SPARK AND CANNON

Telephone:

Adelaide	(08) 8212-3699
Melbourne	(03) 9670-6989
Perth	(08) 9325-4577
Sydney	(02) 9211-4077

TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

INQUIRY INTO PIG AND PIGMEAT INDUSTRIES: SAFEGUARD ACTION AGAINST IMPORTS

PROFESSOR R.H. SNAPE, Presiding Commissioner

TRANSCRIPT OF PROCEEDINGS

AT BRISBANE ON WEDNESDAY, 19 AUGUST 1998, AT 11.33 AM

PROF SNAPE: Good morning, and welcome to the first public hearing of the Productivity Commission inquiry into the pig and pigmeat industry. As you would know this inquiry has two parts. The second part is close to a standard Productivity Commission inquiry or, in the past, Industry Commission inquiry. It concerns the factors affecting the profitability and competitiveness of pig farming. The first part of the inquiry however is quite different, being whether safeguard action with respect to imports of certain pigmeat should be taken under the provisions of the World Trade Organisation's safeguards agreement. This is the first time these provisions have been invoked in Australia. Indeed, they have not been invoked many times in other countries either.

In the issues paper which has been circulated we have set out the path which needs to be followed for action to be taken under the WTO safeguard agreement and under the procedures gazetted recently by the Australian government. We might note also that in conducting this inquiry the Productivity Commission is governed not only by the WTO safeguard agreement and the gazetted procedures, but also by the act which established the Productivity Commission. We also need to be conscious that should action against imports be taken under the safeguards agreement, that our procedures and actions could be challenged under the dispute settlement processes of the World Trade Organisation. Thus the industry needs to establish in this forum that it has experienced serious injury which is attributable to increased imports, or that such injury is threatened.

It needs to establish that action to restrain imports would remedy the injury attributable to the increased imports and that such action would facilitate adjustment. What is required is evidence of an objective and quantifiable nature, not just anecdotes. Interested parties must have the opportunity to comment on the presentations of other parties and may comment on why or why not any measures may or may not be in the public interest. Written responses, of course, are quite acceptable and very welcome. In our final recommendations the Productivity Commission will take into account not only any action that might remedy any injury attributable to increased imports, but also the government's stated principles with respect to the impacts of business regulation.

We welcome today's participants. While we try to make the proceedings as informal as possible the proceedings are recorded and a transcript will be made. Copies of the transcript will be sent to relevant participants for checking of transcription. Should participants be unsure of any information or find that any information they have given us today on subsequent reflection needs to be changed, then we would be grateful if they would get in touch with members of staff to let them know. The transcript will be available on the Web site, I'm told, and we hope that will occur within 2 or 3 days of the relevant hearing. If interested parties other than those whose statements are being recorded wish to obtain hard copies of transcripts they should get in touch with the staff who are present.

When we have concluded the presentations of those who have indicated they wish to speak today, I shall invite any other parties present to speak should they wish to do so. Because of the very short timetable for this inquiry these public hearings are being held very early and few submissions have been received as yet. We do not, at this stage, have written submissions from any of today's participants, but we hope that you will be able to follow up on your oral presentations today with written submissions in the near future.

I would now ask the representatives from the Department of Primary Industries of Queensland, Mr John Walthall and Mr Tim Purcell if they would identify themselves separately and then make their presentation. Thank you.

MR WALTHALL: Thank you, John Walthall from the Department of Primary Industries.

MR PURCELL: Tim Purcell from the University of Queensland, on behalf of the Department of Primary Industries.

MR WALTHALL: Firstly, as you said, we haven't submitted our submission at this stage. That is still being processed. What I plan to do today is just outline what we are doing to give you some indication of the information that we will be submitting. For the record the Queensland minister for primary industries gave an undertaking to the Queensland Pork Producers Organisation that either the Department of Primary Industries or the Queensland government would make a submission. At this stage the submission is likely to be coming from the Queensland Department of Primary Industries.

We have some information which I will be presenting. There is some detailed analysis which tries to get to the cause of the difficulties or the impact of imports and the Department of Primary Industries has commissioned the University of Queensland to undertake that study and Tim Purcell will be giving an overview of that work. The first step that has to be established is that the imported product is either directly competitive or is like Australian product. It seems a fairly simple sort of a situation to be able to establish. As I understand it the imported product is either frozen, boned pigmeat that is being used in further processing within Australia and, as far as I understand, there is no difference whatsoever between that Canadian or the imported product and Australian product. It appears to us that to establish that the imported material is directly competitive, or is like, is very straightforward.

The particular sector of the Australian pig industry that we have identified as most affected by imports certainly is the pig production sector, or the farming sector. Our submission at this stage will not be going beyond that sector. The third step, as we understand it, is that we have to establish, or it has to be established, is that serious injury has been caused, but the guidelines aren't particularly clear as to what that is. A simple test of that from my point of view would be that over a sustained period the pig farmers' income is less than their total costs.

The Department of Primary Industries does not have direct access to the full costs, accounting costs of producers. We do have some information which gives some indication as to what those costs are and I would like to - I have two overheads. This is a data set that is being kept. It runs from January 1992 until June 1998. It is kept by one of our officers, Sarah Willis, who is based at Toowoomba. The data shows on the top line there the feed price in real terms - that is in 1998 dollars. You can see the variation there over time. That price is the average from Ridleys, the average of the grower and the finisher rations. I'm advised that the average of those two prices is a very good indicator of average on farm costs for feed.

The bottom line is the contract price for baconers. Again, they are adjusted so that they are in June 1998 figures. That contract price is the average of prices that are provided - that have been paid by one of the major processors of pigmeat in Queensland and for that matter, Australia. I can't reveal the name of that processor until I get the authority to release that information and release who it is. That clearly shows there has been, prior to last year, a seasonal variation in pig price. The traditional thing is an increase in price in the run-up to Christmas and then a dropping off after that. What happened in 1997 was there was a slight take-off in price from May-June, up to September, but from September onwards the price has dropped until the current contract price is about $1.80 per kilogram.

I should stress that those are contract prices which aren't available to all pig producers. They are prices which have been - probably don't have the same or certainly do not have the same variation as saleyard prices and spot prices. Tim, if you could just put the other overhead up.

PROF SNAPE: They're contracts for immediate delivery; they're not 6-month or 12-month contracts?

MR WALTHALL: Chairman, I'd have to take some advice on that, but the series has been collected in a constant way. So that certainly will be in our submission as to how that is done.

PROF SNAPE: Yes.

MR WALTHALL: The Department of Primary Industries has a program which it calls Sowtel, which is in effect a grouping of producers who supply physical data from their farms. This information is analysed and passed back to those farmers so they can see how they perform themselves and they can compare that with their average in the group. This program has been running for some time. We have information there that goes back to December 1990. The numbers of producers in this group has varied over time. I think from the most current data set there were 28 producers in Queensland that have been involved in that. The number has declined. At one stage there were 80 to 90 producers involved. It's a voluntary program.

What is presented there firstly is the pig feed price, which is that top line. It's supposed to be yellow. I'm not quite sure that it is. The bottom line, which is a green one, is the average price received by those producers over that period of time. These prices aren't adjusted for inflation so they're dollar prices. And the red track in the middle is the margin over feed cost per sow per week. Currently that margin is $10.88 per sow per week. The average over that period of time has been $18 per sow per week. What we are planning to do is to convert - to try to get an estimate of what that margin is, how that translates into productivity. So at this stage I cannot tell you what is the break-even point of the margin over feed costs but we are endeavouring to get that information. That information is normally not collected under the Sowtel program but that's something that's being done at the moment.

PROF SNAPE: Do they interpret that as - focusing on the red line - to say that in terms of that criterion things are bad but not as bad as they were at the worst part of the drought?

MR WALTHALL: Certainly on those figures there, but a factor in that of course would have been the high price for feed. The only saving grace about that 1995 drop there was the fact that it was relatively short-lived.

PROF SNAPE: And then followed by what on that series - that is, after the drought - was a couple of good years.

MR WALTHALL: Yes. Certainly above average, yes; well above average. There is substantial - I suppose you can describe it as - anecdotal evidence that many pig farmers claim that the prices they are receiving and their gross returns are less than their total costs by a considerable margin. What we endeavour to do is to establish for the Sowtel group what that difference is and then we'll be supplying that to you. Of course if it comes out that there isn't a significant loss, well, that makes the case - well, it makes it very difficult for us to make the case. But I can't tell you at this stage whether that will come out that way.

PROF SNAPE: We look forward to more information on that.

MR WALTHALL: Thanks, Tim. The other major contribution that we can provide to the commission is the work that was commissioned by DPI from the University of Queensland, and the task was to estimate, to quantify the effect of imports on the prices received by Australian pig farmers, and that work has been done. There's further work that is going on with that, but if I could hand over to Tim Purcell to provide that for you.

MR PURCELL: Thank you, John. I apologise to the sound recorders. I might have to - I've got a presentation to present so how do you want the - I can move that one over there.

PROF SNAPE: We forgot about roving microphones, I think.

MR WALTHALL: Tim, do you want me to put those up there and you stay here?

MR PURCELL: It would probably be quicker. I'm aware the commission has got a short time. I've got handouts which I'll hand around to people so you can follow along. I'm not sure where to stand. This work that we did was part of a consultative report to the Queensland Department of Primary Industries which Steve Harrison and myself from the Department of Economics did back in May this year, and what I intend to present today is some of the results from that report which we did and then, mixed in with that, some of the new stuff which we're looking at, and then we'll go on to have a look at some of the further research which we intend to do.

