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SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT
LEGISLATION COMMITTEE

Reference: Australian meat industry consultative structure and quota allocation

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SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT LEGISLATION COMMITTEE

Wednesday, 28 August 2002

Members: Senator Heffernan (*Chair*), Senator Buckland (*Deputy Chair*), Senators Cherry, Colbeck, Ferris and O'Brien

Participating members: Senators Abetz, Boswell, Brown, Carr, Chapman, Coonan, Eggleston, Chris Evans, Faulkner, Ferguson, Harradine, Harris, Hutchins, Knowles, Lightfoot, Mason, Sandy Macdonald, McLucas, Murphy, Payne, Ray, Stephens, Tchen, Tierney and Watson

Senator Bartlett for matters relating to animal welfare issues

Senator Greig for matters relating to the Fisheries and Transport portfolios

Senators in attendance: Senators Colbeck, Heffernan and O'Brien

Terms of reference for the inquiry:

To inquire into and report on:

- (a) 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.

WITNESSES

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Committee met at 5.02 p.m.

CHAIR—I declare open this public hearing of the Senate Rural and Regional Affairs and Transport Legislation Committee. The hearing continues the committee's inquiry into the Australian meat industry consultative structure and quota allocation. Today the committee is concentrating on the quota allocation issue. I should advise that, given the necessity for the quota management panel to report on 1 October this year, the committee has resolved to report on this issue some time during the sitting weeks in September in order that the quota management panel can consider the committee's report. Before we proceed further, I am required to remind the committee that, as a well-known, worn-out farmer, I run a diminishing cattle enterprise and declare that interest.

The committee has received further submissions. Is it the wish of the committee that submission 3A from Australian Meat Holdings, submission 7A from the Cattle Council, submission 14A from the Lot Feeders Association, submission 28 from the Midfield group of companies and submission 29 from Hunt Partners be authorised for publication? There being no objection, it is so authorised.

Today's hearing is public and open to all, and a *Hansard* transcript of the proceedings is being provided. It should be noted that 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 commences taking evidence, let me place on the record that all witnesses are protected by parliamentary privilege with respect to submissions made to the committee and evidence given before it. While the committee prefers to hear all evidence in public, if the committee accedes to such a request, the committee will take evidence in camera and record that evidence. Should the committee take evidence in this manner, I remind the committee and those present that it is within the power of the committee at a later date to publish or present all or part of the evidence to the Senate. The Senate also has the power to order production and/or publication of such evidence. I should add that any decision regarding the publication of in camera evidence or confidential submissions would not be taken by the committee without prior reference to the person whose evidence the committee may consider publishing.

[5.04 p.m.]

GREENHAM, Mr Peter Henry, Managing Director, H.W. Greenham and Sons Pty Ltd

KILMARTIN, Mr John Denis, Chairman of Board, Monbeef Pty Ltd

CHAIR—Welcome, Mr Kilmartin and Mr Greenham. Do you have any comment to make on the capacity in which you appear?

Mr Greenham—We have a meat processing plant at Tongala which is a hot boning plant. Together with that, we have a very small specialised plant in Smithton, Tasmania. We have already made a written submission to the inquiry. I will speak to that or answer questions to it, whichever the committee would prefer.

CHAIR—Thank you very much. If you would care to make an opening statement before we proceed to questions, I would be grateful.

Mr Kilmartin—Mr Chairman, I have a summary of the Monbeef submission which I have just handed to your secretary. I propose to speak to that summary. I think it will take about 10 minutes, if I may.

CHAIR—Yes. Thank you very much.

Mr Kilmartin—I would like to thank the Senate committee for enabling me to make this presentation on behalf of Monbeef and the beef industry. I am the Chairman of Monbeef Pty Ltd in Cooma, New South Wales. Senators, you must realise that the decision to build a small specialist hot boning plant, which started operations in 1998, was taken at a time when the meat industry was in dire straits. We were generally perceived by the industry to be certifiable. However, we identified a niche in the industry that existed in south-east New South Wales for a small specialist processor of surplus cows and bulls from the dairy herds of the New South Wales South Coast and Victorian Gippsland and the breeding areas of the Southern Highlands, Monaro and Riverina of New South Wales. We also identified specialist users in the United States of this product and targeted those customers.

We submit that future quota should be country-specific—in this case, the United States—and that the initial 2003 allocations be based on 100 per cent of 2001 production because 2002 has been so disrupted and that future allocations be 100 per cent of the previous year's production. It is important to keep it simple. In case anyone thinks we should merely leave it to government, I am reminded of the words of that wise farmer politician, Bert Kelly, who said—and I have seen this written several times:

I have seen the results of government intervention when trying to solve commercial problems and they almost always hurt the people they aim to help ... In 1930 they told me to grow more wheat so I did and the price fell from four shillings a bushel to one shilling and sixpence when I reaped it ... Governments mostly mean well but they make a mess of most things they try to do in the commercial world ... I do not dread government intervention at my level for ideological reasons, it is just because they are such messers.

As there are politicians and public servants present, I had better stop on that line of thought.

Why 100 per cent? There is a theme, probably emanating from the creation this year of the so-called hardship provision, that part of the quota should be set aside for start-ups and hardship. Roger Fletcher, a doyen of the meat industry, has told you how he coped with start-up quotas when he built his plant in Western Australia. I will quote what he said last week:

We did not put our hand out to the Senate and say we wanted quotas given to us ... I expected it would take three to four years to get an amount of quota that was somewhere near sensible.

When we at Monbeef compiled our first business plan in the early 1990s, it included \$2½ million to buy the quota. As things happen, by the late 1990s, we did not need to buy quota and we were able to use the money to install a state-of-the-art rendering plant, which is an example in the industry of an environmentally friendly waste product disposal. That is just the way the cookie crumbles, a fact of life that we cannot second guess. Then there are droughts, floods, fires and any other mostly insurable calamities that can be lumped under the convenient heading of 'hardship'. These are also a fact of life and a constant hazard to our industry.

What we are good at is efficient processing and industrial relations. I have been in the meat industry since 1959 as an employer and as a producer. In those 42 years, I have experienced half a day's stoppage, and that was a national stoppage. We pride ourselves on our workplace conditions and, through constant communication, ensure that everyone on the plant is heard and understood. We have an Australian workplace agreement in place and have a popular incentive payment plan.

I submit to you that there is a doubtful case for the retention of start-up or hardship provisions. Having said that, I recognise and concede that there are pressures to retain a discretionary reserve and that Monbeef is one of the majority meat industry group who put a 95:5 proposal to Mr Truss several months ago, which we endorse.

Why country-specific? Simply this: those customers in the US are our customers. We named them in our submission to the beef quota management panel. We go over there and do all the things we have to do to satisfy good customers. We send our quality control manager to talk about the presentation of the product. We have them visit our plant in Australia to satisfy themselves of the purity of our product. We have some customers from Texas in Australia at the moment.

We at Monbeef have probably hurt ourselves in this quota allocation argument by deliberately trying to diversify away from the US because of our fear of being a captive supplier. However, we are happy with the customers we have worked hard to foster. We have never lost one, and we do not propose to hand over hard-won business by being decimated by a global quota scheme. The idea of a Japan-specific company like Nippon being handed US quotas for a product they do not produce will simply lose or jeopardise for Australia all the Monbeef, Greenham, Midfield and Throsby US customers. Global quota entitlements will put us out of business.

I have had the opportunity of reading the *Hansard* transcript of the submissions made to this committee last Monday and Tuesday and, with due respect, there are a lot of philosophies I

cannot swallow. 'Global' is a convenient word and is fast becoming almost glib: global village, global communication, global airlines and now global quota. Why? Even the United Nations, the Uruguay Round, Kyoto agreements, World Trade Organisation et cetera cannot get it right. John Howard and his new best friend, George Bush, cannot agree on free trade, especially as it applies to Australian beef, so we have to go with what we have, and that is a beef quota of 378,000 tonnes specific to the United States.

