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SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT
LEGISLATION COMMITTEE

Reference: Australian meat industry consultative structure and quota allocation

THURSDAY, 24 OCTOBER 2002

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SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT LEGISLATION COMMITTEE

Thursday, 24 October 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

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

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.

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Committee met at 8.01 a.m.

ADAMS, Mr Keith, Director, Red Meat Advisory Council

COOMBS, Mr Robin Boyd (Bob), Secretary, Red Meat Advisory Council

HARDWICK, Mr Gary Francis, Director, Red Meat Advisory Council

LANG, Mr Peter James, Director, Red Meat Advisory Council

MACONOCHIE, Mr Ewen Robert Alexander (Sandy), Director, Red Meat Advisory Council

WHITEHEAD, Mr Charles William (Bill), Chairman, Red Meat Advisory Council

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 matters relating to the Red Meat Advisory Council. The public part of today's hearing is public and open to all, and a *Hansard* transcript of the proceedings is being made. 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 a request to take evidence in camera, 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 that evidence to the Senate. The Senate also has the power to order production and/or publication of such evidence. Any decision regarding 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. I welcome witnesses from the Red Meat Advisory Council. Would you like to make an opening statement before we commence asking questions?

Mr Whitehead—We have put before you a submission that we believe answers most of the specific issues that have been raised previously in this inquiry. We see RMAC as a forum where the peak council chairmen come together and where the diversity of issues that have been raised by some other people adds enormous balance to the debate. From the number of committees that I have sat on in different places, I have to say that its debate is one of the best and most balanced I have experienced. We disagree sometimes, but we get results in the end. It is a very good forum for industry issues to come together.

CHAIR—Thank you very much. You have graciously made a submission to the committee and, there being no objection, I so order its publication.

Senator O'BRIEN—I suppose the question on everyone's lips is that criticisms have been made by those who are not part of RMAC in terms of accessing the financial resources of the peak councils and RMAC. What is your response to that? I know you have heard the submissions.

Mr Whitehead—I can get Bob to go into the details of how all those funds are put out. Under the levies mechanism unit, any moneys coming into any peak councils as a result of being dispersed from the fund are audited very rigorously. Every peak council has to put in an audited statement to RMAC before getting any of those funds as to how it has spent them. In the case of the sheepmeat industry and the Cattle Council, we hold public meetings for people who are not members of the organisations. Sometimes people come; sometimes they do not. We hold them all over Australia. I believe that those funds are spent very well.

Mr Coombs—Senator, I think you are also directing attention to the issue of who decides who gets access to the funds and who sits around the table. The composition of RMAC is spelt out in the MOU, which you have a copy of. That was the starting point for the new industry structure. But, as I understand it, the definition of who and what is a peak council in the Meat and Livestock Industry Act is ultimately for the minister to decide. So, ultimately, the composition of RMAC is decided by what is a peak council, which is a decision for the minister. As I understand it, he takes account of RMAC advice but does not necessarily have to follow it. I deduce that the minister would take account of such issues as membership numbers, level of coverage in the industry, et cetera. As I understand it, that is probably the legal position you are looking for. We provide advice to the minister on people who seek to join RMAC; that is our role. We give him advice as to what we think of a representational claim put forward. That advice having gone to the minister, he then has to make a decision.

Senator O'BRIEN—So, when the Australian Branded Beef Association seek to become a member of RMAC, your suggestion to them is to see the minister?

Mr Coombs—It is not in our gift to put them round the table. We can put advice to the minister, or they can ask the minister and he will ask our advice. That is the process that was gone through with the Australian Beef Association. They made a formal request to the minister, who sought the advice of RMAC.

Senator O'BRIEN—Mr Adams, the Branded Beef Association suggested that they had been told to refer their concerns through the Cattle Council.

Mr Adams—Yes. We met with them here on the last day of the hearing, when we were all present. We have undertaken to meet with them further. The next meeting will be within a fortnight in Brisbane, when we are all at an industry venue.

Senator O'BRIEN—Is there any role for RMAC beyond that of responding to ministerial requests for advice or information?

Mr Coombs—Yes, there is a role. RMAC has three core functions: one, to manage the assets; two, to respond to the minister's requests for advice; and, three, to have a role in strategic overview, strategic planning, updating the MISP and acting as a forum where, if advice and discussion on an issue is wanted not only by the minister but also by industry members, we are

not confined simply to waiting for the minister to ask us to do something but can do it of our own volition—and we have done so.

Senator O'BRIEN—Can you give me some examples of the latter consideration or advice?

Mr Coombs—I can give you a couple. For example, the National Livestock Recording System was facing a crisis in terms of its future funding and ownership. We reviewed that and commissioned an independent study, which led to its ownership being transferred to MLA. Besides our doing that, it was also separately addressed to us by the minister. We also updated the MISP in the sense of providing a strategic directions document, which you have. They are a couple of the examples. Another major example is that we initiated an industry-wide response to certification reform. We held a workshop in Sydney to try to simplify the rather labyrinth type processes by which enterprises and products in this industry get certification—that is, overlapping agencies, duplication of paperwork, et cetera.

CHAIR—Are there areas in which you feel you cannot provide advice because of the competing interests of the various bodies that make up your body?

Mr Hardwick—There is a problem with quota; it has probably been fairly well publicised. When talking about quota and there is interference in the market, there are winners and losers; it is all about asset distribution. I think it would be a very delicate situation for RMAC to handle quota. Even if we had independent third parties, you could not make everyone happy, because to some people you have to say, 'I'm going to take this off you and give it to someone else.' Something like quota is very hard for RMAC to handle with everyone accepting it and being happy at the end—and it is a distribution of wealth.

A negotiated position on quota was reached around the RMAC table. It reminded me of coming to a position when dealing with a union. There were five or six hours of heavy negotiation and we got consensus in the end. I think the chairmen walked out of there, thinking that was the best compromise they could get on the day. But it was not an easy decision to make. It took a lot of discussion—and, as I said, there are big winners and big losers.