So briefly I'll go through the objectives which the Queensland Department of Primary Industry wanted us to cover and go through what happened in the 95 Industry Commission inquiry, which I'm sure everyone knows about. But I'd just like to touch on some of the submissions that we were asked to evaluate from that inquiry. Having done that I'd like to go on and have a look at the results of our work and see what the effect of imports have been on prices and production, what the conventional view of the industry has been and try and have an alternative viewpoint to that, then go on and have a look and see what the effects are and various other things, and finally conclude with some further research which we intend to do.

So our objective in this report was to evaluate how adequate the methodology was in two of the main submissions to the 95 inquiry - that is, from ABARE and the New South Wales government - and going on from that to explain and shed light on what the underlying pattern of change has been in the pigmeat prices over time. The $64,000,000 question, "Have pigmeat prices" - I keep having this error in there. I always forget to remove it - "Have imports led to lower domestic prices?" that should read; and finally, "Should the government wish to provide assistance what considerations will need to be taken into account?"

So briefly what the inquiry found back in95 was that the depression of prices and profitability were due mainly to structural adjustment changes which occurred over the last few decades, resulting in producers leaving the industry at a massive rate, going from around 40,000 producers down to 3000 producers in size; and further, that a temporary increase in grain prices due to drought was causing quite a bit of the difficulty, as we showed in the graph that John put up earlier. They found that imports have the potential to suppress prices but not more than by 4 per cent, and the main reason for that was that it was considered they were a very small component of overall supplies; and foreign assistance was minor and did not greatly influence import volumes and prices.

We don't want to touch on the foreign assistance issue, mainly because we don't have the resources to go into looking at the Canadian side of things; and to all intents and purposes our results don't hinge on whether or not imports have been subsidised. All that matters is that imports are coming in at a lower price and that's sufficient in terms of our analysis to cause material damage.

PROF SNAPE: It's incidentally sufficient for this safeguard part of the inquiry. As the issues paper emphasises, the fact that they may or may not be subsidised or dumped is irrelevant for the safeguard inquiry.

MR PURCELL: Yes.

PROF SNAPE: The other point which I'd just like to mention - you just said "material injury".

MR PURCELL: Yes.

PROF SNAPE: Of course for this inquiry it is "serious injury", which is a higher level of injury.

MR PURCELL: Sure. Well, :"serious", sure. On a quick review of the research report it seemed to rely heavily on submissions from ABARE and the New South Wales government. We had a bit of a problem with the ABARE, New South Wales government submissions. Looking at their submissions we found that their statistical assumptions were not tested. So they made these assumptions and didn't test to see whether the assumptions held. The problem is that if you don't see if your assumptions hold then all your results and all your conclusions which are based on these assumptions are suspect. It's not to say that their conclusions are wrong. It's just that if the assumptions are not tested we don't know what their conclusions are going to be like. And our brief was to see whether or not these assumptions were valid and, if not, what the consequences were.

In the ABARE submission, there were two main components, a time series analysis and simulations using EMABA, which stands for econometric model of Australian broadacre agriculture; and their result was that they concluded there was no or minimal effect of imports on the domestic industry. Let's have a look at their time series analysis first. The problem with that is that even in their own work they said that there were seasonal effects in prices. Prices rise just before Christmas, before the lucrative Christmas ham market, and prices fall just after Christmas, and yet they didn't try and model the seasonal effects.

Secondly, their main brief was to see whether or not imports had an effect on prices. However, they didn't test to see whether a fundamental change in the industry had occurred after imports came in, and they assumed that the underlying structure of the industry hadn't changed.

The result was they found that there was no long-running relationship between imports and producer prices. The definition of a long-running relationship, it is a technical definition called co-integration. This doesn't mean to say that there's no relationship between imports and producer prices. It is just in the strict technical definition, that didn't hold. But even considering that, what they didn't consider was any seasonal effects or a structural break, or more than one long-running relationship, cyclical effects. So the results of technical researchers found that if you don't take into consideration structural breaks, for instance, then you're not going to pick up long-running relationships, or vice versa. You'll find long-running relationships when in fact none exist. Secondly, they found a long-running relationship between cattle and baconer prices.

They then went on to do some simulations with EMABA. The major problem with this is that Thomas's analysis found that imports and prices were what's called non-stationary. Basically that means they inflate over time. However, EMABA assumes that all prices are stationary, and after a temporary shock which is imposed to the system, EMABA predicts that prices will return to a long-running equilibrium. However, two things: imports are not temporary; they're permanent; secondly, if you have a non-stationary process, then if you impose a shock it isn't going to return to the original equilibrium. It's going to shift off in wild directions, which in terms of the empirical evidence, that's what has been happening lately. Prices are fluctuating widely; they're not settling down to any predictable level.

Let's just have a look at these prices. Here we have got producer and retail prices and import prices. Now, one caveat with this data is that it's quarterly data, and it stretches from March 84 up to March 97. That's the period of our analysis. The reason for that was that the ABARE quantity statistical bulletin hadn't come out by the time of our initial research, so we hadn't had the last data points. So all this analysis has been up to March 97. But even then we've been finding massive effects due to imports. Some of the things that I'll be coming back to later: just to note that these retail prices are moving up over time, whereas producer prices are pretty static, and in fact past this point in time they plunge down to 150¢ a kilogram. These are the import prices, or rather the import unit values in US dollars.

Let's just have a look at the conventional view of the industry. People have been saying that there is a long-term decline in producer prices for all agricultural industries, and so the decline in pig industry prices is just symptomatic of that long-term downward trend. They've also been saying that overseas pig industries are facing the same price drops; the US and Canadian markets have seen massive price drops in recent months. Thirdly, the decline in producer price is due to the hog cycle, so eventually everything will right itself and return to high levels. There has been a decline in beef prices relative to pork prices, and this shifts consumption away from pork.

Further, the decline in consumption relative to production leads to overproduction, so when people demand less but producers keep producing more, then you're going to get overproduction which leads to a drop in price. Next, depression of producer prices is due to an increase in production; again producers are overproducing. Lastly, imports are a small fraction of total domestic supply, so why would they have any effect? So that's the conventional view.

What we would like to do is to go through and say, "Well, hang on. There are alternative explanations for all of this. You've just got to look at the statistics in a slightly different way." The first one is long-term decline in prices for agriculture. The first thing, which is just an aside, it's unwise to make comparisons across industries. Not all agricultural industries are the same. There is a long-term decline in metals prices. Metals prices don't really have anything to do with pig prices. There is a long-term decline in beef prices, there's a long-term decline in fruit, and so on.

Again it's very unwise, when you've got different institutional structures in each industry, to make comparisons.

However, looking at each industry as a case study, we can certainly see similar things happening. In our modelling results, we took into account this long-term downward trend, and even with that long-term downward trend we found that imports had a significant effect. The next one: overseas industries are facing similar conditions. In the latest pig and poultry and livestock news from the USDA that came out yesterday, there are massive declines in prices for both the Canadian and the United States markets - an overproduction. The problem with that is that US-Canadian industries are export-orientated, and thus exposed to world conditions. Their main decline in demand has been from Japan, Taiwan and Korea.

It's my understanding that the Australian industry is not that export-orientated at this stage, but it hopes to be. So I personally have difficulty in trying to work out how world market conditions are influencing the domestic industry. It isn't to say that they aren't; it is just that I find it a bit difficult to try and come to grips with that. The next one, hog cycle: in 1977 Gary Griffith, in the Australian Journal of Agricultural Economics volume 21, found evidence of a 4-year hog cycle. I was looking at that work last night and over the last couple of weeks, and frankly it isn't convincing to me. The analysis that he conducted was certainly world's best back in 1977; today it's not that crash hot. As one of my colleagues said when I showed him the prices, "That looks like a random bull" which means there isn't any relationship at all.

Let us say back in 1977 there was a 4-year hog cycle. What we have been finding with our monitoring work is that the cycle is much shorter; around about two-quarters or less. So producers are responding to changes in prices quite rapidly. Producers are quite efficient in working out market conditions and changing their production. However, more research is actually needed on this, and in fact that's part of the research that we'll be doing; looking at the hog cycle and the stability of the market. Even with seasonal effects taken into consideration, imports still have an effect on prices. So even after taking into account all the cyclical and seasonal effects, you've still got imports affecting prices.

If you remember back to the graph I put up before, retail prices are climbing and producer prices are static to falling. It's the saleyard prices of cattle which are falling at a massive rate relative to the producer price, but it's not the retail price. So any declines in consumption don't seem to be due to changes in retail prices. Here we have retail prices of pigmeat climbing, and if I go on, here's the same series down there - retail for pork and retail prices for cattle. So if there was going to be a substitution effect in consumption away from pork, you would expect that the retail prices for cattle would be falling relative to retail prices of pork. So I don't know at this stage how the consumption effects come in.

PROF SNAPE: What is the retail price for cattle? Is that a retail price for beef?

MR PURCELL: Yes, beef. That's beef. I'm not sure how the consumption effects come in at the moment, but certainly saleyard prices for cattle have been dropping relative to producer prices of pigs, but at the retail price level everything seems to be pretty static. The next one was that people were consuming less than what they were purchasing. These are supply and consumption figures. There is a major problem with these. I'm not sure how ABS have calculated their consumption data. They present their consumption data as kilograms per head of person. So what I've done is, I've taken the estimated resident population in Australia and multiplied that by consumption to get that consumption graph in tonnes.