The global scene is constantly corrupted by political decisions, disasters and diseases such as mad cow or BSE and foot and mouth. We have had Asian meltdown, Middle East rejections and calamities such as September 11. We have coped with all of these without regulation and will continue to do so. Globalisation per se is not working. In East Asia, economies were brought down to depression and governments were in disarray. Demonstrations against globalisation have become frequent, determined, disruptive and violent. Witness Melbourne not so long ago and the world trade meeting in Seattle in 1999. We must run our own show and, so far, Australia and Australia's economic management seem to be succeeding. We at Monbeef have a duty to our owners, our employees, our customers and our industry.

We agree with Dr Alan Greenspan, the Chairman of the US Federal Reserve Board, when he recently said, 'We deplore the unmitigated infectious greed of the multinationals.' This was exemplified recently by the substitution of Australian beef for Japanese product in order to attract Japanese government subsidy, perpetrated by one of Australia's largest exporters, Nippon, and by the blatant grab by AMH to dominate this industry with their global quota plan. To allow a company with morality like Nippon to earn global quota and squeeze Australian specialists out of the US market would be a travesty.

Despite the Cattle Council's assertions, we cannot diversify into other beef markets. I suggest that the best way of demonstrating this is for your committee to visit Cooma. It is only a little over an hour's drive from Canberra. If you were to visit Cooma and Wagga, you would see two vastly different enterprises specialising in vastly different markets. I strongly urge you to do so. An auction system is always open to weight of money, where a cashed-up or wealthy player could distort worth of product by either cornering the market or just plain foolishness. This sort of market distortion inevitably punishes producers.

A further question is: who is going to spend the auction proceeds and how? With the current example of a moribund Australian Meat and Livestock wasting millions of producers' funds on ill-conceived schemes such as Futuretec and Meat Standards of Australia, who can we trust to invest auction funds? Also, wouldn't a cash value on quota tempt the US, who are the real owners of the quota?

Quarterly quota entitlement will simply allow the big players to blast the less well-endowed out of the market, starving them of cattle and enabling those with cattle to an entitlement. It also obviously disadvantages seasonal producers, of which Monbeef is one—in fact, all the hot boners are—especially in winter months in normal seasons.

The next issue is producer ownership of quota or economic rent. Economic rent is a nice phrase but a dangerous theory. The more Justin Toohey of the Cattle Council insists to the Americans just how valuable this quota is to his producers, the more he will encourage them to justify a tariff, or they may simply send us a bill. As I told Minister Truss, those producers are

about as close to a hamburger as a cotton grower is to this shirt I am wearing. To claim producer ownership of quota, economic rent or whatever you choose to call it, is ludicrous.

Gentlemen, apart from commenting on the levy scheme, which like an auction system I cannot justify, this concludes my presentation. The first time I appeared in front of a Senate committee was in 1968 when I purchased the Canberra abattoir from the Commonwealth Department of Health. I was given a fair grilling by the chairman, Lionel Murphy. It was there that I learnt to be scrupulous with facts and truth. I also learned that different people with different agendas could make the same figures say different things. I note that major submissions to this committee have made major use of figures. I prefer to keep things simple. Thank you very much for your courtesy and time. I am happy to answer any questions to the best of my ability.

CHAIR—Thank you. Mr Greenham, do you want to make a brief opening statement?

Mr Greenham—I will make it very brief, Mr Chairman. We have presented to this inquiry a paper. The paper has been with you now for some time. I will not go through it. I will leave it for you to ask questions of me. We also have two other papers available to this committee, which I believe you now have. One is our submission to the Red Meat Advisory Council inquiry in 2002 and one was a recent submission to the tribunal appointed to consider discretionary allocations.

My beliefs are well known to this committee, as they are in the rest of the industry. We are a believer in country-specific quota schemes. There is no question, in my mind, that those who play in the market regularly have the expertise and the connections to return the highest returns to Australia. In my submission, we have mentioned the AMH submission, which we do honestly believe is self-centred and, I would have to say, arrogant. AMH have acknowledged that there will be losers, especially the hot boners or the market specific people, but they have not given any encouragement regarding how those people could be looked after.

AMH is a multinational. That I do not argue with. We all buy toothpaste from multinationals, so it is a part of life. What I find difficult in my industry—and I will call it my industry, because it is not only my income earner but my love; as I said before, I am a fifth generation member of the industry—is that AMH can argue they should have a scheme that they propose which is based around AMH and what they believe is in their best interests. I do not believe it anywhere shows that it is in the interest of any other group.

AMH, some months ago, via their company ConAgra in the USA, told me that the average fat content of the product that he had this year in the 12-month period would average under 80 per cent chemically lean. Our product averages over 90 per cent chemically lean. That means that we are returning to Australia a much higher return just on the meat alone, even accepting that we will pay some lower charges for freight and other incidentals. We feel that we are an asset to Australia. We feel that we have a good place in the industry. If the AMH scheme proceeds, and under a global system if there is no protection for the hot boners such as John and I, our allocation in year one will be under 50 per cent. Irrespective of what anybody tells this committee, the plant that we have at Tongala cannot under any circumstances produce meat for any country other than Japan and Canada. But the Japanese will not buy hot boned meat. They do not like it. They feel there is something wrong with it. Although they use that product, they

will not buy our product. Everybody is going to Canada, so you just cannot put it there because it would be economic suicide.

I go back to the 1994 meat processing inquiry by the Industry Commission that was set up after the last round of quotas. Its report says quite categorically that those people in the industry who do it best should stay in that industry and should have the quota. This inquiry and others are trying to find a new method of determining who should get quota. I recommend, and my position is, that that report in 1994 has gone through the agony that you are going through. I believe that if you import that and put it in place, that is in the best interests of Australia.

Yesterday, I was short a quota. I got 83 per cent out of the total allocations. I have put 1,100 tonnes from our plant in Tasmania to try to keep work going at Tongala. I have purchased from those people who are selling quota. I have already purchased \$1 million worth of quota to keep the plant going. I have to purchase another 1,500 to 2,000 tonnes to keep it going. I am going to do it because I have customers. If I do not get quota this year or next year, I am going to keep going until we cannot go any further. But I think it is wrong if I have to go out and, on the meat we produce, pay the higher out-of-tariff duty. I cannot give documentary evidence, but I was told verbally yesterday that people who have quota and who may not be able to use their quota are putting 65 trimmings into America to gobble up and use the quota that they have been lucky enough to get. I think that is morally wrong.

Gentlemen, I can say no more. My position is well known. You all know about it. The whole of the meat industry and the whole of government know my position. I am saying that if you want the John Kilmartins and the small people who employ 300, 200 or 400 people, you have to look after them. Otherwise, the multinationals will have our industry. There is a place for them, but not totally.

CHAIR—Thank you very much, Mr Greenham.

Senator O'BRIEN—Mr Greenham, you have purchased quota. How much has quota been selling for?

Mr Greenham—I have paid 70c and 75c a kilogram.

Senator O'BRIEN—I didn't think it was per pound.

Mr Greenham—Sorry. That was for the record, not you, Senator.

Senator O'BRIEN—I am trying to put this into perspective. You got 83 per cent of your quota.

Mr Greenham—We got 83 per cent of what our customers expect to get from us.

Senator O'BRIEN—How does that relate to the historical production? So 83 per cent of what you sold in 2001 is your quota?

Mr Greenham—Yes.

Senator O'BRIEN—Is that after the discretionary quota?

Mr Greenham—It is after the discretionary quota.

Senator O'BRIEN—How much of your quota did you get there?

Mr Greenham—We got 2,127, I think it was. We applied for 3,300 and got two thousand, one hundred and something.

Senator O'BRIEN—In terms of the grounds for getting discretionary quota, are you prepared to supply the committee with the details of the basis on which you sought it?

Mr Greenham—Certainly. I thought this committee had it, Senator. If you haven't got it, I am quite happy for you to have it.

Senator O'BRIEN—I got a document today that I hadn't seen before.

Mr Greenham—I think that is the Red Meat Advisory Council. I am quite happy to say on the record that you may certainly have our application for further quota.

Senator O'BRIEN—As I understand it, you want a position which is based 100 per cent on trade into the US?

Mr Greenham—Correct.

Senator O'BRIEN—That would include over-quota trade?

Mr Greenham—Correct.