Mr Maconochie—Apropos to what Gary has just said, the RMAC forum held many functions whereby it sought opinions and advice from all industry participants; it also encouraged people to come and give advice, which they did. It took all that on board quite apart from what was around the table. It was very much the compromised line. I think it was probably similar to your committee's findings in the end, although it was probably a little more complicated than in your case. In essence, it was as good as we could get it. If we went back and did it all again, I think we would come up with exactly the same result.

Mr Adams—If we do not have a body like RMAC to provide some consensus view to the minister when he requires it, then it would be open slather. Everyone is knocking upon the minister's door and, unfortunately, in this world, those with the best resources will probably have their voices heard the most. Many of the smaller interests, on both the producing and processing sides, will find it very difficult if they have to compete on those terms and under those circumstances. So I think, under those circumstances, RMAC provides a very valuable role.

CHAIR—Because of the competing interests and the compromises that have to be arrived at to get consensus, could there be circumstances in which the compromise is a flawed piece of advice for the minister?

Mr Whitehead—I do not believe that that has ever occurred in the time that I have been there. Whoever the six peak council chairmen are, they are there for only a very short period; they have no tenancy. The chairmanship is for only 12 months. With those who have served before me and during the time that I have done it, I have seen a very great will to find the right way forward for industry. As you would well know, it does not matter what we come up with or what any committee comes up with; being good Australians, there is always someone who is prepared to throw some rocks afterwards, regardless of the issue. I honestly believe that the advice we have given on every issue that we have gone into has been thoroughly balanced and thought through.

CHAIR—You are saying that there is a balanced outcome between the interests of the growers and the interests of the other group.

Mr Whitehead—Yes. Having the sheep industry as part of the US quota issue added balance to the debate; because of that industry's involvement, there were some questions asked which might have been overlooked by the others who were involved in that debate. I believe that it is the right forum and that there has not been, in the time I have been there, any compromise—compromise to the extent of people voting just because they had to vote. They have all thought the issues through totally.

Mr Lang—Mr Chairman, I would like to support the comments of the chairman, Mr Whitehead.

Mr Adams—So would I. In fact, on that particular issue, from the cattle industry's perspective, there was absolutely no suggestion of a different view being put forward by either the sheepmeat industry or the live cattle industry that significantly influenced the outcome in any other way than what the main competing industry saw around the table.

Senator O'BRIEN—I just wonder whether you think the balance is right between RMAC's representation of the processing industry and—I do not want to make it sound like it is necessarily a contest—its representation of the growers or the producers of the animals that go to the processing industry.

Mr Whitehead—My personal view is that perhaps it could be twitched five per cent or 10 per cent either way and then also argue that that was not right. The RMAC forum is great in bringing people together. We have a lot of discussions about issues that never reach daylight; we have sorted them out before they happen. As chairman of the sheep industry, perhaps I have had an issue with the live exporters and have had a chance to talk over that issue beforehand, which would have been difficult in other circumstances—for instance, if I had had to get on the phone. There is the specific case at the moment of Peter Lang living in Western Australia and me living in Victoria; it does not make it easy. So that side of the forum is very good and, therefore, you have the opportunity to work a lot of those issues through that then never come out.

Senator O'BRIEN—How often do decisions go down to a vote versus a consensus approach?

Mr Whitehead—In the time that I have chaired it, it has always been consensus. The goodwill of the people around the table has been what has made it. It has been difficult; there is no argument about that—especially on the US quota. If a vote were called and someone did not want to vote on that issue, I think they would rather abstain than vote against it.

Mr Maconochie—Probably the only issue for us here today—it is probably why we have been invited here today, as you keep centering on it—is the US quota debate. As Gary said, there was a lot of heartache by a lot of people over that issue. I have heard this panel criticised for having members on it that had no interest in the beef industry. You might say that your panel is the same, or the independent panel. At the end of the day, we had independents, as such, and we had reached that point. I think the US issue was the only contentious one. I have been on the board of RMAC for only 12 months now, and that is the only issue that I can think of. It is a pretty hot issue. But we have handled hundreds of other issues and, as was mentioned, we resolved those very quickly.

Senator O'BRIEN—I turn now to the size of the industry reserve fund. Has this maintained its real value over time?

Mr Coombs—At the moment, the answer is no; it has suffered a small reduction over the last 12 months because, in an investment strategy approved by the minister, we have 60 per cent of our funds in growth assets. That amount of 60 per cent was wound up from about 40 per cent to give us a long-term return. September 11 obviously has been damaging to that in the short term. We operate on the advice of an independent investment adviser, William M. Mercer. He assures us that, over a more extended period, that investment strategy will deliver real rates of return much greater than a more conservative strategy would. But, in the short term, the stock market down draft has impacted on the fund.

CHAIR—You have a few mates.

Mr Coombs—Yes. I think anyone around the table who has looked at their own super fund statements, et cetera has seen that it is not pleasant reading at the moment.

Mr Whitehead—As a result of a review of that strategy, RMAC has recently cut disbursement rates—we are still waiting for the official agreement of the minister—to the peak councils.

Mr Coombs—Under the proposal, this financial year the minister will reduce the disbursements to the peak councils by one-third. Because of the consequence of that downturn impacting upon the fund's yield, they have taken the weight off the fund.

Senator O'BRIEN—In terms of the timing, how long were you considering changing to a different balance for your investment profile?

Mr Coombs—We operate very carefully under the advice of our investment adviser, William M. Mercer. This is deliberately written in so that there is an intermediary. We have received probably dozens of pages of graphs and charts based on historical performance, et cetera, until it has started to become something of a blur. The advice we have from William M. Mercer—and we are quite happy to make this advice available to you—

Senator O'BRIEN—I just wondered what time period you were considering.