The supply there, that's domestic production plus imports, so I haven't taken exports away because it's very difficult to determine whether it's domestic pigmeat being exported or game meat. Hopefully we can get better data on that. But just by looking at that, it seems that supply and consumption are tracking each other pretty well. Again, there doesn't appear to be a decline in consumption relative to production, but more research needs to be done on that. The next contention was that production had increased and this was leading to lower prices. That analysis was done looking at that point there versus that point there and, sure enough, from there to there production has increased.

When you look at an overall trend you can see that back in 1990, which is that horizontal line there, things started moving away from this upward long-term trend, and so in fact producer prices are lower now than what they should have been if they had continued on - sorry, production. So, sure, from there to there production has increased, but when you look at the overall scheme of things it seems that production hasn't increased relative to what it should have.

The last thing that we wanted to have a look at was the contention that imports have been a small fraction of our supply and therefore not really important in the market. Well, true, they are only a small fraction. They're only 5.2 per cent of total domestic production. The industry contends that on an as-like basis, it's more like 30 per cent. Fine. Again, we have to go back to the evidence. The evidence from our modelling results suggests that imports have a significant effect on prices. How significant is this effect? Well, relative to other things, like for instance production, they have roughly the same magnitude and, when we go on further, we'll show that that's around 35 to 40 per cent.

What we're beginning to suspect, but need more evidence to back up, is this scenario: that imports have taken a marginal market and, because they have taken a marginal market, they have a large effect on prices. What does that mean? Well, reading last night a book on management takeovers and market power, I came across this quote from Don Burr, who is the CEO of PeopleExpress Airlines in the United States, and I thought it was a really good quote:

> All we had left was our cost structure, which at the time was a billion dollars a year less than American.

That was American Airlines.

> You figure that at a billion dollars cheaper, you ought to be safe. We kept naively hoping that our billion-dollar cushion would give us enough room even if they underpriced us here and there. But all they need to take away from us was that marginal traffic above break-even.

That's the important bit.

> All they need to take away from us was that marginal traffic above break-even. You don't have to take away half the guy's market. All you have to do is take away a few seats on every flight and the guy's dead.

The thing we have to do now is to try and come to grips with how that applies to the pig industry. In terms of dry economics, what that means is hopefully something like this. By "hopefully" I mean that I just whipped that up and I hope that's right. So here we go. Here's your marginal cost curve and here's your average cost curve. Your break-even point is where the marginal cost and the average cost curves meet. At that point - anything lower than that and you won't bother producing because it just doesn't pay.

Here's your demand curve and your producer price is up here. This horizontal distance here between your break-even point and the quantity you actually produce a day might only be, say, 11,000 tons which is how much is coming in in imports. All the imports have to do is to take that 11,000-ton market and they drop price to below your break-even point. So if the world price is below your break-even point, you're going to be out of business. They don't have to take all of your market. They only have to take you below that break-even point.

PROF SNAPE: Is that a firm or an industry average cost firm?

MR PURCELL: That is a firm. That was a long-run average cost firm.

PROF SNAPE: A typical firm, is it?

MR PURCELL: Yes. Well, in that sense.

PROF SNAPE: So there's no spectrum of efficiency through the industry?

MR PURCELL: No, that's a straight partial equilibrium analysis out of a textbook.

PROF SNAPE: So identical firms?

MR PURCELL: Yes. Let's go on to what we actually got in our results. So producer prices for baconers. Before the imports, the producer price was stationary. It really didn't inflate over time. The introduction of imports imposed a permanent shock on the mechanism by which producer prices were formed and, after imports came in, producer prices were no longer stationary and started being very volatile, moving up and down all over the place, but retail prices did not seem to be affected by the introduction of imports. There is our first clue there. You’ve got producer prices affected but retail prices haven’t been.

"Production not affected by introduction of imports." I’ve got to make a bit of a clarification here. This particular sentence down the bottom refers to quite a technical point. Further research that we have been doing suggests that that technical point, if we look at it in another direction, might be modified and infact production may be affected by imports. So what was the effect of imports on domestic prices? They removed the long-run equilibrium relationship between prices and production, so no longer was the market just determined by domestic supply and domestic consumption. Producers can no longer predict the future prices because it’s very volatile.

We attempted to quantify what these relationships were in a model framework. For every 1000 tons increase in production, producer price drops by 2.6¢. For every 1000 tons increase in imports, producer price drops by 20¢. For every $1 increase in regional price, producer price increases by 23.6¢. The thing to remember about these is that these are partial effects only. Holding all the others static, for every 1000 tons increase in imports, producer price drops by 20¢, so everything else is held static and you're only changing import quantities.

The actual realised price which eventuates is a combination of all of these things and all the seasonal effects happening simultaneously. So the actual producer price which comes out isn't going to be anywhere near like a 20per cent drop, because you've got everything counterbalancing. It's like a very big waterbed. Push down one end, the other end rises, just to balance everything out. We've had a lot of complaints about, "These effects seem really large and therefore it must be wrong." We contend, "Well, show us where it's wrong." There is a model, there are our assumptions. Show us where the modelling is wrong. If you don't like the implications of what the model is saying, well, that must be something to do with the model rather than the implications themselves.

Anyway, the import effect is not really that large considering the actual tonnages coming in. With our VAR modelling approach, which was a technique that they were using, we found that imports were just as large as production - 35 per cent for imports versus 40 per cent for production. What we suspect is that the market power played by middlemen - that's the processes of transport and distribution, wholesalers and retailers - all are lumped into a middleman - is causing this large effect on producer prices.

PROF SNAPE: Could I just ask a question?

MR PURCELL: Sure.

PROF SNAPE: I was going to ask it later on. In your previous transparency, you said for every 1000 tons of increase in domestic production, producer price dropped by 2.6¢.

MR PURCELL: Yes.

PROF SNAPE: That for every 1000 tons of imports, it dropped by 20¢.

MR PURCELL: Yes.

PROF SNAPE: Is that in conflict with what you're saying there?

MR PURCELL: With this one here, you mean?

PROF SNAPE: Well, first of all, that was a curious result if they're identical products and, secondly, I thought it was in conflict with what you've got there.

MR PURCELL: Sure. That's a feature of the particular techniques we're using in the VAR framework. Technically what it is: we're looking at the forecast area of (indistinct -1029) so what we're saying is that if you have a change in prices, what component of that variability in prices is caused by what factor? So what's happening is that we are able to isolate out the various components of that change. What we were talking about before was another modelling framework where we actually tried to quantify the sign of that change, and we're saying that there's a drop, where this one is just saying that there's a change. It isn't saying which one is which.

Now, the VAR framework enables us to simultaneously feed in all the different effects which are occurring. With the other framework, where we were looking at partial coefficients, they were looking at one coefficient at a time. This framework here was saying, okay, once everything has settled down and worked its way through the system simultaneously, what is the end result? Included in this VAR framework is all the feedback effects.

PROF SNAPE: If a person was not an economist, he may be tempted to say that you can choose whichever you like, to make your point, but you might like to deal with that in your written paper.

MR PURCELL: Yes, that is dealt with I think, unless you believe that I should clarify it. It's a very technical issue.

PROF SNAPE: Well, I'll let you progress.

MR PURCELL: Let's just have a look at this market power issue. Here we have a standard partial equilibrium analysis of trade liberalisation. Here we have domestic supply and demand and here we have market equilibrium. There's the price which everything is being sold at, and the quantity which is bought. If imports came in or suddenly were exposed to the world market price, down here, then the quantity provided by the domestic suppliers is going to drop from B down to A, to that point there, because that's the price that the domestic supply is now facing. The quantity consumed is now going to rise to C. So what's happening is that the difference between A and C is captured by importers.

In an economic welfare analysis, what you're seeing is that all this economic rent accruing to the producers, which is this trapezoid here, now shifts to importers and the consumers, and the whole country gains because this little triangle here appears out of basically nowhere. This is what's called a deadweight gain. So under trade liberalisation, the economy gains at the expense of the producers, but since we're not concerned about the distributional aspects, only the overall economy, that's okay. Some people are happy, some people are not, but generally those that are happier are more happier than those that are unhappier - are not happy.

PROF SNAPE: At least in dollar terms.

MR PURCELL: Yes.

PROF SNAPE: I think maybe if you want to - - -

MR PURCELL: Wrap it up?

PROF SNAPE: Yes.

MR PURCELL: Yes, certainly.

PROF SNAPE: This is in the written paper and I think that the next diagram is looking rather too complicated.

MR PURCELL: Sure. No, that's fine. Basically, what are the conclusions? The producer prices have been stable to 1990 and producers were confident of being able to predict market conditions because they were stable and you could predict. After 1990 there was much volatility in the market prices and producer conditions were much more difficult. It's unlikely in this current situation that prices will return to historical trends - now, this is historical trends rather than historical prices - and imports will continue, having a lasting effect.

What we would like to do further is that we really want to have a look at and see what the effect of imports have been on production and also the retail prices, because we suspect that the gains to the economy are not there from trade liberalisation. What's happening is that we believe that not only are the middlemen capturing the gains that should have been going to the consumers under a perfect competition scenario - which is again allright if they are capturing it, because they are people just like everyone else. We're only interested in optimal outcome. We're not interested in any distribution aspects. However, what we are really interested in is seeing whether or not the transaction costs involved in them capturing this market share, or exerting market power, are in fact higher than the gains they would have received anyway, so infact their costs of holding retail prices up is higher than the gains of paying to the economy. So that's what we want to do with this industry policy in the presence of imperfect competition stuff. We want to have a look at that side of things.

