CO-OPERATIVE FARMERS AND GRAZIERS DIRECT MEAT SUPPLY LIMITED
(LOAN GUARANTEE) BILL 1978

Date Introduced: 6 April 1978
House: House of Representatives

Short Digest of Bill

Purpose

To authorise a Commonwealth guarantee, of up to $4.5 m., for half of a commercial loan obtained by Co-operative Farmers and Grazier's Direct Meat Supply Ltd. (CF&G).

Background

CF&G was incorporated in February 1959 as a primary producers' co-operative meatworks society, killing livestock purchased from shareholders and others. The producers' objective was to control a portion of the slaughtering industry in Victoria and thereby increase the industry's competitiveness, with the ultimate goal being higher livestock prices for producers. However, CF&G suffered financial difficulties and finally, on 6 May 1968, the Commercial Bank of Australia Ltd. appointed a receiver and manager of the property of the Society in order to recoup amounts owing to the Bank. Following the repayment of such amounts to the Bank the receiver and manager retired on 16 August 1968. To allow CF&G to continue trading operations, a 'scheme of arrangement', sanctioned by the Supreme Court of Victoria on 6 November 1968, was entered into between the Society and certain classes of its creditors, whereby payment of portion of the liabilities to these creditors was postponed until 30 November 1970 (or such other date as may be determined). The scheme of arrangement provided for the appointment of an administrator to carry on the business during the period of the moratorium. The Society's meatworks at Brooklyn (western Melbourne) was closed between 8 May 1968 and 3 February 1969. After re-opening, the administrator, L.P. Smart, arranged for CF&G to kill on a contract basis for meatpackers and wholesalers. In 1970, using his discretionary powers under the arrangement, he extended the period of the moratorium for a further 3 years to expire on 30 November 1973, and in 1973 for a further year, to expire on 30 November 1974. On 28 June 1974, the arrangement was terminated with control by administration being removed.
In 1971-72, CF&G borrowed $1.9 m., repayable over 5 years, from the Australian Industry Development Corporation (AIDC) to finance a program of building and facilities expansion at the Brooklyn works. In 1973-74, the Society borrowed from the AIDC a further $1.4 m., repayable over 5 years, for construction of a freezer-chiller complex at Brooklyn and $3.0 m., repayable over 5 years, to assist in the acquisition of abattoirs at Bendigo and Ballarat from the Victorian Inland Meat Authority (a State statutory authority). To help in this acquisition, the Society also borrowed in 1973-74, $3.86 m., repayable over 10 years, from the Victorian Government. As a loan condition the AIDC required that the Administrator be given "sole" control of the Society.

Further liquidity problems led to the AIDC placing CF&G in the hands of the receivers for the second time in June 1975, to try to determine what was happening to the Society's funds. Currently, the receivers of CF&G have a civil action suit in the Supreme Court of Victoria against L.P. Smart, Lanifer Nominees and Marquand & Co., for the recovery of funds totalling $1.863 m. plus interest. The writ was issued in August 1975 and the case is pending.

The AIDC, the major creditor, wanted to safeguard its funds, and did not want to enter into any scheme of arrangement. Subsequently, the Bendigo, Ballarat and Laverton works were all sold by the receivers, and the large Brooklyn works was put up for sale. Two tenders were received, with Protean Holdings winning with a tender of $10.25 m. This company at present leases two meatworks (one at Richmond and one at Newmarket) but wishes to move into its own works and would view the purchase of CF&G for $10.25 m. as a bargain price. The Brooklyn works are estimated to be worth some $20 m. (with land being a high component of this), with an estimated replacement value of some $30 m. Primary producers prefer to see CF&G continue operating and claim that sound management is the answer. CF&G directors have asked the Supreme Court in Victoria not to decide on the receiver's request to sell to Protean until they have had sufficient time to raise the funds to pay the AIDC. CF&G is not a limited liability company; it is a co-operative society incorporated under the Co-operation Act 1953 in the State of Victoria. It has some 10,000 members and a share limitation of 5,000 with the average holding being some 300 shares. The Society is currently trading profitably; the net profit for 1976-77 was $1 m. and the estimate for 1977-78 is $1.7 m. Although it owes creditors some $14 m., it has cash assets of some $5 m. and has been able to arrange to borrow $9.0 m. commercially, given the Commonwealth-State (Victoria) guarantee of the loan. Each government will guarantee up to $4.5 m. Although not in the Bill, the Second Reading Speech states that the guarantees will be conditional upon approval of both Governments of a management restructuring plan to be submitted by the Society. This legislation is to authorise the Commonwealth's guarantee.
Provisions

Sub-clause 4(1) authorises the Treasurer, on behalf of the Commonwealth, to guarantee half of a loan to CF&G, up to $4.5 m. The Treasurer may not make such a guarantee unless the Victorian Government makes a like guarantee (paragraph 5(a)) and the terms and conditions of the loan satisfy the Treasurer and the term is not more than 3 years (Paragraph 5(b)).

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LEGISLATIVE RESEARCH SERVICE