Mr Coombs—is that, over a period of something like six to 10 years, historical evidence suggests that the rate of return from a portfolio of that structure will reach a level meeting our target. We will just have to see whether historical performance is an accurate guide to the future, but it is the only guide we can work on with the advice that we get.

CHAIR—How much do they charge for that blur of advice?

Mr Coombs—They do not charge us a great deal; it is about \$30,000 to \$35,000 a year. Their role is to monitor the performance of fund managers and update advice. If they think something is going wrong in our investment strategy that needs to be changed, they have a legal responsibility to blow the whistle.

Senator O'BRIEN—So I guess the timing of the decision makes all the difference, doesn't it? If you make the decision now and go into the market now rather than 18 months ago, you make the profit a lot quicker.

Mr Coombs—They keep stressing to us that this is an issue where you have to take a long-term view.

CHAIR—Hopefully, you will make a profit a lot quicker.

Senator O'BRIEN—That is a very pessimistic view of the market. I suppose we might have to wait for a change of government to see it alter.

Mr Lang—In addition, we have taken advice from two or three other organisations to try and get a spread of information as to whether we are listening to the right advice.

Senator O'BRIEN—Are there any changes being suggested to the current disbursement arrangements of the fund's earnings?

Mr Coombs—No. The way in which the funds are disbursed is subject to, shall we say, legal type arrangements between RMAC and the Commonwealth. The process is that a business plan for the use of the funds is submitted to RMAC and a copy of that goes to the department. That is for what we call industry services; in other words, is the money they would spend providing services to industry as distinct from servicing the membership, which is the core rationale for the use of the money. They are asked to do things that normally a voluntary association would not be asked to do.

They receive funds at the end of the financial year based on an independent auditor's certificate that that money has been spent in accordance with the business plan. So that, I think, is a much tighter process than has taken place historically in the industry. Previously, organisations used to receive funds from the former Meat Industry Council and, before that, the AMLC. So this is a more administratively tight process than used to take place in the past.

Senator O'BRIEN—Have I got it right that this is all money that has accumulated from previous levy arrangements, which have ceased?

Mr Coombs—That is right.

Senator O'BRIEN—So the contributors are all past contributors, they may or may not be in the industry, and this is leveraged off the past and is being distributed and used for the present on the basis of a program approved by you. Is it overseen by the minister?

Mr Coombs—They receive a copy of the business plan, and so they have a chance to look at it. Yes, that is true: we receive no ongoing levy revenue at all, and so it is analogous to fossil water.

Senator O'BRIEN—I wanted to highlight that because it is hard then to argue as to who should have a say in its distribution, other than the sort of model that exists at the moment. I know there are arguments about who is entitled to be in the tent, but it is hard to argue that it ought to be distributed in some other way—other than ascertaining who paid the levies and paying them back.

Mr Hardwick—In the transition from the old system to this new system, I think there were about 40 meetings, the legal fees were \$700,000 or \$800,000 and the cost to get this new structure set up went into the millions of dollars. It was not something that was done lightly; the whole of industry were involved and it was a major process at a big cost to get this new structure in place. It was not done on the back of a bit of cardboard; it took a lot of work to get to where we are now.

Mr Coombs—Senator, I think you are correct in the sense that, if you had to do a historical actuarial study into where the accumulated reserves with the industry statutory bodies at June 1998 derived from over their lifetime, you would have to do an extremely complex exercise. As I recall, in the transition time the feeling was that it was better to call it a trust fund and regard it as an industry reserve.

Senator COLBECK—Mr Coombs, you said earlier that the capacity to recognise additional peak councils to RMAC is a decision of the minister. Is it not right that access to the funds is not a decision of the minister?

Mr Coombs—Yes, that is also a decision of the minister. Access to the funds is all part of the MOU that governs RMAC. The minister is a signatory to the MOU, and you cannot get access to the funds unless you are a nominated peak council. I think that is the position; I would have to check the exact wording. But it has always been my understanding that, to be a member of RMAC, you need to be an industry peak council; and, to be an industry peak council, as promulgated under the Australian Meat and Live-stock Industry Act, is ultimately the decision of the minister. That does not mean that RMAC cannot consult or invite people to the meeting. But your question was about access to the funding made available through RMAC. The beneficiaries or people who receive that funding are listed in the MOU, and the minister is a signatory to that document.

Senator COLBECK—What is the process to change the MOU?

Mr Coombs—You would have to get the following signatories to change the MOU: the minister, the three industry companies and the six peak councils.

Senator COLBECK—So the minister can nominate someone as a peak council, but RMAC can effectively block access to funding through its signatories?

Mr Coombs—I think it would be fair to say that, if the minister nominated someone as a peak council, they would be on RMAC very quickly. That would be the practical reality of it.

CHAIR—I would like to clarify something. As I understand it, the minister has the capacity to prescribe a body, but RMAC has to agree if that body then becomes another arm of your organisation.

Mr Coombs—I could not be 100 per cent sure we had that legal power of veto.

CHAIR—Could we have that clarified? My understanding is that the minister can prescribe a body but the minister cannot say to RMAC, ‘Hey, boys you have another member here; here he is.’ The question of whether he picks up some of the levy or not is artificial to the argument—whether that person becomes a volunteer or non-paid member of RMAC or not. I would really like that clarified. If that is your understanding, it is not my understanding.

Mr Coombs—We could get that checked.

CHAIR—Surely RMAC must know what your capacity is to add to it. For instance, what if you sat down one day and said, ‘This mob over here are not really represented’?

Mr Coombs—In that case we would suggest to the minister that they be a prescribed body.

CHAIR—But the minister could not prescribe a body without your advice, could he?

Mr Coombs—He could.

CHAIR—That prescribed body cannot become part of RMAC without your agreement.

Mr Adams—RMAC is an advisory body to the minister. Its make-up is at the minister’s discretion.