PROF SNAPE: Thanks very much, Jim, for that. It is in the written presentations, so people who wish to investigate your modelling further will be able to do so. I should say also that the commission is commissioning a couple of pieces of modelling too which will be presented in a seminar at the commission - at least, the early parts of it will be - and that will be open to the public. We will be notifying participants of that. So, with the work that you are doing for the Queensland government, and if the two that we are commissioning come to fruition, then we should be having at least three models and it may be that others will come out as well, trying to disentangle these things, which of course we shall try to do.

I might just make a point that the 1995 study was an Industry Commission research report which was requested by the government. It was not a formal inquiry under the types of inquiry processes that are in place for this inquiry. That may be a distinction which matters more to the commission than to other people, but it is one that we take note of, because there are different processes and a different status. John, is there anything you wish to add at this stage?

MR WALTHALL: I don't think so, Mr Chairman, no.

PROF SNAPE: I would like to make a couple of comments. I think that with respect to the definition of the industry I would like to draw your attention to article 2 of the agreement on safeguards where it does say:

> To cause or threaten to cause injury to the domestic industry that produces like or directly competitive products.

Now, what is being imported predominantly is boneless frozen legs. The industry which is claiming injury is the pig production industry, not the processing industry. The output of the processing industry might be boneless legs, but that's not what the pig producers themselves are producing and that is not where the injury is being claimed. It's being claimed on the pig producers, not on the processing industry. It does also say "or directly competitive products". I would encourage those from the industry side who are in fact seeking to claim injury and the remedies which are available not to overlook this point. It is an important point.

Picking up on one or two things in the presentation of the modelling, one of the relevant things is injury over what period, and the relevant period for the safeguards agreement, I think a reasonable interpretation of it would not be the whole period over which imports have been allowed, that being 8 years or more.

One would have to concentrate on a much smaller period like the last 2 or 3 years in order to be establishing that industry. Remember that this is a safeguard inquiry which is to do with an increase in imports, it is not an inquiry to say whether imports are a good thing or a bad thing in the longer term. I mean, the Australia tariff on the relevant product is bound at zero and that, if you like, is the Australian government's policy on that to this point. The question is whether there has been an increase in imports which will be causing serious injury to the industry.

One then I think has to be looking to say, "Well, this is temporary assistance only. The whole thrust of it is temporary assistance, and since the imports are coming in and the industry is becoming part of the world market in that sense, one has to think that, yes, the industry is going to be linked to the world market in the longer term." That in itself is not a justification for the safeguard action as I understand it.

So there are a few points I think in making the case for this safeguard inquiry one has to come back to. One has to make the case that the increased imports are seriously injuring the domestic industry. It is not sufficient to say, as I would understand it, that long-term integration of this industry into the world market would in fact be having effects upon the industry. One would expect it to. In this inquiry our task is very well defined, in this safeguard part of it, and we have to stick to that path in forming the judgment that we are required to form. In any subsequent work one might want to focus carefully on the specifications of our task.

MR WALTHALL: Yes. I understand the commission is trying to get more updated data. We would be interested in - - -

PROF SNAPE: Certainly that is part of it, more updated data, yes. Thank you very much. That concludes, I think, the presentation from the Department of Primary Industries of Queensland. We thank you for that. We will now adjourn for lunch. We will be resuming after lunch at 1.30 when we will be having first of all Miandetta Farms and then following Miandetta we will have the Queensland Pork Producers Association.

(Luncheon adjournment)

PROF SNAPE: We will resume. We welcome Mr Ian Nielsen of Miandetta Farms. Ian, if you would like to introduce yourself and then make your presentation, we will start. Thank you.

MR NIELSEN: My name is Ian Nielsen. I am a pig producer near Warwick, which is about 160 kilometres south-west of Brisbane. We operate a piggery of almost 1500 sows. I propose to put a submission to the commission, however my submission at this stage is not ready so I will raise a number of points that I will probably include in the submission but they won't be complete. I haven't got any overhead data to put up at this stage. There will be things in my submission which I won't have information on today.

Generally, first, I guess I feel that I have first-hand knowledge of what drives the industry or what has traditionally driven the industry since 1980 through to this current time in terms of price. We exported very little product out of Australia and we had a relatively stable industry through to 1990 when we experienced the first price shock, and I believe that it fundamentally changed how pigs were marketed in Australia. However, the industry I believe did settle down between 1990 and late 1996, and it was from 1996 through to now that I believe we have had a second shock as imports increased significantly in late 1996 through to now.

They were relatively stable from 1992 through to late 1996, and I do believe that apart from the drought, which impacted on profitability, the pig industry had come to grips with that level of imports and had adjusted to some extent, and stability in pricing seemed to be quite reasonable. Since 1996 imports have more than doubled and feed costs have come down quite considerably, and we are now experiencing, particularly since late 1997, a significant reduction in revenues.

In a non-economic way - and I can't describe it in terms of graphs and all this fancy modelling - we know that we traditionally see price drops in the pig industry from December through to June. That is normal. That has been happening and continues to happen even with imports. What we have experienced in the past was a reasonable increase in prices from June through to December, and that is traditionally the time when we actually make a profit. Since late 1996 that situation has changed somewhat, where prices for the first time actually fell in late 1997.

The reason for this is that in Australia the traditional way of processors buying pigs was to actually start storing legs from June through to December to meet the Christmas ham trade. The price driver we believe in Australia is different to that in the Northern Hemisphere because obviously summer occurs at Christmas here and therefore summer ham is the premium product, and the loin market, which seems to be the premium product in the north, isn't a premium product that we have here. So the price driver for our products was the traditional storage of legs. That situation has now changed because legs are available at a lower price from Canada, and importers no longer find it necessary to actually store legs from June onwards. This has taken competition out of the marketplace and it has made it terribly difficult for us to get that price increase which was our traditional profit period in the latter half of the year.

This I think has changed forever, and I will come to adjustment measures later when I am talking about adjustment measures which Ithink the industry has to make to come to grips with this. With regard to the like product, the pig industry generally - not in every case but in most cases, and certainly in my case - does not sell pigs, it sells pork. We get paid on a hot standard carcass weight, which is an eviscerated carcass after it passes across the scales, and that is at the end of the process in the abattoirs. So basically the abattoirs are contracted, if you like, to slaughter our animals and we actually produce pork.

The relationship between a whole carcass which has legs and imported products - which are generally legs - is in our opinion, anyway, sufficient to prove like product. Certainly over the past few years pressure has come on us to reduce our price as a result of the availability of cheaper imported legs and so there has been no doubt in my mind when a processor has asked me to reduce my price, because he can import legs at a substantially lower price, that there is a relationship between the two.

The industry I believe has suffered serious injury in the last 9 or 10 months, particularly as prices fell in the lead-up to the 1997 Christmas period and they fell significantly and as a result my own company's losses have been quite significant in that time. During that period on an investment of about $5,000,000 we would have expected to make around $400,000, bearing in mind that we would expect also to make profits between June and November which are not included in that last 9month period - or July and November.

So we would expect to do that, but in actual fact our loss during that period is in the order of $250,000. Now, we are a relatively large piggery and so our relevance to the industry is probably different from a smaller piggery's, but in all cases that I'm aware of - and I'm not sure whether this comes into anecdotal information or not, but in every case that I'm aware of there hasn't been anybody who's actually made any money during that time. In fact, I'm led to believe that everybody has lost money.

Imports during that period have, we believe, grabbed about 30 per cent of the leg market in terms of boned-out leg equivalent. Now, if that's the case then the volume is substantial enough to have had the impact that Ihave just said, and the processors that I sell to were importing substantially increased levels of imports during the latter half of last year and they claim that they can do that at a somewhat lower price than what they can pay me.

The prices that I received during that period from November to now were down between 20¢ and 25¢ a kilogram below the cost of production and that has made it terribly difficult. We have had to reduce our numbers of staff on the place. We have put three people off during that period. We have cut back on repairs and maintenance, we have cut back on environmental work that we were planning to do and quality assurance programs that we were planning to implement, and basically until we can actually start to make a profit we're going to continue in that manner.

Within the Warwick district there are two piggeries of about 200 sows that have closed down during that period. Both of them I can say were efficient producers. They were in the Sowtel statistical data that DPI operate under, and they were good, modern, well-run piggeries. Both of them unfortunately went through an expansion phase prior to 1997 and consequently they weren't prepared for the extended period of loss. There was mention earlier in the day of the 1995 period where piggeries went through a loss period, and that's true, we did, but the length of time that we experienced losses in 1995 was relatively short compared to the extended period of loss that we're going through at the moment.

It comes down to our reserves. Most of us have used up our reserves. In my case I certainly have. At this point in time my current feed debt is in excess of 120 days. My feedmill is an additional bank and is carrying me. I am fortunate in that

I have an alternative source of income, and that's a seasonal thing and that's coming into play now, so I do believe - or hope - that it will get me out of trouble. As I said earlier, I think the imports are the primary cause of the price fall, and Ihave explained how the cheaper legs are what are causing that. Our productivity is as high as it has ever been in terms of performance, pig output, and feed conversion ratio.

All of those things have improved over the last 10 years and are continuing to improve. So as a measure of productivity our performance is in the top half of the industry and yet with feed costs having come back quite considerably, we're still losing money. One of the factors that I do believe is causing me more problems than the actual level of imports is the fact that unlimited availability of imports is a serious threat because processors have openly advised us that unless we accept lower prices they will expand the volume of their imports. To me that's a threat of greater imports and unlimited import supply.