Senator O'BRIEN—Presumably, if someone wants to diminish your share, they would need to trade into the US and pay the 26.4 per cent tariff or whatever applies at the time over and above the 4.4 per cent?

Mr Greenham—If we had it country-specific, yes, that is the case. They would have to. I have never envisaged that we would get exactly the quota that we would require. We have always had to buy some or put meat in out of quota ourselves.

Senator O'BRIEN—You were telling me earlier that it is about \$3.30 a kilo.

Mr Greenham—That is the price of forequarter beef into the USA, yes. It is \$2.75 into Japan.

Senator O'BRIEN—So it is a premium of about 15 to 20 per cent?

Mr Greenham—I am sorry, I would have to—

Senator O'BRIEN—It is a very rough estimate.

Mr Greenham—I accept your method.

Senator O'BRIEN—On the basis of that, it would be worth your while to trade into the US, wouldn't it? If you can get \$2.75 in Japan and go into the US and pay the tariff, you are getting nearly as much and you are also going to get the benefit of a future quota entitlement leveraged off that trade?

Mr Greenham—You have to look at it in two bites. One is the fact that we run our business as a part of a team. That is, I have five customers. I supply them 50 weeks of the year. I do not supply them over Christmas and Easter.

Senator O'BRIEN—I understand that. You have told us that before. The proposition I am putting to you—I will cut to the chase because we do not have a lot of time—is that, in your model, if one of these so-called multinationals or a big company says, 'I want to increase my quota,' or a small entrant wants to get into the market, they say, 'I can sell trimmings into Japan at \$2.75'—

Mr Greenham—That is 85 chemical trimmings?

Senator O'BRIEN—Yes. 'And I could sell trimmings into the US at \$3.30. But I don't have quota, so I'm going to have to pay an additional 22 per cent tariff.'

Mr Greenham—The actual figure on today's prices, for 85 chemically lean meat, is between 70c and 71c a kilogram.

Senator O'BRIEN—What do you mean? Purchasing quota?

Mr Greenham—Out-of-quota tariff.

Senator O'BRIEN—So for a bit less than what you are getting in Japan, you sell into the US and you leverage additional quota for the following year?

Mr Greenham—I would sell into America out of—

Senator O'BRIEN—The proposition I am putting to you is that if someone wants to get into the market as a new entrant or whatever, they would have to pay the additional tariff and that would cost them a little bit more than the difference between the Japanese price and the US price?

Mr Greenham—I am a bit different from that. I would say that under the scenario I would like to see any government install, there would have to be a new entrant provision. I think it is only fair and equitable.

Senator O'BRIEN—So it would not be just 100 per cent? There would be a new entrant provision?

Mr Greenham—I have never said that we should get 100 per cent. There should always be something set aside for those people who wish to come into the industry or a special hardship case. I can see special hardship cases. What I am against—

Senator O'BRIEN—Who would get special hardship?

Mr Greenham—After 10 September, when they had the BSE outbreak, there was a good reason then for certain people who were 100 per cent into the Japanese market, especially Australian-owned suppliers to Japan who were wondering how they would keep their business going. They could see at that time—they didn't have hindsight—that they needed something. I believe that they had to get something. Morally, they had to get something.

Senator O'BRIEN—The AMH model deals with quarterly entitlements. I appreciate, because of the nature of your operation, that you wouldn't have enough quota to meet your production needs.

Mr Greenham—I have yet to find out why anybody is suggesting quarterly. I do not understand it.

Senator O'BRIEN—Rather than debate it, let us apply it to your operation so we can understand its impact, because I think that is important.

Mr Greenham—It may have lesser impact on us than on other people. Our operations at Tongala are in a dairy area. Farmers cull normally 12 months of the year. This year is different because of the weather conditions. If you looked at our pattern over the last five years, you would see that our tonnage in any particular quarter would not have changed except in the quarter in which Christmas fell.

Senator O'BRIEN—The October-November-December quarter. Is that right?

Mr Greenham—Yes.

Senator O'BRIEN—But in terms of the impact on your shipments versus your quota entitlement, you would obviously be under in a global model?

Mr Greenham—We ship 500 tonnes a week, hail, rain or shine.

Senator O'BRIEN—I am saying that under the 100 per cent global model—the AMH model based on quarterly—

Mr Greenham—To start off with, we do our exercise on a global system. If there is no special allocation for specialists, we would finish up with 47 per cent of our quota. So we finish up with something less than 25,000 tonnes. I think we worked out that 11,700 tonnes would be our allocation under a global scheme.

Senator O'BRIEN—So you would have no choice? Obviously, you would leverage some additional quota off the Tasmanian operation. Is that included in the 47 per cent figure?

Mr Greenham—No. I completely accept that Tasmania is a separate legal entity and I have not included it in any of these discussions other than when I have specifically mentioned it.

Senator O'BRIEN—It would attract quota, presumably—

Mr Greenham—If you take 6,000 tonnes, there are total exports out of Australia of one million tonnes. So it is six over one million. I am not going to get much tonnage out of that.

Senator O'BRIEN—No. You will not get a lot. You will get some.

Mr Greenham—I would get some. I would get a little.

Senator O'BRIEN—I am only trying to establish whether we would add that to the 47 per cent.

Mr Greenham—You can, but I would like you to leave a little bit for Tasmania, if I may have a little bit for Tassie, please.

Senator O'BRIEN—There is no reason why not. That would be your decision, I presume.

Mr Greenham—Yes.

Senator O'BRIEN—Presumably, you would in that market scenario need to either pay tariff or purchase quota?

Mr Greenham—For 50 per cent of our production—roughly half of our production, correct. I cannot afford to do it.

Senator O'BRIEN—It depends on the price of quota.

Mr Greenham—Based on historical differences between buying and selling, there is not enough margin to cover purchases of 50 per cent out of quota or purchase quota.

Senator O'BRIEN—Mr Kilmartin, could you explain the impact on your operation of the AMH model in quota terms rather than extrapolating?

Mr Kilmartin—Arithmetically, roughly, we will lose 50 per cent of our quota. Effectively, that will put us out of business. That is not an exaggeration. We do not have anywhere else to go.

Senator O'BRIEN—So my understanding is that your shipments would total about 10,000 tonnes?

Mr Kilmartin—Yes, getting up towards that figure.

Senator O'BRIEN—Somewhere between 8,000 and 10,000. So 4,000 to 5,000 tonnes would be your quota shortfall?

Mr Kilmartin—That is correct, yes. It would be more like 5,000.

Senator O'BRIEN—So you would be in the scenario that, to continue to operate at the volumes or to continue to operate at any volume, I suppose, you would need to purchase quota or ship and pay the tariff?

Mr Kilmartin—I do not think in a normal market trading situation we would have the room to buy quota, on our bottom line over the past three years. There would be no room to be paying any sort of a premium for quota.

Senator O'BRIEN—The argument that has been put to us in other proceedings, I guess, is that there is a premium for the US market and the accident of history as to who has traded in there should not determine who can trade in there in perpetuity and that there should be some way of sharing the premium market. Do you agree that the United States is a premium market?

Mr Kilmartin—Our actions do not say that. As I told you, we have deliberately tried to diversify because we have always been fearful of being captured by the US market. I don't like to exaggerate the situation, but we have two big United States operators in Australia, Cargills and AMH. Through their parent companies, Excel and ConAgra, they are very vertically integrated in the States. As it turns out, they are some of our greatest buyers. We get the feeling that the United States price is set by perhaps a phone call amongst about four operators every Monday.

Mr Greenham—I will add to Mr Kilmartin's comment.

CHAIR—I will go to Senator Colbeck. With the short opening statements, we have sort of run out of time.

Senator COLBECK—What restrictions are there on the Canadian market?

Mr Greenham—The Canadian market normally will restrict only when America restricts. Now that we have an arrangement between Australia and America where we have a quota system, the Canadians will not impose any quotas on Australia. They will only do it the moment that we bust or hit the quota in America. That stops us then diversifying all of our meat up to them.

Senator COLBECK—I would like to explore a little bit further the question that Senator O'Brien was just asking with respect to premium into the US market.