Mr Whitehead—The reality of life to me is that, if the minister came to me and said he wanted X body in, I would have to take it to RMAC. We would sit down and discuss it. If the minister said that he wanted it and we could not find a reason why it should not be, I am quite sure it would go ahead. We have never got to that situation.

Mr Maconochie—In that circumstance, if the minister felt strongly and the body was very much a body representing a wide part of the industry, it would be a natural event. We would not block it. The only time we question something is if it is a duplication. We have this already with the two processor bodies, which are forming into one body now. Sometimes when you have two representatives from a sector you can have a problem around a table. That is a difficult one. The minister would obviously weigh that up in those circumstances.

CHAIR—At the end of the day, it is your decision.

Mr Maconochie—I am not certain of that. We have not been confronted with that. We have been asked to consider. We have the Australian Beef Association and more latterly the Australian Branded Beef Association, which is a very new structure. I have a branded product but I do not belong to the Branded Beef Association. A huge number of members that I represent within ALFA have branded beef. I am using the Branded Beef Association as an example because Senator O'Brien alluded to it earlier. It has not been around very long. That is not the issue I am alluding to.

The Branded Beef Association is pretty much made up of breed societies. They are driven on one side by producers who are part of that breed society. They feed their stock in a lot of cases within feedlots that are members of ALFA, and they slaughter their cattle in institutions that are members of MNA or IMC. It is a pretty hard one to say whether they represent a body of their own. When that came to our table, we said that it would fall in the lap of either ALFA and/or the Cattle Council. In essence the table said, 'Really it is a Cattle Council issue.' That is how it was handpassed to Keith Adams's organisation to take on board their views.

CHAIR—If the minister asked RMAC tomorrow morning, 'Why have the guts dropped out of the cow market in the last three weeks,' would there be a consensus view on that? That would be a test of the competing interests in RMAC.

Mr Coombs—You are right, that is a testing question.

CHAIR—It is a testing question.

Mr Lang—Maybe we should check it, Chairman.

CHAIR—But it has happened and, for the growers, it is an interesting question as to what the advisers would say is the cause of it.

Senator O'BRIEN—It would be the US beef quota model.

CHAIR—No, I do not think so.

Mr Coombs—Chairman, I suspect the answer would start with the word 'drought', and I am not saying that it would necessarily finish with it. But that word would figure in the answer.

CHAIR—But it is an example of how you come to a reasonable position as an advisory body. It is a question that has competing—

Mr Whitehead—I guess the three-week one makes it very difficult. But I am very proud of the way that RMAC handled the US quota issue. We had a process that started before Christmas, in which I even did a radio broadcast on ABC Darwin telling people what the process was. We went to the minister's office and we went through the process that we were going to go through. We went to AFFA and went through that same process, and we all agreed on the way forward. I cannot remember off the top of my head the actual dates, but there was an enormous amount of publicity in the press and on the radio and TV about the process that we were going into. It does not matter where the debate was; there were times during that debate that so-and-so suddenly came in because he realised that it was on.

It is not until a decision is made that lots of people actually get involved, and then they want to tell you that you made the wrong decision. I would suggest that in the US quota debate, until RMAC actually made a decision to give some advice to the minister, a lot of people did not get involved. Then doors started opening at different levels in politics in Australia—not only in Canberra but also in our own organisations—as to how that was going to be handled. It is always going to be difficult, but the process that we went through in that instance—

CHAIR—But you could understand the curiosity of the unattached person sitting at the back of the room watching the cattle industry. In the debate of the last few months there were propositions put to this committee that, if certain things did not happen, the side was going to fall off the earth and this company was going to go broke, and there were all these disasters. But at the end of the day we have come to a sensible position for most people in the industry and, at the same time, there has been this major collapse in the market—I notice the prices over the other side have not changed, just the prices here. It would be reasonable for a producer to argue that the producer, at the end of the day, is at the worst end of the stick, and the market works backwards. The drop in the market in the last few weeks is more than any tariff or having to buy quota. I suppose I would like some assurance that it is the view of RMAC that the interests of the producer have equal weight to all the other competing interests in RMAC.

Mr Whitehead—You will get that from me totally. In the time I have spent on RMAC and in agripolitics, there have always been people telling us that we do not look after producers well enough, and I am quite sure that some of the processors would be saying exactly the same thing to their people. But there is a large amount of time spent in understanding one another's position and we are one industry. That is why I have such a belief in RMAC. We have to work together and sometimes it is not easy. In fact, I do not think it has ever been easy, but that is the way it works.

Mr Hardwick—Mr Chairman, you asked a question about why the price has dropped. The price of any product is based on supply and demand. I do not find it a very fair question when our supply is affected so much by seasonal conditions. Not only do we have a drought, as you are aware, over most of eastern Australia, but also this follows after having had four or five dry years. We have very little reserves of fodder, very little supplies of grain, and you have farmers doing the costings at the moment actually asking, 'Is it worth feeding them through to when the drought breaks?' The number of animals being pushed onto the market over the last two months in the south—I come from Victoria—is frightening. The number of cows and calves, including small calves and young pregnant cows, being processed at the moment, when they should normally be processed after Christmas, is frightening. Without a doubt, prices are low at the moment—but, if we get a decent break, you are going to see them go through roof. I think this drought is probably one of the worst we have had for a long time.

Mr Adams—Senator, your question was about producer interests: are producer interests being served well on RMAC? I will just draw your attention to the make-up of RMAC. We have the Cattle Council—my organisation, of course—which is a producer organisation; the Australian Lot Feeders Association, which is a producer organisation; and the Sheepmeat Council of Australia, which is a producer organisation. Then we have two processor organisations—the AMC and the NMA—which are soon to amalgamate into one. And then we have the Australian Livestock Exporters Council, which you could say is more aligned to the producing sector, albeit the live cattle producing sector, than the processing sector. So, if you just look at it in those terms, there is a balance in favour of producers. As the Chairman of

RMAC has already pointed out, that does not arise around the table. Decisions are made in the best interests of the industry, whether it is from the production side of the industry or from the processing side.