The safeguard measures that I do believe are necessary are therefore to impose some restriction on unlimited supply. I'm not an advocate of total bans. I do believe that a balance will occur with the current export thrust and that time is the most critical element in restoring the Australian pig industry to a reasonable level of profitability. That time can only be gained by imposing a quota, which is what we have asked for in the industry, for a period of up to 4 years with the level as set down - I think it was in the gazette. I'm not sure, it might have been in article 19. I'm not sure which but it was that the average over the three previous years, I would believe, is probably an acceptable level as the threat of unlimited imports would be removed.

Until we obtain a different mix in the sale of Australian pigmeat, which is the mix of the loins, the shoulders and the legs, and we obtain a different market for those other products, I think we need to have a tariff also placed on the legs to bring them into line with the Australian values. I see that as being put in place for a similar period. I believe a figure of about $2 a kilogram or 25 per cent of the value would be adequate for that. The third point that I think we need: we need access to grain at internationally competitive prices. That doesn't necessarily mean imports of grain but it means grain at internationally competitive prices and it may well be imports; I'm not sure. I see that as being necessary for the long-term future of the industry as opposed to being necessary to solve the current prices because currently grain prices are relatively low and probably comparable with Canada and the United States.

The industry on its part needs to continue to make adjustment. The industry has commenced expansion of exports. Prior to 1996-1997 there were very few exports of pigmeat from this country and it was very difficult for us, without any form of government assistance, to break into the main market which is available to the Australian industry, and that is the Japanese market, because of support measures that had been provided by other countries to their industry. The opportunity has arisen since the foot and mouth disease outbreak in Taiwan and since that time Australian exports have risen significantly. There is an opportunity for those exports to continue to increase and, as I understand it, they are being supplied to the commodity market and competing with international commodity prices at this time. There is a low level of profitability in that export.

The main players, as I understand it at this time, are committed to building long-term relationships, which is necessary, and in my own personal experience in the Japanese market for other products I have learnt - and I have been exporting to Japan since 1984 - that long-term relationships are vital prior to being able to gain access to niche markets. Niche markets sometimes, I think, maybe are put up as a bit of a rose-coloured glasses picture and I don’t think niche markets are available for everybody but Australia does have some opportunities to crack these so-called niche markets because of its proximity to Asia.

Given that our experience in Asia is that the Japanese like consistency and quality ahead of price, I think that a time to establish that consistency and quality and that relationship is important for us to build those long-term relationships and to build markets that will actually increase the level of profitability for all those players in that game. That includes the producers as well as the exporters. The other thing that the industry has to look at doing is to, I believe, set up an export company which will help facilitate and promote exports. The industry is looking at that at this time, as I understand it, and that export company will help flesh out some of those retail markets which are likely to help improve returns.

I have already said here the export volumes have increased significantly since 97 and will continue to expand when infrastructure is put in place. Infrastructure is another thing that the industry is sadly lacking, and that includes abattoirs and boning rooms to export standards. Not having had an available export market since 1990, when we were exposed to imports, has meant that there has only been limited export from - and limited available export facilities. Capital obviously has not been put into those things because the confidence of processors was not there to crack an export market. That has changed and, as I understand it, also there are abattoirs being put onto the drawing board now and a number of applications which I have seen show that there is going to be an increase in our export facilities.

There’s a construction period there obviously of 2to 3 years and in my experience, going back to building market relationships, I do believe they take also 2 to 3 years to establish. So there’s a time-frame there in establishing the relationships, establishing the markets and building new facilities; that is, in that 2 to 3-year period which is what the industry needs to adjust. In the domestic market the industry also, I believe, has a need to adjust to changing world circumstances and the industry needs to get some market power back. We heard about market power earlier and at this point in time the industry is fractured; it doesn’t have many long-term contractual arrangements that build in price into the contracts. In the cases of the few contractual arrangements that exist - the ones that I know of - other than in Western Australia, price isn’t factored into it and so it’s not a true contract.

The industry needs to change that and the industry needs to form some networks to be able to offer a standard of product to the market and create longer-term contracts. That, I believe, will happen as a result of the threatened pressure that the industry is facing at this time. Also the industry needs to increase demand by value adding products and there are opportunities that exist now, with changing lifestyles, to move to ready-to-cook, ready-to-heat type foods and that is happening in Europe and North America. There's an opportunity in Australia to expand on those, which hopefully will increase value and therefore improve consumption and improve profitability to the industry.

There are a number of projects that are happening right at this time that will see these ready-to-heat, ready-to-cook type foods and one of them is with the Lenards chicken outlets with 179 stores in Australia - or thereabouts - and they are now going to put processed pork products on their shelves. The adjustment opportunities have only been really available since 1997, as I said earlier, when the Taiwanese foot and mouth disease outbreak occurred as well as the classical swine fever outbreaks in Europe. Both of these were serious disease outbreaks. Prior to that time Taiwan and Denmark both supplied the Japanese market almost exclusively. Even the Canadians and the United States only had a very small presence in the Japanese market at that time.

Both the Taiwanese and Canadian governments subsidised their products quite heavily and these were passed on to Japanese importers. Since April 98 Canada, the United States and Australia have made inroads into the Japanese market. A trial period in the low-value commodity market will be necessary until confidence by customers can be established. Prices will rise after quality consistency and relationships can be established, and I've been through that but I believe that we need a period of 3 to 4 years to establish those. It's my belief that safeguard measures could be justified as a result of the injury that has occurred and is still occurring and is likely to continue. There have been some price rises in the south. In Queensland these haven't occurred as yet.

We are now halfway through that period of the year when we traditionally make a profit and at this point in time we're still running at a loss. Even if prices do increase to break-even point by Christmas, we're going to face the same problem in the next 12 months. A quota, as I said earlier, would restore confidence and it would increase prices to growers. It would buy the time that is needed and I think time is the most essential thing that we need at the moment to get out there and establish these markets in the export arena. We need the confidence to invest in the capital that's necessary for us to seriously challenge the Europeans and the North Americans. If we continue to go the way we are, we will see a contraction in the size of the pig industry. It's occurring already and the flow-on effect into regional and rural areas will be significant.

It won't be just the pig industry that has a serious injury; it will be the flow-on effect to other businesses such as the feed milling industry and the produce merchants in the towns, the grains industry which supplies the bulk of piggery imports, and the flow-on effect then through the small towns in rural Australia will be very significant because there will be potential job losses right through to the clothing shops in the small towns. That flow-on effect, given that the pig industry is continuing - or will decline - is going to be quite significant. Not having prepared this as a submission, I think that's basically all I have to say today and you will get more from me when I prepare the thing properly.

PROF SNAPE: Thank you very much, Ian. That's a very thoughtful and helpful interim serve and we look forward to the rest in more detail. It is indeed very thoughtful and helpful. I wonder if I may ask just a couple of questions of you. When you said a quota of up to 4 years averaged over three previous years, which were the three previous years?

MR NIELSEN: I was thinking of between 93 and 96.

PROF SNAPE: Before the increase in the imports, not including the increase in the imports. Is that right?

MR NIELSEN: Right.

PROF SNAPE: Thank you. When you were suggesting that there be an export company to facilitate exports you were not thinking of a single-desk seller, were you?

MR NIELSEN: No, not thinking of a single-desk seller but I do think that markets, particularly in Japan - which, as I said, I have some experience in - need to - particularly in an Australian industry which is scattered over an enormous large area and there will be several production or processing sites - there may need to be some joint collection of product to fill containers with loins, as an example, and standards would need to be set. You can't have multi-label products of mixed standard being put into containers and so forth. So to get some critical mass the industry, I think, does need to have some export group that plays a facilitatory role but it's not a single desk. I don't think that's necessary.

PROF SNAPE: Okay. You mentioned that the export opportunity really wasn't available to Australia, or at least you didn't perceive it being available until foot and mouth disease hit Taiwan and classic swine fever has hit Europe. As I understand it, once the foot and mouth has been cleaned out of Taiwan the Japanese then will require about 3 years to be convinced after that before they will let the Taiwanese back in again. I'm not sure what applies to swine fever but presumably they will cope with that and eradicate that or keep it under control, the point being that at sometime in the future, probably not too far down the track, Europe and Taiwan can be expected to be knocking on the door of the Japanese market again - - -

MR NIELSEN: Yes.

PROF SNAPE: - - - and will in fact not be being excluded for the reasons that they're excluded at the moment. Does that mean that the opportunities for Australia will then disappear?

MR NIELSEN: I don’t believe so because I think with your freeing-up of world trade you double your TO agreements, so that some of these subsidies are going to be reduced in time so that’s going to take away the uncompetitiveness, if you like, of the Australian producers. That’s number 1. Right at this time I do believe that on a cost-of-production basis we actually produce pigs - pigs, not necessarily parts of pigs but pigs - more cheaply than the Danes, anyway. So given that some of those subsidies are removed - and as I understand it they're about 37¢ a kilo out of Denmark - given that they're reduced we should be able to compete.

Number 2, the Japanese market is an interesting one. It's difficult to break into, and I can't speak for pigmeat because I haven't exported pigmeat. But again it's in my experience that the Japanese market is a difficult market to break into, but once you break in there and establish your relationships they're usually fairly long-lasting. So I think that once we've opened the door there we can look forward to some sort of long-term relationships.

PROF SNAPE: Part of the adjustment process that you're talking about, or at least the time for adjustment, is so that the wheels of the WTO agriculture agreement will grind away a little bit more on the Japanese.

MR NIELSEN: Yes, I believe that.

PROF SNAPE: Yes, so that that market would in fact open up in total rather more than it has. You made a distinction between pigs and parts of pigs. Is the competitiveness in pigs but not in - but I think you were implying not necessarily in parts of pigs. Would you like to elaborate on that?