Mr Greenham—There is the premium in the US market today. The only reason there is a premium in the US market today is the fact that there is too much meat to sell. Therefore, the other countries are able to bring the prices back and bid at a lower price because they know that the meat has to go somewhere. The price in Canada was until recently directly proportional to the amount of out-of-quota duty you had to pay into America. They got set at that price so they are now paying less than the duty now being sought. Under normal circumstances, with no quota scheme and free trade, the Japanese market is the best market for grinding meat. The Japanese normally pay more than the Americans, but they are not now.

CHAIR—I want to ask a question out of curiosity. Would the person you recently purchased quota from be a person who normally would have used the quota or traded the quota?

Mr Greenham—Sure. He is a producer. Why did he sell it? He makes more money out of selling it to me. He is not a slaughterer. He is a further processor. He made more money out of it.

CHAIR—Thank you very much, Mr Kilmartin and Mr Greenham.

[5.40 p.m.]

McDONALD, Mr Andrew, Managing Director, Bindaree Beef Pty Ltd

CHAIR—Welcome, Mr McDonald. Do you have a brief opening statement that you would like to make?

Mr McDonald—I do, thank you, Senator. I have no elaborate model and I have no slick presentation. I have a few dot points that I wrote on the plane coming down here. I wanted to further update this committee from our previous presentation and documentation that we submitted. I would like to table a document that I have given to the secretariat, which is currently being distributed. It contains further background evidence on the support that could be generated for a country-specific scheme.

The reason I am here today is that we have currently got a model that has been put on the table from Australian Meat Holdings which promotes a 100 per cent global scheme, which we heard the previous witnesses talk about. I just want to run over a couple of points in that regard.

We have discussed previously that this quota issue is the single biggest issue that could affect the landscape of the beef processing industry. If it goes the wrong way, I believe that we will see complete domination by the two large multinationals that are currently operating in Australia.

Australia, in the past—and certainly I even believe currently—has a fascination with foreign ownership. We have a fascination because we believe the foreigners can do it better than Australian processors can do it. I will give you a brief history of the McDonald family and their relationship with the processing industry.

We purchased a small abattoir in Lismore in 1989 when I joined the company. I was employee No. 8. It killed 10 pigs, five sheep and about 10 cattle a day. We built it up to be an export plant processing 300 cattle a day. In 1992, we sought to purchase, and subsequently did so, a plant at Orange. After viewing the plant—it was in very ordinary condition but it was a wonderful structure—we purchased it after it had been gutted out with all the old equipment removed. We then sought to get a licence for it and to build at the time a small processing facility, I suppose in some regards based on the New Zealand model. We sought an export licence and we were refused it at the time by the Meat Industry Authority of New South Wales who I well remember said to me that because we were Australian owned we had no money, no vertical integration and now no hope in the Australian beef industry. We then fought for about two years until subsequently the chairman of that organisation was sacked and we were able to have a licence allocated to us.

A few months later, we purchased an abattoir at Inverell that was substantially cheaper than the abattoir that we were able to build at Orange. Consequently, since then, we have also purchased an abattoir at Murgon and recently, 10 years later, built the abattoir at Orange. The abattoir at Orange is five or six times larger than we had ever hoped to build. Certainly I believe it is probably the most efficient abattoir in the Southern Hemisphere for the type of cattle it is going to process.

So I differed with the views that had been put previously. I still differ with the views. Certainly with the AMH document that is currently on the table, everybody all of a sudden seems to worship it and believe it is the way we should be heading. Obviously, it has certain support. But I want to talk about it for a number of reasons.

I think I can speak openly and frankly because the document I have just put in front of you actually is of more disadvantage to my business in quota earning performances than the AMH proposal. I gain from the AMH proposal because of the sheer volume that we now put through with our three plants. In the proposal I have put in front of you that was an original compromise position, I lose 2½ per cent of my quota that I shipped in 2001. The reason I support the document put in front of you is that it is the same position that we and the Hunt Group, of which the two previous speakers are members, have supported since November last year. We are probably the only group in the whole industry that has not changed its views.

We are supported in our views by the Productivity Commission, which Peter Greenham touched on earlier, which supports the country-specific approach that came out in 1994. The Cattle Council had a report commissioned by ACIL in 2002 that supports the country-specific approach. ACIL also had a document in 1993 that promoted the country-specific approach. Hassels, in their EU document, supported the country-specific approach. Hassels, in 2002 in the US, supported country-specific. ABARE and AFFA have both supported country-specific in 2002. So there is overwhelming support by the economists that country-specific is the way to go.

I believe it is also the way to go because it brings a level of certainty to my business. My biggest concern under the AMH proposal is that it promotes continued production irrespective of the market conditions. That is where I have a concern. I am an Australian processor funded by Australian banks. They only ever want to see me operating while it is profitable. If it is unprofitable, I will probably get a recommendation that I close for a couple of months. Under the AMH proposal, if I close for a couple of months, the large multinationals bankroll their continual production and they end up with all the quota. That concerns me greatly.

We have a situation with the EU quota where I believe that has happened in the last 12 months. EU cattle prices have been \$150 or \$200 a head above what the value of the price of beef is to the EU. We have pulled out of that market and we have lost significant quota amounts in that last 12 months. We do not see the point in continuing to process cattle and to lose money to hold market share. We see other companies do it that can afford to bankroll. I am concerned that is what will happen with the US quota.

In summing up, we have got two multinationals. If the decision goes their way, I believe they will dominate the industry. In the performance that both of them have put in over the last six months, I do not believe they are any better. I think they are behind what the Australian companies can do. Bindaree Beef has put the runs on the board. I think the companies that have previously presented to you as I have today are fully capable of running extremely good businesses and representing the Australian producers as competent processors. I say that on the basis of Nippon and their beef labelling scandal in the last three months. Media reports say 20,000 supermarkets and convenience stores have pulled their product. AMH in the last three months had a food safety scare, which is the biggest food safety scare, I am led to believe, in the USA, in which over 10,000 metric tonnes of beef has been recalled.

So I challenge anybody in Australia to say how Australian companies are not above or at least equal to the footing of those companies. On that basis, I believe this committee, as well as the committee that the minister has put in place, need to seriously look at where they want to see the future of the Australian beef industry—whether they want to see good competition with half a dozen or 10 competent processors or the dominance of two foreign owned companies.

CHAIR—Thanks very much.

Senator O'BRIEN—We were having a discussion before the hearing, Mr McDonald, about the impact of the model. I think your scenario is that to get you out of the market other players need to bid up the price of cattle beyond the point at which you can make money. I think you said to me that AMH was in the market in the six months at the end of last year paying more for the cattle than you wanted to pay but you stayed in the market. Isn't it a difficult proposition to advance that companies stay in the market effectively for a full 12 months making a loss in a scenario where you can get back into the market over the short term by paying tariff premiums if there is no quota available to be bought or buying quota at the right price if there is?

Mr McDonald—I can get back into the market, Senator, but I'm at a 26 per cent disadvantage, which is the tariff rate.

Senator O'BRIEN—If it is a three-month period, you would be paying that for three months operations to effectively get you back in the market. It gets you back into the market for as long as you wanted to be there.

Mr McDonald—The problem with the AMH scenario is that if I close for three months, sure, when I open back up I get three months worth of quota to operate. But in a full year, I am substantially down. So there are a number of issues to look at. With the AMH scenario, there are two different issues. There is the 100 per cent global issue and there is the allocation on a quarterly basis. I am opposed to both. But if we are talking about a quarterly basis, there are a number of issues Australia has to look at. If we want to sell beef to the Americans on a quarterly basis, we also lose our bargaining power with the USA by saying to a customer, 'No. I don't like that price. I'm not going to take it this week,' or 'Skip me out in November. I'm not going to sell it to you. I'll sell it to you in December.'

Senator O'BRIEN—There needs to be some flexibility, and three months might be too short a period. I know you are not arguing for the model. There is another submission that says it should not be three months as it should be six. I am trying to pin you down. It is not your preferred option, but in terms of the problem you see with it, wouldn't an extension of the quota management period deal with part of the problem?