CHAIR—It would be fair to say, though, that the lot feeders are a curious mix. You may be a producer and you are also a—

Mr Adams—Some of them are vertically integrated right through to the processing level.

Mr Maconochie—As I said before, that is certainly correct.

CHAIR—There is nothing wrong with that, I might say.

Mr Maconochie—Absolutely. We have a lot of branded products as well. Lot feeders are producers, processors, wholesalers and retailers, and so we are a very vertically integrated organisation.

Mr Coombs—Mr Chairman, I might just answer Senator Colbeck's question. The MOU is quite clear. The prescribed bodies that are peak councils are listed: CCA, SCA, ALFA, et cetera. The MOU acknowledges that anybody who represents an industry sector on a national basis may at any time become a prescribed body.

CHAIR—That is the minister.

Mr Coombs—That is right. The minister will consult with affected parties and with RMAC before making a determination as to whether a body should or should not be a prescribed industry body. The rest of the MOU says that each peak industry council, prescribed body, will be a member of RMAC. It means that the minister decides who is a peak council. If you are a peak council, you automatically become a member of RMAC.

CHAIR—If you are a prescribed body?

Mr Coombs—Yes; and the minister makes that decision. In the MOU, he takes account of our advice but he also takes account of advice outside RMAC.

Senator COLBECK—Does that modify the dispersion ratio within the MOU, or is that a separate process?

Mr Coombs—Hypothetically, if the minister said, 'X organisation joins RMAC,' yes, obviously the distribution formula would need to be changed.

Senator COLBECK—There has been some contention with respect to membership numbers of some of the peak councils. In your submission, you mentioned peak sector representation. It appears from the submission that you are now saying that you cannot guarantee that you essentially have finite membership data for some of those peak councils. Would you like to comment on that?

Mr Maconochie—Senator, could you be more specific? You said ‘some’ peak councils. Could you nominate those?

Senator COLBECK—Your submission specifically refers to the Cattle Council of Australia and says:

... RMAC has no basis of independently reviewing claimed CCA membership data unless an independent, and potentially costly, audit of State farm association members was carried out.

It is something that has been rumbling around the industry for some time.

Mr Maconochie—You are saying the Cattle Council?

Senator COLBECK—The Cattle Council is referred to specifically in your submission.

Mr Adams—Perhaps I can attempt to answer that. It would be a quite exhaustive and potentially very expensive process to audit the membership database of every state member organisation in the country to get an absolute, finite figure on it. RMAC asked the state member organisations for details of their membership. Those details were furnished to RMAC and the numbers were compiled from there. Also in the Cattle Council’s submission—which I tabled and you ordered published at the last hearing—I made reference to the representation. The upshot of that was that the Cattle Council represented over 70 per cent of specialist Australian beef cattle producers. These references were drawn from the Australian Bureau of Statistics figures, and so they come from a very reliable source and, I daresay, can be referenced and checked.

Senator COLBECK—My concern was purely that there seemed to be some backing away from the veracity of what was being said by making specific reference to that in your submission. If RMAC were happy with the membership claims, then why would you, as a body, comment within your submission that you really did not have a definitive answer to the membership numbers?

Mr Coombs—Perhaps the answer is that we received information from various organisations about their membership numbers, and we advised the minister some time ago that that was based on the information provided to us. We said to him that, if he wanted us to go a step further and independently verify every claim made to us and go to every producer and cross-reference the membership et cetera, he should tell us. We can only go with the information provided to us.

CHAIR—I have to say from practical experience that is a difficult exercise, because my old man was still getting membership notices from a couple of organisations many years after he had died.

Mr Whitehead—I understand that it is an enormously difficult task but, regardless of what numbers people put up, there are still forums conducted by the industry bodies under RMAC that give everybody the opportunity to have an input.

Senator COLBECK—I understand that, but we have had at least two bodies come to us and say that they are not being represented effectively by the process. Can’t you understand that that would lead us to ask questions about what is going on? The membership issue has been

something that has been extremely contentious—there have been claims, counterclaims and threats of legal action—hence we are asking questions about it.

Mr Maconochie—Could you be specific and say where such claims and threats have come from?

Senator COLBECK—I think they specifically relate to the Cattle Council and the representation there; that seems to be where the main level of contention is.

Mr Maconochie—If I refer again to the ABBA, were they necessarily directed at the Cattle Council or was it just assumed that they were? I think it was directed more at whether they were getting represented at all. As I have said before, ABBA could be pretty much represented across this table through processors, lot feeders and producers. I think their interests are very well represented. With ABA, I think it is probably more directed at the Cattle Council, because that is a very different organisation; it is wholly a producer organisation, whereas ABBA is not.

Senator COLBECK—What was the basis of RMAC deciding to suggest to ABBA that they go to the Cattle Council?

Mr Maconochie—The basis of that advice came from our weighing up of the situation. We found that they do not own feedlots themselves but feed in feedlots. In a way, they themselves do not do that either because they really only receive a royalty. CAAB, which is half of that group, receive a royalty only. As an Angus society they are a producer body, in turn, licensed to Cargills. Cargills are members of AMC and ALFA, and Cargills wholesale and sell their entire product. CAAB, through ABBA, do not sell anything; they just get a royalty. Hereford Prime, again, are a producer body of 600-odd producers that put up dollars to own it. Like the Angus Society, they are very much a producer body. They process and retain ownership but then wholesale; they do not retail. They very much represent a dominant group; probably 90 per cent—I am only guessing—would be producers. Hence, when RMAC debated the issue of ABBA in Queensland only six or eight weeks ago, we came back and said, ‘We believe that this is really an issue for the Cattle Council to address.’