MR NIELSEN: It comes back to the mix. I mean, in the past, as I said, the primary product in Australia that was sought by the processors were legs and loins, and other products tended to be more secondary. In fact we are the only country in the world - I mean, as far as I'm aware. There might be a few that do it to a lesser extent - that have put the loin of the pig on a slab of bacon and sell it at some stupid price. But the export opportunities as they arise will see a demand for Australian pig loins in the Japanese market, which is a premium product there, and that will change the mix values and therefore should put us in a more competitive position in time with, say, the Canadians or the United States in terms of pig leg values. Again it comes back to time. We have to establish those things.

PROF SNAPE: Could I take up your remark before, where you said early on that you thought that the price cycle which was traditional in Australia was probably gone forever, changed forever. In that I take it that you see the future as Australia having net imports of legs and probably net exports of loins and shoulders.

MR NIELSEN: Yes. That's just a personal feeling, yes.

PROF SNAPE: Yes. So that one could expect in fact in the future perhaps not as great a return on the legs because of the imports but in fact a greater return on the other parts of the pigs.

MR NIELSEN: I do believe that, yes. Again all of those things take a little time for us to get those markets.

PROF SNAPE: There are some export abattoirs at the moment existing.

MR NIELSEN: There's one in Queensland.

PROF SNAPE: Yes, and that's up to capacity.

MR NIELSEN: It's up to capacity. We can't export any more product through that facility.

PROF SNAPE: But there are in other states export abattoirs.

MR NIELSEN: Yes.

PROF SNAPE: Two parts to the question: are they efficient enough to be competing on the parts-of-pigs market; and are they trying to develop the market in the way that you were describing yourself?

MR NIELSEN: I can't comment on their efficiency because I haven't got access to their figures, so I can't comment on that. As far as them trying to access the various parts of the pig, as I understand it at this time there are very few pigs sold into Japan from Australia that go in in parts. They nearly are all full sets, other than the legs. The legs have been taken off, as I understand it, and I think it's a four-part pig that's going in, which is basically everything other than the legs.

I think I intimated earlier on that the problem we've got is that for example here in Queensland, where you've got a facility that's exporting a couple of thousand pigs a week, it hasn't got the ability to put a container of loins together to tap into the fresh market because there's insufficient capacity to do so. I think that same thing applies to the other couple of export works that are available. What needs to happen is - this is where this export company, if it does its job right, will be able to set the standards and be able to accumulate product from, say, all of the export facilities; and if there are two export facilities in Queensland go ahead at Downs Bacon and Danthorpe, that will enable them all to fall into the loop where they can do that.

At this point in time I believe they're tapping straight into the commodity market, which is a cut-throat market in Japan, and whilst they were making reasonable profits when prices were very low - and I'm talking specifically in the south. Here in Queensland they're probably making profit but I can't comment again. I don't know what level of profit they're making but I'm told they're making a profit by the buyer for that company. If the price of pigs rises to a level of profitability for the producer it may well be that they're not going to make a profit in their export thrust.

That might have some short-term ramifications but again I dealt with it earlier. The long-term goal must be, by the exporters, to get markets that are not just commodity markets. Get into markets that bypass some of the multistage importing layers that exist in Japan and get into the retail trade if you can. I happen to sit on the National Pig Industry Development Group and so I can speak for - having had that experience - that there are export opportunities that do fall into the category that I just mentioned. I prefer not to at this time raise those in public because they're of a marketing nature, they're sensitive and they're Australia's benefit at this stage and I don't propose to give those benefits to someone else. But those opportunities do exist and they are of a significantly higher value than the current commodity trade that's going on.

PROF SNAPE: I wonder if you could tell us about how funds that are already received or promised under assistance packages - for example, the national pig industry development program but also the recent assistance package, which I think together add up to about $19,000,000 - - -

MR NIELSEN: Yes. I can't speak for the $8,000,000 and the $1,000,000 because those aren't managed by the Pig Industry Development Group; they're managed by the government directly. I do know that the $8,000,000 for example is to be used for capital specifically for export plants and I think it's at 10 per cent, which apparently is WTO legal, of a new abattoirs or a new process or in an abattoirs. So there are I believe some applications going into that fund. For the $10,000,000 fund there has been some market work done to try and stimulate consumption to create a gap, to create a gap between supply and demand to try and stimulate prices.

PROF SNAPE: In Australia?

MR NIELSEN: In Australia. There has been some funding put aside for the development of these new products that I referred to earlier and the group is reviewing and has approved a number of applications for projects which are export-orientated and they are sitting at the minister's desk, because the group can only recommend those. So I can't comment on what they are. I can only talk about the ones that have actually been approved.

PROF SNAPE: Surely. On the grains and proteins supplements you said that probably the prices that you're getting them at at the moment - actually you said grains; I added protein supplements.

MR NIELSEN: That's a different story, yes.

PROF SNAPE: Perhaps we can focus on both stories and ask that.

MR NIELSEN: Okay.

PROF SNAPE: You suggested at least with grains that they're probably not much different from world prices at the moment, though it wasn't quite clear whether you were meaning export parity or import parity. What difference would it make to the industry if the grains and protein supplements were in fact obtained at world parity prices?

MR NIELSEN: I think in the long term, given all other things being equal - and that's a qualification, I guess - given all other things being equal it's important. I mean, we had a period of drought when Australia was still a net exporter of grain, where we paid significantly higher prices for grain than what the world market was, and so our competitors at that time had a significant advantage over us. At this time, as I say, the problem isn't so much that our cost of production is high because of the fact that grain represents about 70 per cent of our input costs. That isn't the critical factor as I believe it. I believe at the moment the critical factor is that we're competing with a product that is cheaper, is available in unlimited supply and is cheaper because of all of the reasons I've already discussed, such as the mix and their availability to export the other bits.

But the grain for the future I think is - once we fix up that market for pigmeat, once we fix that up and come into sort of a world-competitive stage with our infrastructure and everything, then it will be imperative then that we have access to grain at competitive prices; and I think then that could well be a bigger problem in the future than it is right at the moment.

PROF SNAPE: And protein supplements?

MR NIELSEN: Protein supplements fall under the same category. At this point in time protein supplements are uncompetitive. Grain I think is reasonably competitive but protein supplements are more expensive in Australia. I don't know that that is the factor that is making us uncompetitive with the rest of the world, though. There are other factors. There are so many factors. There are areas in terms of production that I've seen where we're more competitive than, say, the North Americans. I presume there are producers that aren't, but if you took us as an average then generally speaking we're more competitive.

PROF SNAPE: What percentage of your costs are protein supplements?

MR NIELSEN: Some of these guys might be able to answer that better than me. John Carter might be able to answer that.

MR CARTER: It is about 30 per cent of 70 per cent - about 20.

PROF SNAPE: 30 per cent of 20 per cent?

MR NIELSEN: No, of 70.

MR CARTER: 30 per cent of 70 per cent.

PROF SNAPE: Yes, about 20 per cent of the total costs, yes.

MR NIELSEN: Yes.

PROF SNAPE: If one is thinking of a longer-term future in which the things that you are suggesting have all been fixed up - not allowing for inflation, just keeping inflation constant - what sort of price would you be envisaging which would in fact be a profitable price for the industry in terms of carcassmeats?

MR NIELSEN: First, are you talking a flat price across the year?

PROF SNAPE: Yes, a flat price across the year.

MR NIELSEN: I will probably get belted around the ears for saying this, but I think a price of say, 220 to 230 depending on those input costs.

PROF SNAPE: Yes. What grain costs?

MR NIELSEN: Probably up around $150, I would say. That is taking a fairly high average, if you like, of grain prices. I would have thought somewhere around $2.20 and I look at John Carter. Am I in the ballpark there, John? I would have thought that would be pretty reasonable.

MR CARTER: It is a difficult question to answer. If you look at the national statistics on costs of production then you come up with a much higher figure than that. The latest industry statistics indicate a cost of production of $2.20.

PROF SNAPE: If we were looking at long-term grain prices of $1.50 - - -

MR NIELSEN: 150.

PROF SNAPE: 150, then 220, 230 is probably about what you would seek.

MR NIELSEN: Yes, I would have thought those two would equate.

PROF SNAPE: As I say, thank you. I think I have got through my list. It is one of the disadvantages of being on my own out here, because normally we have two or three commissioners and at this stage I would have said, "Have you got any questions, Helen?" or whoever was with me. I think I have used my list for this time and we are looking forward very much to your submission.

MR NIELSEN: Yes, there will be other things in my submission that I have neglected. This was done in much haste and so I have not included a lot of things. There is a lot more detail I would put in.

PROF SNAPE: It was very helpful also the way you in fact followed the steps through. If you are able to elaborate on some of them, including the one where you would find the industry at the beginning, that would in fact be very helpful to us. When we receive the written one it is possible that we may write back to you for an elaboration on a few points, but in the meantime thank you very much for your contribution.

MR NIELSEN: Thank you for the opportunity.

PROF SNAPE: We have next got the Queensland Pork Producers Association. We will just break for a couple of moments to allow a switch-over in seats and for me to have a glass of water.

PROF SNAPE: A participant has indicated that she wishes to make a presentation and that is the ALP candidate for the Blair electorate, Ms Virginia Clarke. She will follow on after the Pork Producers Association.

We have three representatives from the Queensland Pork Producers Association. Gentlemen, if you could each identify yourselves separately and then we'll go on from there.

MR REED: Terry Reed, president of the Queensland Pork Producers Organisation, commissioner, and I'm a pork producer from the Darling Downs in a vertically integrated grain-growing based operation.