Mr McDonald—I am for 12 months on the basis that for six months you still have these hidden areas that we have to look at. One thing is for sure: I would find it hard to believe that you as a group would want to meet every six months and hear people whingeing that different scenarios have taken place, such as hardship et cetera. As far as I am concerned, we have to settle this one. We have to get a system in place that will satisfy everybody for the next couple of years so that we can all get on with it rather than bickering as we all currently are.

Senator O'BRIEN—In terms of the alternative that has been put today, which is the 100 per cent country of performance, isn't it equally the case that your share and that of others can be eroded by someone going in and paying tariff to establish performance and therefore get a share? What I am saying is that the scenario you talk about in the AMH model of someone buying you out of the market could also happen to some extent in the 100 per cent model.

Mr McDonald—It depends how it is structured. If it is outright 100 per cent, that is correct. I am not sure whether Peter Greenham got mixed up or not, but I thought he wasn't quite certain on that answer. I can answer on the basis that AMH, Bindaree Beef, Greenham and Sons and Nippon meats came up with a scenario where everybody gets allocated 97½ per cent, with 2½ per cent or 9,000 tonnes set aside for hardship et cetera. It was specifically put in this agreement that it involve no new entrants. It was openly said by AMH to me, 'Andrew, I don't want Orange, as a new entrant, getting any new quota.' I said, 'As a compromise, I will accept that.' If new entrants do not get new quotas, I do not have a problem with that.

One thing I argued with both Nippon and AMH at the time was that I did not believe 9,000 tonnes was big enough for hardship. My belief is that it should be 95 per cent, with five per cent put aside, or 18,000 tonnes put aside, for new entrants or hardships. Scrap new entrants if you want. Anything over tariff does not need to receive quota for the following year because it then sets the people with the big cash flow or the big pockets to put money in out-of-quota and buy quota.

Senator O'BRIEN—So you lock it in on 2001. That is what you would be doing?

Mr McDonald—We lock it in on 2001 for 2003, and then 2004 is based on 2003 et cetera. Then we have a committee set up like the one that the minister has currently put in place for the 18,000 tonnes for hardships. If there is a relevant hardship case, it gets distributed. If it does not, it gets reallocated to the people on the same percentages—nice and simple. I think that is all we have to look at.

Senator O'BRIEN—Thank you.

Senator COLBECK—I think Senator O'Brien has explored the issue that I was really interested in with respect to growth and quota.

CHAIR—Mr McDonald, what would be your view if you woke up tomorrow morning and it was the AMH model with the six months or 12 months? You wouldn't be disadvantaged, would you?

Mr McDonald—I come out in front, but I am scared about the ramifications. In some regards, it is good: my two closest competitors—Singleton and Cooma—both go out of business.

CHAIR—Do you think there has been some change in the market since 2001 until now? If you apply 2001, with the distortion of the BSE et cetera, is that a fair prospect for the people?

Mr McDonald—Yes, I do. I think 2001 is an extremely clear year. BSE hit on September 11. There was no effect on BSE purchases until probably about January. The quota year we are

basing everything on is 1 November 2000 through to 31 October 2001. So there are no BSE implications. At the end of 2000 or 2001, no-one was talking quota until that October-November scenario. It is a pretty clear year.

The interesting thing since then is that I believe Japan has recovered astronomically. The figures are showing that. The figures are going to show it even more. I noted earlier that Nippon has had 20,000 supermarkets and food service outlets pull out its product. We are seeing a massive amount of meat going back into Japan by everybody now other than Nippon. Although Japanese imports will still be down, I think everybody's imports will be up significantly other than Nippon's now.

Bindaree Beef, for instance, for the first six months lost 20 per cent, even after hardship, of its US access. I have an extra abattoir that has now opened. We lost 40 per cent of our Japanese market as well. The US market for Bindaree Beef was 50 per cent of its total exports and Japan was 30 per cent of its total exports. Originally before hardship, I lost 7,000 tonnes of beef going to the USA and 8,000 tonnes of beef going to Japan. I was down 15,000 tonnes of beef for which I had to try to find diversification markets. I have picked up a little bit from the hardship. I am still significantly down. All of a sudden, I am seeing a big increase in exports to Japan as other companies in Japan pick up the slack from Nippon. I have no doubt that other companies in Australia that service other markets and companies other than Nippon are finding big increases also. That is probably why today a 30,000 tonnes hardship figure was put in for this year. It probably only needs to be 18,000 tonnes for next year.

CHAIR—With respect to the dramatic fall in the saleyard price of cattle in Australia, what do you think you can put that down to?

Mr McDonald—I can put it down to probably two things. One is the oversupply of cattle being offered to abattoirs. The second is that we have seen a significant market player with CMG out of the market in Queensland. There is one company that can set the rate of cattle in Australia, and that is AMH through its sheer volume. If AMH is being offered a heap of cattle and they do not need to put their price up, they do not need to put their price up. While ever there has been a drought on and a large competitor in Queensland is out of the market, we have seen more cattle than processors are capable of handling.

CHAIR—It would be fair to say, though, that the price in the yards could still go up and everyone would still be getting a quid?

Mr McDonald—I think it is fair to say that it does not matter whether you had quota or you did not have quota over the last six months; you would have been able to make money. However, with the substantial rain in Queensland and the mergers and different quota allocations that have taken place, there are now three companies probably in Australia with a large amount of quota left, and that is Nippon, AMH and the merged CMG entity. With the large rain now taking place in Queensland, we may see cattle prices up where only those three companies are capable of making a profit.

It is interesting to note that under the current quota allocation system Nippon were a substantial winner to the detriment of many Australian companies. I find that extremely difficult to bear. That is why I say do not put in a system to help the small Australian companies that will

substantially help the two big ones. I have no problems putting in a system to help the small Australian companies. As an Australian government, I think you have an obligation to do that. I just do not think a system should be put in place where you substantially help two big multinationals as well.

CHAIR—It would be fair to say, though—and I have already declared my interest—that the cocky out there, the beef producer, has been given a nice old, as we say in the saleyards, root-out on price due to the other side of the industry being able to take advantage of a series of things. There is a scope for improvement in the market.

Mr McDonald—I think we saw in June to December last year the biggest prices ever. I would say I was on the other foot. In January to June this year, we had an opportunity to square up. How did the books look at the end of June for the financial year?

CHAIR—That is all I needed you to say. There has been a bit of a square-up.

Mr McDonald—There has been a square-up. It will be interesting to see what happens after the rains, Senator.

CHAIR—Thank you very much.

Senator O'BRIEN—Which rain is this?

CHAIR—Any further questions? Thanks very much indeed.

Mr McDonald—Thanks, senators.

[6.02 p.m.]

PITTAR, Mr Roland Yorke, Senior Manager, Meat and Livestock, Meat, Wool and Dairy Branch, Agriculture, Fisheries and Forestry Australia

SUTTON, Mr Paul, General Manager, Meat, Wool and Dairy Branch, Agriculture, Fisheries and Forestry Australia

CHAIR—I welcome the representatives of AFFA. Do you wish to make an opening statement?

Mr Sutton—No, we do not have an opening statement, Senator.

CHAIR—There will be some questions on notice from Senator Colbeck. He has had to leave. They will be emailed to you tomorrow.

Senator O'BRIEN—Why don't you ask them, Mr Chairman? We will then have the answers now.

CHAIR—The first question from Senator Colbeck is whether the department could provide a graph of comparative meat prices to export countries over the last four years.

Mr Sutton—Yes, we can. I do not have it, obviously, but we can do that.

CHAIR—Thank you very much. Can you supply a brief detailing import restrictions into the major destinations of Australian beef.

Mr Sutton—I think we may be able to. Bear with us while we look at the data we have with us. I thought you were seeking import figures into each market. We do have a schedule of restrictions. We will take that on notice.

CHAIR—The third question is: can you supply records as to who has sold quota this year?

Mr Sutton—No. We cannot supply that information under the arrangements we have agreed to with industry in terms of confidentiality.

Mr Pittar—With your indulgence, I would point out that the AFFA web site has lists of companies that received quota without specifying the amount of quota that those individual companies received, if that is of any assistance to Senator Colbeck.