CHAIR—Does anyone in ALFA not have a feedlot?

Mr Maconochie—We certainly could have associate members who would not own a feedlot. But actual members of ALFA would have to have a feedlot or be very directly involved with a feedlot because, when they nominate to become part of ALFA, it is a process by which we—

CHAIR—It is not a primary requirement to have a feedlot?

Mr Maconochie—You do not actually have to have a feedlot, but you do have to be representing, part of or aligned to the feedlot industry. ALFA only has 120-odd members. Those 120 members represent about 85 to 90 per cent of cattle on feed. The other 10 or 15 per cent will be producers with an opportunity feedlot.

CHAIR—The branded beef mob, those you have directed to the Cattle Council, mostly have cattle on feed too, I take it.

Mr Maconochie—No, they do not. Hereford Prime do not use feedlots anyway. They have and promote a purely pasture fed product. CAAB, which are the other half of ABBA, only take a royalty. They own the name CAAB—Certified Australian Angus Beef. Because of the success of CAB in the United States, they formed it here through the Angus Society. The society license the name to Cargills Australia down at Wagga. They do not own it—CAAB own the name—but they license it to Cargills. Cargills do all the buying of the cattle, all the processing and all the feeding in their feedlots, and they market the entire product as well. So CAAB have no connection at all, other than promoting the CAAB brand name in various forums, and they do not participate in producing the product itself.

Mr Whitehead—These gentlemen who come together as chairmen of their peak councils and sit on the board of RMAC have had quite a few discussions about different organisations wanting to join at different times. I think it would be correct to say that RMAC has encouraged the six members to take on any organisation, regardless of what it is—in the sheep industry, for example, it may be the Stud Merino Breeders or something like, if they came along. RMAC leaves it to those organisations that are approached to handle that. But there is encouragement from the board of directors of RMAC to take everybody in. From where we sit as directors of RMAC, we would much rather have people in the tent than throwing stones from outside it.

Senator COLBECK—I can imagine that. I am interested in looking forward a little with respect to branded beef as a product. Mr Maconochie, you have said that some of your members operate branded products as well. Do you see that as perhaps becoming more prevalent in the future? It has been put to me that it is growing very rapidly in the US and there is potential for that to occur in other markets as well, including Australia.

Mr Maconochie—Certainly it has grown over the years. Branded beef has been around for a long time. Gary Hardwick does not own a feedlot, but I am sure he has a branded beef product; in fact, I know he does. Supermarkets have their own branded products. Coles do not refer to it as the Coles brand; they have their own names for it. There are many branded products out there. It has certainly been a very good way forward, to the degree that people provide the trace-back mechanism or the product integrity. Branding the product gives it that appeal, as opposed to the very much commodity-driven a la US quota issues of the past. I know from our organisation that we were very affected by the recent decisions because the branded products were being exported to the United States. They have all been pretty much shut out of it now—that is, the high-value sweet cuts. As I have mentioned in earlier addresses to your committee, we were selling ice to the Eskimos. It was purely brought about by the advantages of the currency. But, certainly, branded beef will continue; many of our members have for some time continued with it. We have our own brand of product. Within ALFA—I would only be guessing—there would be several dozen branded beef products.

Senator COLBECK—In your submission you talk about the structure of the pork industry body. Since the establishment of that body, there have been other groups established on similar lines. I think the most recent one would be the egg industry, which is just going through the process at the moment. You seem to be saying that you consider yourselves to be different from all those other groups, and yet the model that they have been based on at this stage seems to have been quite successful. Would you say that is partly due to the fact that you have been around a little longer and have perhaps been involved in a few more contentious issues than they might have been? Do you see yourselves as being different?

Mr Hardwick—I do not think we see ourselves as being different. You have to realise that the livestock industry that we are all involved in, from the farm gate to the end consumer, is a huge industry. There are a lot more players in the industry and there are more variables. What the transition team have tried to do is give people more say in their industry where they did not have it in the past, so it is a big improvement on what we had. We can always improve if there are ways to improve. I do not think we have our heads in the sand, but it is a big industry to pool as one group. I think we are fairly lucky that we have a group like RMAC so that, if we do have a disaster like they have had overseas, at least we can pool peak councils together very quickly and get some direction from industry people as quickly as we can. I think we are lucky to have a group that covers such a vast industry with many different interests.

CHAIR—And that is prepared to take on such a thankless task as well.

Mr Maconochie—As a result of this forum, we get to know one another pretty well; otherwise, we would not have that opportunity.

CHAIR—It is not all beer and skittles.

Senator BUCKLAND—Mr Maconochie, earlier you said that you are a member of, I think, ALFA but not a member of the Branded Beef Association, and yet you have a branded name. I do not know if you can answer this question accurately, but would the Australian Branded Beef Association have more members than ALFA? I do not mean numbers overall but members who have a branded product. I think you said there are about 120.

Mr Maconochie—I find it a little hard to answer that question, purely because the first I heard of the Australian Branded Beef Association—and I have a prominent brand, particularly in the south—was when it came in a letter to the RMAC table. I had never heard of them before that. That was in Queensland a few months ago. It was signed by CAAB and Hereford Prime. As I said, they are two producer bodies. In essence, I cannot really answer the question as to the number. As far as I am aware, they are the only two. There may be others, but I am not aware of them. I have never been approached—or whatever. They are fully aware of my branded product.

Senator BUCKLAND—And they could in fact have a lot more than ALFA, in numbers?

Mr Maconochie—In numbers, if you count them as producers, I suppose so. In essence, Hereford Prime has 600-and-something producers that put up their money to own the company. I am not sure about CAAB; it is purely an Angus society. Again, as producers, it is almost like ABA or Cattle Council. With Alpha we have our 120 or whatever.

Senator BUCKLAND—You got a letter announcing that this group was on the block?

