ask one question about the second part of your presentation. It relates to the report and progress, and particularly to recommendation 5 and the whole section in the report about the disbursement of reserve funds. I was not a participant in the inquiry at the time; I was not in the Senate. Do you have any comments to make about that recommendation and whether or not any changes have taken place in relation to the concerns?

Mr Crombie—That is really outside Meat and Livestock Australia's area.

Senator STEPHENS—Sure.

Mr Crombie—That is under the control of the Red Meat Advisory Council. We do not have any say on that at all, nor do we have a seat around that table.

Senator STEPHENS—You do not have a seat?

Mr Crombie—No. We are not members of the Red Meat Advisory Council.

Mr Spurr—We are the service company.

Mr Crombie—MLA is the service company. We did not choose the peak councils to be members of MLA; it is prescribed under legislation.

Senator STEPHENS—My second question is in relation to the first part of the presentation. You raised the importance of the Asian markets and the potential growth there. There are two things I want to ask about that. First of all, do you see the free trade agreement with Thailand as creating a potential new market or opportunity?

Mr Spurr—I think the free trade agreement with Thailand is over 12 or 18 years, so it is not as extended as most of these free trade agreements. In fact they do not become free trade agreements until far into the future. Having said that, there was an immediate reduction in duty and over the currency of the agreement there will be increasing access in terms of reduced import tariffs and so on. I think our figures showed that there would be about \$700 million over the currency of the agreement. I do not think we will ever see Thailand becoming another Japan or Korea but it is a market that we are very keen to develop. There is no doubt that it was a benefit to the Australian beef industry.

Senator STEPHENS—I have a final question which is a bit left field and not meant to be cheeky: in terms of advertising and branding, is being GM free an issue?

Mr Spurr—GMO?

Senator STEPHENS—Yes, genetically modified. Is being able to brand Australian beef GM free an issue for you?

Mr Crombie—We have a GMO position along the lines of that there are going to be a lot of efficiencies and improvements in product through the use of GMOs. We recognise that there is a very substantial consumer education process involved in that. The sorts of advantages we see are not only in efficiency but also a reduction in the use of chemicals or fertilizers or whatever. We think there will be some quite broad and beneficial pay-offs to the community. In terms of marketing GMO-free products, that is going to be a position for particular brand names to take. If they believe there is a commercial opportunity in that and they can present a product that meets the expectations of consumers then that is excellent, and we would support it.

CHAIR—Are you aware of any other organisations that have approached the minister to become a prescribed organisation?

Mr Crombie—I do not think we are aware of that at all.

CHAIR—Those more vertically integrated people, the Hereford Prime type people, who thought they did not have a niche, where are they at? Have you all come to smoke the peace pipe?

Mr Hansen—That was an issue that RMAC was grappling with. It was through the RMAC forum that the branded beef product groups were having discussions regarding their membership and their prescription as recognised bodies. MLA has not been involved in any of those discussions.

CHAIR—I realise that. I wondered whether you were aware of recommendation 3 that came out of the committee, which is that any organisation appointed by the minister to the prescribed industry's bodies be

eligible for appointment to the advisory body. I was curious as to whether anyone had tried to take advantage of that and lobbied to get themselves up.

Mr Spurr—Not through MLA.

CHAIR—Is there anything further you would like to add, because you have got 1½ minutes to do it?

Mr Crombie—Thank you for the opportunity of reporting to your committee. We are available at any time if you require information about the industry. We are available to help you and your committee. If you would like us to appear again on any issue we would certainly like to do that.

CHAIR—We would be interested to see whether you have another shot at revamping. If you have got them to 73 it would be a pity you cannot swing. Perhaps you need a couple of political branch stackers in there.

Mr Crombie—We are a non-political organisation.

CHAIR—Thank you.

Committee adjourned at 11.29 a.m.