MR CARR: My name is John Carr. I'm the new boy on the block. I've only been involved with the organisation for 3or 4 or 5 months. I've got a rather strange background for this industry. It comes out of university and research and teaching, and then through management of one of the large integrators in Victoria to my current role as a provider of technical services to the industry. I also have an investment in a large pig operation in Victoria and sit on the board of that company.

MR CHARTERS: My name is Robin Charters. I'm the executive officer of the Queensland Pork Producers Organisation. I was previously employed with the Queensland Dairy Farmers Organisation as a research and policy officer, and come into this industry with a general knowledge of rural matters.

PROF SNAPE: Thank you very much, gentlemen. I'm not sure which of you would like to lead off but Terry, is it you?

MR REED: Yes, thanks. I might lead off by first-up saying that we haven't at this point prepared a written submission but we will be doing so on behalf of the Queensland Pork Producers. Also I might add that some of the information we may talk about - we may be repeating ourselves over the top of Ian because I guess we come from basically the same hymn sheet as producers in Queensland while some of us have diverse issues. If I could first say that the trade policies that are with us, both by predeceasing governments and this government, will systematically destroy this industry or destroy the critical mass that will be required to build an export-focused industry.

The reason I will say that will be because also Australia is a dry continent. It's well recognised as a dry continent. That information is well out there in all climatologists' areas and that gives us then the vagaries of high and low costs of productions, given the fact that we can have very irregular supplies of raw materials, of which grain is the main commodity that we talk about as far as supply goes. That will put pressure on the base of any industry to maintain as cost of production moves. As it does that, gaps will form or be created in supply. As those gaps are created in supply now, we have a policy of zero tariff and unimpeded access to our market by imported product of which basically - and explained by Ian - the leg is the primary product that is imported to our country, basically because we are a leg market but in the Northern Hemisphere the leg is not a primal cut.

We are not asking for change of those policies. All we are asking for is time adjustment so that we can implement what has already been invested into an export-focused industry, and what is to be invested to give the environment to create the balance of investment that is required to take this industry to the export focus that it has identified as a new era of this industry. Australia is well positioned into export markets, as we know, and we are and can become very competitive in those markets. I might talk about the feed grain issue for a moment. The starting line in Australia is somewhat crooked, even within industries.

You mentioned earlier, commissioner, about single-desk operations. I believe unfortunately the wheat industry was only just legislated not long ago to maintain single desk. We might say, "What's that got to do with the pork industry?" The chairman of the Australian Wheat Board, Trevor Flugge was on record to say that the wheat industry would lose 10 to 15 dollars a tonne if they didn't have single desk, of which I say then it has cost this industry somewhere about 15to 20 million dollars a year by some form of protection. We also have a dairy industry in Australia and, while I say these things, I am not jealous of their support but it makes us very uncompetitive in international arenas.

They have in the last period of time - the dairy industry - recognised grain as a very useful source of protein for their production. They too have support from the Australian government in policies of trading and they have a tremendous model to look at as far as export building but they have support. The sugar industry also that we are told to respect in this trade war still enjoys single desk. Up until just very recently in this year they enjoyed a tariff to build their industry on. Again I'm not jealous of that but we are another industry that is focused towards export. We are one of the preferred meats of the world and that's all we're asking - is some time of adjustment.

We have prepared some dot points to talk to, given that some of them were difficult to prepare at this point in time, and the first one, commissioner, if I could just - I'm not sure that I've heard the total definition at this point in time of serious injury, as to how it will be determined on this industry where we have significant impairment of an industry. I would ask for a complete explanation of how that will be determined so that we can build our submission around that. Queensland Pork Producers is a statutory body operating under the PPRNM Act of the state and we have the evidence - and I haven't got it with me today but we will put it in our written submission - of membership. Membership failure to pay in this last period of time is something like - I can't quote the percentage at this point but we will have it in our writing. Our executive officer may be able to quote that.

MR CHARTERS: Yes, the historical downturn in membership, commissioner, is approximately 3½ per cent per annum on the average over the last 10 to 15 years. This year we're looking at a potential of somewhere between 12 and 15 per cent based on people with outstanding levies at this point in time and that is just the producers who have not made any payment at all. We have a further 12½ to 15 per cent who have made a 6-monthly contribution to the organisation's funds and we are unsure about their level of ability to fund the organisation, so we have a significant body of producers in Queensland who - their long-term viability in the industry is under question. This will be resolved early in the new year when the new financial year's processes are put in place.

MR REED: While it was mentioned earlier by Ian about feed company debt levels, it is anecdotal evidence at this point in time but we will be encouraging feed companies to submit a submission. The debt level is astronomical and out into that 120 to 180-day type arrangement. It is fearful and again, given the continuation of this path, the regional areas will collapse. Again some of this anecdotal evidence but pork and bacon prices are at historical lows. Queensland Pork Producers Organisation operate faxed pig prices, of which we bring together on a weekly base Australian prices. We have an overhead here which shows the low level that it has been at in 98 in comparison to where we've come from in 95 through to 98.

PROF SNAPE: This will be in your written submissions.

MR REED: It will be, yes. Basically it's self-explanatory really; the graph is self-explanatory.

MR CHARTERS: What we've actually had to do this year is lower the lower axis on the vertical in both porkers and baconers twice because of the - in the baconer it has gone down one 20¢ mark but in the porkers it has gone down 40¢. Earlier in the year we didn't believe that the porkers would fall through the 200¢ kg price range. They went through that. We went down to 180, we had to get down to 160 to keep them in the graph. So there was a substantial downward movement at that point in time. The price movement from the downward trend to a more upward trend is identified in the average weekly prices as the movement changed 3 days after 10 June.

So it was the week commencing the 15th that the prices started to move into an upward trend rather than a continuing downward or stationary trend.

MR REED: But the main point is, isn't it, that those prices are the lowest on record, on this organisation's record, which goes back to 1988-89. Certainly all those values will be incorporated into the written submission. It doesn't say anything other than that the prices were lower. We don't really attempt to explain why that's the case but the fact is that they are.

MR CHARTERS: There's no adjustment for real terms or CPI or anything in those prices. Those are the actual dollar prices quoted on those particular days and the $1.50, $1.49 price quoted there for baconers was the lowest on record that we have.

PROF SNAPE: This is an Australia-wide price?

MR CHARTERS: Yes.

PROF SNAPE: A comment earlier was that the prices have risen in Victoria but not in Queensland.

MR REED: That's right.

MR CHARTERS: That's right.

PROF SNAPE: But this is an Australian average price then?

MR CHARTERS: This is a carcass price, not a live price.

MR REED: Yes, carcass.

PROF SNAPE: Carcass price Australia-wide.

MR REED: Australian average carcass price.

PROF SNAPE: It's trending up. It's obviously going to be very interesting to see what happens in the - not just interesting, a bit more than that for you of course, seeing what happens to it in the way it's going.

MR REED: The industry is watching it quite anxiously at this point in time and the other factors - and we didn't source them today but the other factor that we are watching anxiously is the import figures. June import figures doubled from the previous, and this is the normal trend for the second half of the year. The second overhead which Robin might put up basically clarifies what the industry has been saying when it puts up production cost trends which we sourced out of Pig Stats 97, which is the up-to-date information that the research and promotion corporations compile for the industry. That is the live weight cost to production. If you convert the 96-97 - nearly $1.70 - to carcass equivalent, which the previous graph was, it comes out round about $2.20 cost to production. What I would say from there is that it takes enormous resource by any industry to sustain the types of losses that are being incurred there and you don't sustain them lightly.

MR CARR: Have you got that table there, Ian, that third one which identifies those costs for the last 12-month period, or the latest one? This one is very difficult to read, isn't it?

MR NIELSEN: It might be able to be sharpened up a bit.

MR CARR: In the second to right-hand column, dollars per kilogram of live weight of animal produced, right at the bottom, the total costs are $1.68, which if you convert to a carcass weight basis using a conversion factor of 76 per cent, which would be typical, equates to a cost of production of $2.21 a kilogram. If you went back to the first slide showing the prices and put a line through the $2.20 for baconer carcasses you get a very vivid impression of the problems that Ian mentioned in his previous delivery, in that for almost the entire - since Christmas the industry at large has been operating below costs of production.

If I can add to Ian's comments from my own company's point of view, we're somewhat larger than Ian - and we believe we're probably more efficient - and instead of losing a quarter of a million dollars during that period our figure would be close to three or four hundred thousand, and that's all debt, either personal debt or company debt. We have had some exciting moments, as you can imagine, around the boardroom table during this period as to how to grapple with that. Our big worry, of course, is that even if prices continue to increase and eventually reach the break-even point even the south - which they yet haven't done, but they are just about reaching break-even now - there is going to be some substantial period before our cash position returns to normal. So all our business plans in terms of expansion, employment of labour, development of new products, development of new production systems to meet export requirement have been shelved - the whole lot. We don't have any choice or option.

PROF SNAPE: Could I just ask on the cost of production whether the cost of production varies very much according to the size of the farm in your experience? I am always a little bit uncertain, I guess, about hearing of "a figure" which is a cost of production when farms vary so much in size, they vary so much in location and some areas are probably better for pig farming than other areas, and yet we get one figure.

MR CARR: That is the reason why, when you asked the question before about what would be a reasonable return, Ian hesitated and when he looked at me I hesitated. If we took those national statistics as the benchmark then we would have to take a price substantially higher than the one that Ian indicated. I know what the costs of production are for our company, and they are not $2.20. They are something less than that. In my position as technical consultant, for want of a better word, to a number of large companies in the country, and one group in particular in south-east

Queensland, certainly the individual costs vary. As a group they would be less than those national figures, but there is very little evidence that once you get beyond say about one labour unit, 100 or 200 sows, that there are any economies of scale.