Mr Maconochie—Yes.

Senator BUCKLAND—Has RMAC done anything to investigate the membership of that body further, or have you just had a look at the letter?

Mr Maconochie—I do not think that is really a role for RMAC. RMAC would look upon this letter and see it as requesting that ABBA be admitted as a peak council. Obviously, RMAC considered it and discussed it. It did not take a lot of debate, as I recall. It did not last long

because it was the first we had heard of it, to start with. We put it into the hands of the Cattle Council to see where their concerns were coming from. They have appeared before your committee because of their issues with branded beef in the United States and these sorts of issues.

Senator BUCKLAND—But, if you are representing peak bodies and another person claims that they could well be a peak body, is there not some sort of responsibility that you will then investigate that further?

Mr Maconochie—Yes, there would be. Hence we decided that it would be more on the producer side because they are owned by producers. As I said, Hereford Prime take their product through to a wholesale position. We are aware of them and we know of the two bodies concerned. I have not personally asked them how many members they have; I do not know whether Keith has. Unlike the ABA, which is a body that has been around for several years, the first I knew of ABBA was then, and I have a branded product. I would have thought that maybe they would have a tendency to build their numbers within. Maybe you could ask this question of Gary; he has a branded product.

Senator BUCKLAND—Mr Hardwick or Mr Adams, have you investigated further? It seems that the buck has passed to you.

Mr Adams—We have processes in place. As I said before, we met with those two gentlemen in front of the Senate, after the committee's last session, and we resolved that we would have some further meetings with them. The first of those other meetings will take place in about a fortnight's time in Brisbane, when we are together there at a venue for a function. We will go into it deeper then. I am not sure in my mind how they would fulfil the requirements of being a peak council. Are they representative of the production sector or the processing sector? Many of them are vertically integrated through the chain. So we have to come to terms and get a better understanding of what they actually represent before we can go too much further.

Senator BUCKLAND—So what does it take, then, to become a peak council or a peak body?

Mr Adams—Ultimately it is up to the minister.

Senator BUCKLAND—I understand that, but you are peak bodies—

Mr Adams—They have to be representative of the sector.

Mr Maconochie—And, if it is branded beef, they would have to demonstrate that they represent a clear majority of branded beef products.

Senator BUCKLAND—Does ALFA represent a clear majority?

Mr Maconochie—ALFA would not have a clear majority of branded beef products. When you say a majority, it would go pretty close with the processing sector; they have a lot of branded products as well.

Mr Hardwick—Perhaps I can answer this question. The National Meat Association represents three main sectors: processors, retailers and smallgoods. We also have associate members and, if anyone approached us to become an associate member, no matter what part of the industry they were in, we would be more than glad to take their money.

Senator BUCKLAND—If it is a decision of the minister to grant membership of the board, as you have told us a number of times this morning, what does RMAC itself—that is, the board as constituted now—think about being more inclusive about its membership or increasing its membership? Have you ever considered that and taken that to the minister?

Mr Whitehead—I think we have tried to go the other way. AMC and NMA are looking at a process at the moment where they might join together and become five peak councils instead of six. The line of thought has always been that they would rather get any new body into an organisation where they felt they had a better home. Then their voice would come through to RMAC, and it would be a damn sight easier to handle. The fewer people around the table at this level is, I believe, a lot more operative.

Mr Maconochie—I do not think the term ‘peak council’ should be taken lightly.

Senator BUCKLAND—I am not taking it lightly at all, I can assure you.

Mr Maconochie—With the ABBA, maybe we are referring to it lightly. We would like to know what it represents, and I am sure that the minister would like to know also. I would not want to second-guess the minister, but personally I would question it. I do not know the number of branded products that are out there, but there would have to be several dozen, probably even a couple of hundred. But, as far as I know, there are two of them.

Mr Hardwick—Mr Chairman, obviously most of the peak councils are nationally based. The AMC and the NMA represent probably 90 to 96 per cent of processors in Australia. Looking at the peak councils and pulling them together nationally, if you start taking in small organisations—and there are lots of state organisations, small organisations and livestock agents out there—you could end up with 200 people of a similar size all asking to join RMAC.

Senator BUCKLAND—I understand that and I understand about size, and I think it is a very good point. I guess you would prefer them all being members of your association rather than being members of the other association. Mr Whitehead, you said that you have thought about decreasing the size of the board to five. Out of interest more than anything, how would you set about that? Which one of you would be prepared to drop off the twig, so to speak?

Mr Hardwick—I would like to answer that. The peak bodies and government would like to see one processing organisation. I have probably worked on this for a couple of years. We have already signed an MOU to say we are going to join together; it is a marriage. We have 2½ thousand members, and it has taken a lot of negotiation to end up with one organisation in the new year. One of the conditions of that MOU is that the processors keep their two seats on the RMAC board. While we have two processor councils, a domestic and an export, there would be one seat for each. When we get one processor council, we would expect a sheepmeat person and a beef person to be represented on it. In support of that, the approval of the minister and RMAC must be obtained. Without a doubt, the processing industry is huge and we need the two seats to represent the two different species or the two different types of processors.

Mr Whitehead—Chair, I have to record an apology for Roger Fletcher, the chairman of the AMC. We had hoped he would be here but, because of the enormity of this country and the enormity of his plant, he has not been able to get here this morning. I know that he shares Gary's views.

Senator BUCKLAND—I would not doubt that. In regard to the voting strength on the board, what is the allocation of voting and how is it done? Does the chairman hold a block of votes, or is it one vote one person? What is the process?

Mr Whitehead—It is one vote per person but, as we said before, there is nearly always consensus. We work through an issue and massage it. Sometimes it takes a long time; sometimes it does not take very long at all. But in my 12 months, which is nearly up, I have not had to call for a vote too often.

Senator BUCKLAND—Are there occasions when the voting is done on the basis of the membership size of an organisation?