CHAIR—Are you in a position to designate how much quota has been sold without identifying the people who sold it?

Mr Sutton—We could probably give you a total figure.

CHAIR—That would be helpful to the committee.

Mr Sutton—It might only represent a small part of the actual commercial dealings in quota, though, because I am sure everyone would acknowledge that it is possible to arrange commercial transactions whereby the quota does not legally change hands.

CHAIR—Can you supply records as to who purchased quota? I take it from the previous answer that you cannot.

Mr Sutton—No, unfortunately, Senator.

CHAIR—Finally, when the industry was requested to provide advice to the minister on models for quota allocation in the US market, was there any suggestion or implied policy background applied to that advice request?

Mr Sutton—No. I do not think, other than the minister's general statements, which have been put before this committee previously in terms of the minister's expectations and broad principles, there was any more detail than that.

CHAIR—Thank you very much, Mr Sutton.

Senator O'BRIEN—Mr Sutton, Mr Pittar, I presume someone has looked at the AMH model and considered the administrative arrangements that would fit with it were it to be put in place?

Mr Sutton—Yes, we have looked at it, Senator.

Senator O'BRIEN—I understand that you have a fairly good handle on the trading history. With the current quota management scheme, you know who is entitled to ship. Ultimately, you get the detail of shipments. How far behind is the history that you have? In other words, as of now, what shipment period have you got the material for?

Mr Sutton—The basis of issuing the quota is in advance, if you like. It is when a company wishes to apply. What is the terminology? A request for permit is issued when we process the application. It may be the week of the shipment or it may be a week in advance. In terms of our understanding of the situation at any point in time, we are quite up to date.

Mr Pittar—I can put some parameters around that. Generally, we are within a week. Sometimes it is a matter of days, but generally it is a week.

Senator O'BRIEN—What changes, if any, would the department need to make to administer a model such as the AMH model?

Mr Sutton—A whole range of issues arise in relation to the implementation of the AMH model on a quarterly basis, many of which I am sure have already been canvassed by the industry. But the major problem we see relates to the fact that if it were to be applied rigidly, it would inevitably increase the exercise of discretion or the need for an exercise of discretion. Over only a three-month period there will always be aberrations where plants are shut down for

annual holidays or seasonal closures or industrial or other disputes. In a short period such as three months, it will have a major impact on the shipment record in that year. It is just inconceivable to us that you could expect that there would be an automatic reference period three months behind or perhaps with a lag of one month, as envisaged by the AMH, that would be a practical proposition. The reality would be that there would be requests for consideration of special circumstances every quarter for most companies.

Senator O'BRIEN—If the model allowed for it.

Mr Sutton—If the model allowed for it. It would be clearly impractical to operate it rigidly because we know that many of the small plants operate seasonally and others have close-down periods. Some plants have the capacity to ramp up two and three shifts. Others are limited in terms of cattle availability or plant capacity to shorter periods and they do not have that flexibility. So I think there would be difficulties in administration. The exercise of discretion under quarterly—

Senator O'BRIEN—Difficulties in administration are made only on the basis of this need to exercise discretion. Is that how I should understand that last statement? You indicated that before.

Mr Sutton—That is right. The main point would be the practicality in terms of a three-month reference period and the need for challenges to be responded to and considered in a very short time frame. We also think that a longer period, a more representative period, is better in terms of having a full seasonal cycle as the basis for allocation in the coming year for those sorts of reasons. The normal down times are less significant, and all plants are subject to those down times. If it is done on a rolling quarterly or six-monthly basis, you are going to compound the effects of variations in tonnage.

Senator O'BRIEN—Conversely, of course, a period out of a year means that you are behind for a whole year and you have potentially a bigger problem to deal with in a more rigid model based on annual assessments?

Mr Sutton—You may have. But you also have more time to take the decision. 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. Clearly, when it is known that some companies are applying for special consideration, this encourages others to.

Senator O'BRIEN—That would only occur if the model allowed for it, I presume.

Mr Sutton—Yes.

Senator O'BRIEN—A quota management unit can only do what the regulations allow. If the regulations do not have a discretionary amount, then you would not be doing that?

Mr Sutton—We are not talking about a discretionary allocation in terms of the 30,000 tonnes. I am talking about the need for discretion to be exercised, 'discretion' meaning a

decision making action by the minister, the department or the panel. That is what I meant by discretion. I was presuming that we could dispense with the 30,000 by some other means.

Senator O'BRIEN—There is no discretionary amount in the AMH model. So you are suggesting that somehow the industry would be approaching the minister to vary his scheme? If the regulations contain no provision for discretion, how would the minister do that?

Mr Sutton—I think it would be inequitable in terms of the impact on companies that are subject to seasonal or other down times. It would have the effect of disadvantaging them in not only the period in which the down time occurred but in the next quarter. Presumably, they would have to buy quota to export into the market to gain a record for the next year. So you are really amplifying the impact of the down times, whereas those firms that can operate with less down time just by the nature of their scale and operation and perhaps geographic features would be advantaged. We do not make any observation about that. The economists might say that the most efficient operators might succeed and come to prominence in the industry. But there would be regional and other considerations.

Senator O'BRIEN—The AMH model is based on the philosophy that those who cannot use their quota can sell it and use the capital from selling it to buy back into the market when they are able, or to offset, I guess, tariff, to get performance for the next quota period?

Mr Sutton—Yes. That is theoretically correct if there is a set price for the quota. Clearly, if are you in a position of selling quota, presumably the market is down. When it swings the other way, the price of quota to buy back into the market might be much higher.

Senator O'BRIEN—Obviously. The price of cattle might be different too. So all those variables apply in the decision making process for any business in the meat industry, I would have thought. I am interested to know in terms of the model rather than your view or the department's view, which appears to be different. Last time, you told us the department did not have any meaningful view on it.

Mr Sutton—I was making observations about the administrative practicality to make sure that you are aware that the effect of quarterly allocations means a magnification of the problem of a firm subject to a dislocating event.

Senator O'BRIEN—I am interested in that. A lot of people who have made submissions to us have come back and said that they support the AMH model. They obviously do not see it the way you do, perhaps because they have not thought of it, or perhaps they have; we cannot answer that now. I am interested in that. If I understand you correctly, in terms of the pure administration of the model, subject to this concern about some exercise of discretion, which would be, I think, subject to it being allowed by the model, it could be done?

Mr Sutton—No, I would not agree. 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.

Mr Pittar—I will add to that. 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.

Senator O'BRIEN—Presumably, you have a computer model. You have the details of shipments almost up to date on a daily basis. The model would feed that in and punch out a history and a split-up of the entitlement?

Mr Pittar—And a split-up of the entitlement on a quarterly basis instead of on an annual basis. Each processor-exporter would need to be advised. They would then need to purchase quota. All the invoicing would need to take place, as it currently does on an annual basis with the EU beef quota.

Senator O'BRIEN—There would be transactions?

Mr Pittar—There are transactions. There is a variable component that expands significantly above a fixed component.

Mr Sutton—There would be a multiplication of four on the department's resources. That is one thing which can be covered by a higher fee, no doubt. There is also a very significant cost to the industry in having to do it. As I have indicated before, I cannot imagine how you can avoid the need for adjustment and the representations that accompany that in a very tight timeframe. Quite frankly, I think it would be a nightmare not only for us but for the industry.

Senator O'BRIEN—I want to ask some questions about the allocation of discretionary quota. Am I correct in saying that the discretionary quota arrangements, which Senator Heffernan had a fair bit to do with and this committee did as well, were the key to resolving the stand-off in relation to the management of the quota for this year?

Mr Sutton—I do not agree. I think the discretionary allocation was a residual issue. It may have been seen by some who had unreal expectations that the discretionary allocations were going to deliver substantial tonnages to them because they could see that their arguments were cogent and should have been rewarded with tonnage. But the reality is that there was a claim for 80,000. Only 30,000 was available, and there was 20,000 for allocation by the panel. Obviously many people would have been disappointed.

Senator O'BRIEN—Why 20,000 by the panel?

Mr Sutton—In terms of the 30,000 total available?

Senator O'BRIEN—Yes.

Mr Sutton—There was 9,580 tonnes or thereabouts that was absorbed by over-quota shipments by firms that shipped after 30 June and arrived—

Mr Pittar—Plants that shipped during the 2002 quota year above the quota entitlement that they either got or they were ultimately allocated. As all beef entering the US in 2002 needs to be

counted against the US's 378,000 tonnes ceiling, there needed to be a mechanism to account for, in effect, over-quota shipments.

Senator O'BRIEN—Over-quota shipments from which date to which date?

Mr Pittar—Entering from 1 January 2002 to the present time.

Senator O'BRIEN—So how much of the over-quota shipments between 1 January and 30 June are in that 9,000 tonnes that you worked out of the 30,000 discretionary?

Mr Sutton—There was the total amount of tonnage that went in from firms that had insufficient quota to cover their shipments to that point.

Senator O'BRIEN—So the 9,000-odd tonnes you mentioned were all shipped between 1 January and 30 June?

Mr Sutton—In the current year.

Mr Pittar—And ended up until after some point on 1 August, which is when the US had its system in place to recognise it.

Senator O'BRIEN—When the order was promulgated which mentioned the 30,000, a lot of that was already known by the department. You knew there were substantial shipments which were over quota?

Mr Sutton—Yes. The only change—

Senator O'BRIEN—What about the fiction that there was a 30,000 discretion when you were intending to reduce that by a substantial amount because of shipments which exceeded quota entitlements?

Mr Sutton—I cannot read into the minister's decision other than that he accepted the Senate's recommendation that the hardship tonnage be increased from 9,000 to 14,000 to 30,000.

Senator O'BRIEN—But then you reduced it by nine thousand and something tonnes on the basis of his determination as to what should be taken into account?

Mr Sutton—The minister was reluctant to make any further changes beyond the Senate's recommendations.

Senator O'BRIEN—It has nothing to do with the Senate's recommendation. That is his decision.

Mr Sutton—The Senate recommendation was to embrace the rest of the formula adopted by the minister and announced on 15 May, which was the capped formula. When that capped formula is run, it produces allocations to firms. The only way of increasing—

Senator O'BRIEN—That is very cute, Mr Sutton, but the recommendation was that there was a 30,000-tonne discretionary amount. What you are telling us is that the minister has contrived to reduce that.

CHAIR—I will interpose here for a second. My understanding was that it was 30,000 tonnes. It was given to the independent tribunal to do with it what it saw fit in determining how that should be allocated. I presumed that one of its determinations was that the meat that was on the water was included in that. It was its decision.

Senator O'BRIEN—That is not what Mr Sutton has told us.

Mr Sutton—The panel had been consulted on that issue and it may well have been a joint outcome.

Senator O'BRIEN—So it was agreed between the panel and the minister?

Mr Sutton—I cannot recall the sequence of events at this point. I can recall that the minister made a statement shortly after the Senate report was received. He released a press release or a statement which indicated that the out-of-quota shipment would be recovered from the discretionary allocation.

Senator O'BRIEN—I thought he also made a statement that shipments on the water from 15 May which were over quota would attract the tariff. But that changed?

Mr Sutton—I think the order stated that a consideration in the allocation of discretionary tonnage would be whether the shipment had left after 15 May. I do not think there was a statement by the minister other than that.

Mr Pittar—I am not sure that that is correct. If I recall correctly—and I don't have the statement in front of me—the minister did indicate at the time that shipments made after 15 May without quota would be covered from the discretionary tonnage, if I recall correctly.

Senator O'BRIEN—Your proposal in assigning the amount of discretionary quota says that the following will be taken into account: over-quota shipments on or after 15 May.

Mr Pittar—Taken into account.

Senator O'BRIEN—That is the terminology.

Mr Sutton—As you know, those comments were superseded by a later decision by the minister not to do anything other than take that tonnage. Any shipments that left before the date of the order, whenever it arrived—before or after 1 August—would be deducted from the pool, or the 30,000.

Senator O'BRIEN—Could you repeat that.

Mr Sutton—I think we discussed it last week. The minister made a subsequent statement indicating that he accepted that all tonnage shipped before the date of the order would be allowed to be deducted regardless of whether it arrived before or after 1 August when the US controls came into place.

Mr Pittar—I will add to that. He made that comment following the quota management panel's consideration of that issue and how to treat product arriving after 1 August.

Senator O'BRIEN—So applications for discretionary tonnage were made, I assume, based on the first circular dated 12 July to meat processors, which is entitled 'Notice to Meat Processors: Exports of Beef to United States of America. Application for US Beef Quota Available for Discretionary Assignment'. Is that it?

Mr Pittar—I believe that that is the date and the notice. There was only one request.

Senator O'BRIEN—The factors to be taken into account listed in this document were identical to those listed in the reg?

Mr Pittar—In the order.

Senator O'BRIEN—The order, yes, at schedule 1, paragraph 4.3. Can you tell me what other matters the secretary considered in this process as at point J on the list, which is 'any other matters the secretary considers relevant'?

Mr Sutton—The applications for quota came in many and varied forms. The criteria listed are only some that must be taken into account in the decision by the panel, and by the secretary ultimately. A whole raft of issues and considerations were put forward by companies. I cannot identify to you in detail what they were, but they obviously ranged across the whole gamut of those factors that are listed. They also go to the detail of employment and operational considerations, regional considerations and aspirations. That included companies that had invested in productivity enhancement, new capital, new employment, new training and new work practices. All of those issues were raised. The panel had to take a judgement across the board. It was not possible to objectively put weightings on each of those arguments. As I said, there were many different arguments put forward.

Senator O'BRIEN—How did the secretary fit with the independent panel? Did he have the final say on the factors the panel could or should take into account other than those in the published list?

Mr Sutton—The secretary was the final formal decision maker. The panel did the intensive examination of the cases on an individual application basis. The results of the panel's consideration were discussed with the secretary, including by us in detail case by case. There was a meeting between the chairman of the panel and the secretary, where again there was a discussion of the methodology the panel had used, the sorts of considerations and the judgments exercised on the varying arguments put forward and considerations. The secretary took a decision after, I would say, probably a full half-day of consideration of the panel's report.

Senator O'BRIEN—So did the secretary's recommendations differ in any respect from the panel's decision?

Mr Sutton—No.

Senator O'BRIEN—In every case the panel's decision was approved by the secretary?

Mr Pittar—The panel's recommendation was.

Mr Sutton—The panel's recommendation was accepted by the secretary. That is not to say that the secretary did not question the treatment and had to be satisfied as to the logic of the judgments exercised in relation to some cases. It was not a rubber stamping exercise, by any means.

Senator O'BRIEN—In the letter you sent out, Mr Sutton, to applicants last Friday, there is a statement as to what was taken into account by the panel. I presume it means the quota management panel. You say, 'The recommendations made by the quota management also took into account'—I presume that means that.

Mr Sutton—Yes. There was a list. There was a paper, which was the end result of extended discussions with RMAC, the peak body CEOs. I think we have discussed this before. It took on board many of the suggestions from the industry. In addition to that, there was a short list of principles that the panel of its own volition decided to implement.

Senator O'BRIEN—So they refer to that as their guiding criteria. What were those guiding criteria?

Mr Sutton—I can pass them to you.

Mr Pittar—The guiding criteria were criteria that the panel used that were based on the criteria in schedule 1 to the order. It fleshed out some of those issues. For example, the order referred to shipments made before or after 15 May, contractual obligations that may have been entered into and those sort of things. The panel looked at those criteria once applications were received and used them to assist it in assessing the applications.

Senator O'BRIEN—Can the committee be supplied with the detail of those criteria?

Mr Sutton—Yes.

Mr Pittar—I do not see any problem with that. I do not have a copy with me.

Mr Sutton—If I can locate it amongst my papers, I will give it to you.

Senator O'BRIEN—Did the department have a role in assisting with the drafting of these criteria, or is it solely the work of the panel?

Mr Pittar—The department provided a secretariat role to the committee. So the secretariat drafted criteria for the panel's consideration.

Mr Sutton—To add, in relation to the first guidelines—is that the terminology we use? I am sorry that we don't have the papers with us—that was the result of AFFA consultation with the industry, and it was accepted by the panel. The other shorter list was by the panel itself.