Mr Hardwick—No.

Mr Whitehead—Not to my knowledge.

Senator COLBECK—I would like to go on from what Senator Buckland was talking about. I find it interesting that the processors feel the need to retain two seats on the board of RMAC and yet any other producer bodies that come along are referred to the Cattle Council of Australia. When you are talking about perhaps combining to get one voice and reducing the numbers, how do you justify giving the processors two voices around the table when you give the producers only one and there are people knocking on the door?

Mr Hardwick—Perhaps I could answer that first. With the processors, we cover both the sheepmeat industry and the cattle industry. The farm organisations have a sheep representative and a cattle representative on RMAC, and the processors feel that they need the representatives to represent each species.

Mr Machonochie—I am not trying to jump to conclusions, but RMAC has not tabled or debated that issue yet. It will, of course, when the two bodies finally amalgamate and then come to RMAC with that proposal; it will be discussed and debated at that time. But it is not a fait accompli, by any means, because we have not debated it.

Senator COLBECK—I know we are not specifically here to talk about MLA, but obviously you all have an interest in the governance of MLA. The committee has heard evidence that the peak councils that comprise RMAC effectively control access to the RMAC board of MLA by forming the majority of the MLA selection committee. How would you respond to that comment?

Mr Whitehead—I have read that evidence and I cannot understand it, to be quite frank. Sure, each peak council has a representative. I can only talk from the point of view of my own industry, and the sheep industry is represented by an SCA representative on the selection panel and someone appointed from the floor. We do not have any part in that at all.

Mr Adams—For the record, that selection committee is made up of three people from the current MLA board. There are the presidents of the three peak councils and another three representatives who are elected from the floor of the AGM. I do not think it is reasonable to suggest that there is this great controlling influence from the RMAC board or from the ‘old club’, as some people have reported. I think it is pretty balanced.

Senator COLBECK—But, by the same token, the process is that essentially that group nominates who is going to be on the board; there is no choice, as such?

Mr Adams—No, that is not correct. That selection committee puts forward some recommendations to the annual general meeting of members of the MLA, who can accept or reject that.

Senator COLBECK—But the selection committee only selects the number of candidates equivalent to the number of vacancies on the board.

Mr Adams—That is correct.

Senator COLBECK—So effectively there is no choice for the membership. The selection committee recommends people in accordance with vacancies.

Mr Adams—If the members do not agree with the selection committee, they can reject it outright.

Mr Whitehead—They are only recommendations. It is not the chairman of every peak council that is on that selection panel; it is the representative of the council. In my case, I have not sat there and I have never mentioned anything. The member of our council who sits on that board does it in his own right and does not talk to anybody.

Mr Maconochie—I sit on it, and I think it is a pretty sound process. The only question our organisation had was whether it needed three existing directors of MLA to sit around it, and a motion to change that was put to the AGM last year. The motion was defeated and so that remained the same. As far as the representation goes, I think it is a pretty good process. It advertises the positions nationally. All the selection committee does is sit down and talk to the chairman and managing director of MLA and ask them about vacancies. It is very much based upon skill. I am a Victorian and I do not really mind if all the directors come from King Island or from Queensland as long as they all have the right skills to do the task.

The process is then decided. There are the three positions where the three directors are retiring. Of course, those people can renominate. This year one did, and there were 150-odd applications. The consultants processed those applications and narrowed them down to about 50-odd. However, the selection committee had access to the whole 150 and, if they felt that someone out there should have been in that top 50, they could certainly bring that person forward. These things were done. The 50 were then narrowed down to an interview process of eight; I think that was the number this year. Again, that is very much a democratic process around the table. I am sure that I would have liked to see a name or two put in there, and I am sure that every person round the table has said the same. In essence, it is done as a closed shop. I think the process is a very good one, and I think we have three excellent candidates going up for the MLA AGM next month.

Senator COLBECK—Each of the peak councils submits its strategic plan to the board for review, and so essentially you are all reviewing each other's strategic plan. Has there ever been a process where any of the plans have been requested for modification?

Mr Coombs—I recall that this year one of the plans was slightly changed. On top of that, they go to the department. We have a template; the plans have a format where they have to define how much money is spent, how it is spent, the purpose for which it is spent et cetera. The plans are reasonably standardised in terms of the format and the structure.

Senator COLBECK—Has there ever been a circumstances where funding has been withheld or delayed based on a review or audit?

Mr Coombs—Personally, we have circumstances where funds have been withheld because the independent audit certificate has not been provided. The independent auditor has to certify that the funds have been spent in accordance with the business plan. We do not rely upon the organisation to certify that; an independent auditor has to sign it as an independent statement.

Senator COLBECK—I assume that you consider yourselves sufficiently stringent in your scrutiny of each other's strategic plan?

Mr Coombs—It is not only that; the department gets a copy.

Senator COLBECK—I understand that, but you are the advisory group and you have been given the responsibility of dealing with that.

Mr Whitehead—I believe the process works well.

Senator COLBECK—That is what I was after.

Mr Hardwick—In the past, when the AMLC in the old system used to hand out money to peak councils, there were no audits. They got the money and they could spend it in whatever way they wanted to. We do request that the council audit it before we pay.

Senator COLBECK—Finally, under section 10 of the MOU, where it states 'MOU review', 10.3(b)(2) reads:

A body that becomes a Peak Industry Council, the marketing body, the research body, both the marketing body and the research body, or a donor company may, if the signatories to the MOU agree, become a party to this Statement of Principles and any relevant Schedule.

Going back to my earlier questions, doesn't that say that it is up to you whether a prescribed body gets on to—

CHAIR—Could you clarify that, at your pleasure, to this committee?

Mr Coombs—Yes. We cannot get some more learned advice than I can offer right now.

CHAIR—Thank you. On behalf of the committee, we are very grateful for your attendance. Thank you for your advice to the committee.