Mr Pittar—The principles were by the panel itself.

Senator O'BRIEN—What is in the regs is what you supplied them. They fleshed it out themselves without reference to the department. Is that your understanding?

Mr Pittar—The order contained the criteria in relation to the discretionary allocation. The panel considered those criteria. The secretariat drafted some additional words around that to assist with the panel's deliberations on the basis of issues the panel had raised previously. It had taken into account, as Mr Sutton says, the discussions that AFFA had with industry earlier to put to the panel. It said, 'Panel, are you satisfied that in broad terms applications should be considered against those criteria, the guiding criteria?'

Senator O'BRIEN—I am not sure whether you said it was all their own work or they were adopting what the department put to them.

Mr Pittar—The department provided a secretariat function. The secretariat did the drafting and put it to the panel. But it was essentially an iterative process. The secretariat was reacting to issues the panel had raised previously. The secretariat was reacting to issues raised previously by RMAC representatives.

Senator O'BRIEN—What were the main principles of allocation established by the panel, as at point four in the letter I have referred to?

Mr Pittar—Again, I do not have them in front of me, Senator. In broad terms, and to use the vernacular, the panel wanted to limit double-dipping. If companies had benefited from accessing the discretionary tonnage in relation to over-quota shipments, they then thought that that company had gained a benefit. If the company is then seeking additional tonnage on the basis of other criteria, the panel would want to consider the sorts of tonnage that had been covered.

Senator O'BRIEN—The way the letter reads, I think it could be taken to mean that these were in addition to the list in the order on the circular. Is that right, or am I reading it incorrectly?

Mr Pittar—In addition. The principles were principles that the panel itself developed in order to assist it in relation to the applications that were in front of it. They were no more than principles that they used as part of the suite of things they considered in assessing the applications.

CHAIR—Senator O'Brien was questioning the role of the department and the secretarial assistance to the panel. I take it that the secretarial assistance and guidance would be similar to the

secretarial assistance provided to this committee in forming terms of reference et cetera? It would be a similar arrangement?

Mr Sutton—We are not in a position to make a judgement about that. What I want to make clear is that the secretary has a capacity to exercise discretion. To help them exercise discretion, they have designed for themselves five or six ‘principles’—that may have been the term they used—which they used to guide their decision making. That is what Mr Pittar is referring to. In the interests of transparency, they have advised applicants what they took into account. Double-dipping and other considerations are quite valid considerations that they have decided to bring forward in terms of their consideration of each case that is put to them.

Mr Pittar—That is right.

Mr Sutton—I do not think we can do any more than say that the content of those principles was the idea of the panel, not the department. We may have typed it up and given it to them, but they were their principles.

Senator O’BRIEN—I take it that your answers in relation to overshipments can be applied to point 5?

Mr Pittar—What you are saying, Senator, if I understand you correctly, is that there is some potential overlap between a principle and the criteria in relation to item 5. I would read item 5 as referring to the principle of double-dipping or quota that a particular processor may have already received.

Senator O’BRIEN—And you have said that it was some 9,000-odd tonnes of shipments from 1 January?

Mr Pittar—Yes, 9½ thousand.

Mr Sutton—That was the estimate, but it became an increasingly accurate estimate right up to 1 August.

Senator O’BRIEN—And there is the applicant’s notional contribution or lack of contribution to the discretionary quota—in other words, if someone, because of the reduction in the overall pool, had lost quota as a result of that. That is how I should understand that?

Mr Pittar—The issue there, Senator, was that, by virtue of some companies having exceeded their quota allocation, they were not in a position, if you like, to contribute tonnage to the generation of the 30,000 tonnes. So that was another factor that the panel wanted to take into account. If a particular company had not contributed to the generation of the 30,000 tonnes, had over-quota shipments, which they then got from the discretionary tonnage, they were elements that the panel wanted to take into account in considering the applications further.

Senator O’BRIEN—How much does the industry pay the department for its quota management role at the moment?

Mr Pittar—The fee charged is 0.8c per kilogram of quota granted. I do not have the figures in front of me.

Mr Sutton—About 350,000.

Mr Pittar—More than that now because the US system has been brought in. Naturally, that has generated additional income or revenue. But with that has gone additional costs.

Senator O'BRIEN—Part of that would be for fixed costs and part of it would be incremental per service. Is that right?

Mr Sutton—Yes. A substantial part of the costs this year has been additional staff. But there is a need to upgrade the system, as we have discussed previously. That is not going to be met out of this year's quota allocation, the revenues arising from it, but it is something that we will be discussing with industry next year.

Senator O'BRIEN—Over what period would you spread your fixed costs?

Mr Sutton—Ideally we would like to spread it—and no doubt industry would—over a longer period. But the certainty of the length of time that the quota will be in place is also a consideration. I hope that the positive signs we have heard other industry speakers talk about today mean that we may not require quota arrangements to be in place much beyond next year. In that case, we would need to make sure that the capital costs are recovered next year.

Senator O'BRIEN—It might be a bit fanciful for next year, being the last year, but we shall see. Getting back to the AMH model, what impact would it have on the charging regime in terms of per kilo cost. Do you have any idea?

Mr Sutton—We cannot make a judgment as to whether it would require more expensive processing. It probably would not. What concerns us in a practical sense is that the changeover to a new system will require time. If we have to manage that process as well as quarterly allocations, it will put a lot of pressure on the system. If there are down times, obviously you are magnifying by a factor of four the number of transactions that have to go through it. The chances of problems are magnified accordingly.

Senator O'BRIEN—The majority of the industry are telling us that the current system needs to change. Presumably, they are prepared to pay for change?

Mr Sutton—I would not debate that point with you, Senator. If the industry wants a complex system, there are higher costs and they are prepared to wear those costs, that is their call. We are public servants here to do the job.

Senator O'BRIEN—That is why I am asking for some sort of general assessment of what sort of costs that would incur.

Mr Pittar—We have not made any estimates at this stage as to what additional cost there may be in relation to the AMH proposal other than we would see an increase in variable costs, if

you like. That may not be quite the right definition. But it would be an increase in costs arising from the additional administrative workload of dealing with four tranches of allocation through the year rather than the one, as AFFA currently does.

Senator O'BRIEN—Could we presume that the increase would be a proportion of the current cost? You are not going to multiply it by 100 per cent or something like that? It sounds fanciful, I know.

Mr Sutton—I think we calculated that the 0.8c applied to the US tonnage would generate sufficient dollars to undertake the computer upgrade. The staffing costs are a relatively small proportion of the costs that would be involved in running the system next year provided that we do not have a complex, very difficult decision process, which would involve a lot more policy officer time.

Senator O'BRIEN—I think that just about covers the field in terms of questions we need to ask. You were going to supply us with some material which you could not find on the run, Mr Sutton.

Mr Sutton—From the questions you raised tonight or from the previous session?

Senator O'BRIEN—Tonight.

Mr Sutton—Yes. We will do that.

Mr Pittar—With respect to the questions from Senator Colbeck, we could not answer some of them tonight. There is a bit of work involved in some of them, I suspect.

Senator O'BRIEN—When will you have that information, given that we are trying to expedite our considerations?

Mr Pittar—Some of them are easier to deal with than others. Some of them we should be able to come back to you on hopefully tomorrow in terms of a brief or an outline of import restrictions in key customer countries.

Mr Sutton—That will be readily available.

Senator O'BRIEN—I think there was only one other issue, which is whether the department had a view on the WTO compliance with a compulsory levy scheme. That is one of the schemes that has been proposed in these hearings.

Mr Sutton—There is some sensitivity in responding to you publicly on that point. Obviously, others would be watching the considerations. We will provide an advice when we have one from the Department of Foreign Affairs and Trade.

Senator O'BRIEN—Okay.

CHAIR—I think, Senator O'Brien, DFAT may have supplied us with an answer to that this afternoon. We will deal with that. I thank the departmental officers for their time, generosity of spirit and input today, and everyone else who has attended. I will continue to pray for rain and adjourn the meeting.

Committee adjourned at 6.47 p.m.