But depending upon how each company may be part of a larger agribusiness operation, as Ian mentioned their ability to be able to transfer costs and share costs, and transfer cash and share cash varies enormously. I think it's that aspect more than any other that probably influences costs, whether they're stand-alone pork production businesses or whether they are part of a mixed farming operation maybe with some sort of integration upwards or downwards, or sideways for that matter.

PROF SNAPE: I can see that the ability to actually allocate costs in a mixed farming business may be rather difficult, and also that if you are growing something besides pigs and the other side of it is going well, that helps you through your bad pig times and vice versa. But if one were to be, as far as one can, just concentrating on pig production and thinking of different pig producers through Australia - and I gather or I've been told that the shake-out over the last few decades has shaken out the really inefficient ones - what would you see as the range of those that are still existing, the sort of range of the cost of production?

MR CARR: The range? You have to take notice of the figures that Ian - the national reference group, if you wish, for want of a better word. We have to take notice of those, and those figures indicate that within that group representing about 10 per cent of the industry, costs have continually risen over the past 5 or 6 years.

PROF SNAPE: You said before though that your costs of production, you thought, would have been below the figure that Ian said. But if one could think of the most efficient pig producer in Australia, what would their cost of production be?

MR CARR: Probably about $1.75.

PROF SNAPE: $1.75.

MR CARR: Yes, if you include finance charges and so on and so forth.

PROF SNAPE: What would you have to be selling at to get a return on the capital?

MR CARR: The investment is somewhere around about $5000 a sow, and depending upon how greedy you are, or what sort of return you wish, what sort of competitive return you wish, it would be close to the figure that Ian mentioned before. For that most efficient producer it would be a bit less than that.

PROF SNAPE: So we would be looking at a minimum of 2.10.

MR CARR: $2, $2.10.

PROF SNAPE: Something like that.

MR CARR: Yes.

PROF SNAPE: That is for the most efficient producer.

MR CARR: Yes, I would say so.

MR NIELSEN: Can I chip in? I guess it is relevant to that. The finance figure is an important component of that and I think you'll find that some of the most efficient producers today are those that actually don't have debt, or very little debt. Those are the ones that actually haven't had any expansion of recent times and in fact haven't modernised their piggeries. That's fine. At some point in time they're going to have to rebuild and expand, so whilst they might be the most efficient today, at some point in time they have actually got to get some finance.

PROF SNAPE: Thank you. I interrupted.

MR REED: No, discussion is the best essence. I think John actually touched on this, but the pig stats that were referred to is a study from over 26 commercial operations which cover some 28½ thousand-odd sows, which is somewhere in that 10 per cent.

MR CARR: And which are larger operators, yes.

MR REED: So what we are looking at from there is some form of security, I guess, into the future. What the Queensland Pork Producers are doing as their own initiative is contributing to an industry fund to maximise the collective voice of the industry, and while this is being done at enormous pain at this point in time, because of the loss that this industry is sustaining, they still believe it is important to strengthen their case against whoever may be their predator.

They are promoting investment in Queensland but this investment area is getting undermined in confidence by the lack of recognition on government policy, to recognise the force of this industry and where it can take itself. When I talk about investment I talk about the processing sector, I talk about the production sector. I personally had plans to tripling the size of my operation but all that has been shelved at this point. Downs Bacon, as you have been referred to earlier, have plans on their processing side. There are other smaller abattoirs that have huge investment plans but these are all under threat. Dan Pork is another one that is in the stage of developing.

All these sectors will position the industry into the future. Also, we have commissioned a university research project on export potential out of Queensland. While we all talk about Japan as one area there are enormous opportunities in other nations for Australia being strategically placed. All of those are really under threat through the lack of will of some policies that are in place at this point in time in both state and federal areas.

MR CARR: While you are gathering your wits there, Terry, just coming back to the production area, which is really my area, or the one I'm closest to anyway, I think it's important that we recognise - and I think Ian touched on that - that fundamentally we're a very efficient industry. From a productivity point of view - and I see a lot of information from other countries including Canada, for example, and also Europe and I travel into those countries - a large sector of our industry is very competitive.

I know that the PRDC recently has suggested from some survey or other - I don't know how that was conducted - that only 19 per cent of our industry are world best practice. I would think that's a compliment. It has been turned around on us in some respects but the group of people who I operate with - and you met one of them I understand, commissioner, at Ian's place a weekend or two ago - Simon Hall. That group of farms in south-east Queensland, which represents probably 8000 sows out of the Queensland population - 16 per cent of the Queensland industry - is the very best. I know of no operations that exceed them in productivity.

Yet even those people during this recent period of time have been under all sorts of financial pressure, like the rest of us. I think it's wrong to think that there is a lot of scope for us to increase our level of farm performance, because there isn't. It's a continuing long-term process and we can't all of a sudden overnight improve productivity by 10 per cent. There are one or two areas, though, that are hindering us from becoming more efficient more rapidly. One of them has been referred to and you touched on the oilseeds area. It worries me that the oilseeds industry in Australia is dominated by one operator, namely Cargills. It worries me that the feed milling industry in Australia is dominated by one player, namely Ridleys. It worries me that we have a single-desk authority for grains. If we're going to be asked to compete internationally we have to have our hands untied. There are some areas that we could hopefully, over a period of 2 or 3 years, grapple with and perhaps by doing that drive our costs down further.

Another area is gene importation. We're not being allowed to compete internationally biologically because the door is closed, almost completely closed for any meaningful source of improved livestock. I shouldn't be too critical that that is the case because the last thing we want, of course, is the inadvertent entry of disease. But on the one hand a lot of us feel that the door has been opened and at some risk to importation from countries with diseases that would horrify us if we got them, and yet on the other hand we're being told we can't bring genes in because the risks are far too great, and I don't believe that. They are some areas that concern me.

If we are being asked to be more competitive - and we are and we will and we will do it - we need help from somebody or other to allow us to do that. The sort of help we need more than anything else is time. I don't think we are saying that we want to be insulated from world competition - no way. We can compete and we will compete. But we need some time to gather our wits.

If I could just go on, this company again that I am involved with down south, we look at the statistics that the DPI presented earlier on - that John presented, actually, I think - the gap between the proportion of the retail dollar that we as producers are receiving, and we look very suspiciously at the people in the middle and say, "Well, somebody is getting too much. We're not getting enough." So as a company our development plan was to bypass all that and to actually develop fast food products modelled on or containing pork, direct selling to the consumer. We have had to shelve that but I mean, we have done that, reached that decision. We have identified the products, we have employed people overseas to assess them and report back to us. We have had to shelve that simply because of cash flow.

The other point is the access to export abattoirs. Our company has a marketing policy which essentially says we're going to market to three local outlets and those three outlets will kill at different abattoirs. The reason we say that is that we don't trust the quality assurance at too many abattoirs in Australia. We are very critical of the meat industry authority, Ausmeat, who monitor abattoirs. We don't believe they do a very good job at all. We pay - $300,000 a year to them, is it, Ian, or something like that? We believe as a company that that's money badly spent. We'd like to get that back. We think the abattoir section is poor, but we actually can't find an abattoir in Victoria, to kill at, which has export accreditation.

There are only seven in Australia. There is one in Queensland which is full to capacity, there is one in Victoria which is full to capacity, there are several applying for licenses and so on and so forth, but it seems to be a long drawn-out process. So even if we wish to export - and that is one of our stated marketing policies - we can't. We've been told by the main exporter who we'd like to deal with we'll have to kill them 6 or 7 or 8 hours' drive away in Tamworth. If there is any abattoir that there is real problems with in terms of quality assurance it's the Tamworth abattoir. So there are real problems in the abattoir sector.

PROF SNAPE: Even though it has an export licence?

MR CARR: Unbelievable. There might be a case brought against them yet through the courts. They are some of the issues. They are really burning issues in the eyes of producers. We know what we have to do. We are being forced to do it, and we will do it. But we keep hitting these brick walls here, there and everywhere. We think if we could have a bit of time to try to resolve those with help from government and with help from our industry bodies then we'd be in a much stronger position in 2 or 3 years' time, and the number of casualties - which have already started, of course - will be minimised.

PROF SNAPE: I understand the squeeze in which you feel you're involved with single-desk sellers and so on, and if you can supply us with evidence or data as to the effects on your feed prices that you would attribute to the single-desk selling policies and to the structure of the feed meal and the protein supplements as well, that would be very helpful to us.

MR CARR: Yes.

PROF SNAPE: On the other side, you've got imports. Could I ask just how is it that exports have now increased quite considerably in the last 2 years - and I understand that Chisholms have been involved in quite a lot of that exporting - and a lot of that is going to Japan. How is it that we can compete with Canadians in that market, in the Japanese market, and we are having difficulties competing with them in the Australian market?

MR CARR: I personally can't answer that question.

MR REED: It would be more of a market-orientated answer, I would suggest. I guess first-up the opportunity was created there with the Taiwanese issue which gave a window of opportunity, and on that particular point my information only just lately is that Japan has relaxed that protocol as far as Taiwan was concerned, that they allowed them to export to Japan again now. How we can compete with Canada on that particular area - I guess there would have to be some areas within the cutting of the pig, I would suggest. But other than that, I don't know.

PROF SNAPE: We have got a volunteer here in Ian Nielsen. I thought we might.

MR NIELSEN: Yes, the mix of the pig cut is really what gives us an opportunity to compete. I think I mentioned when I spoke, the products that are going from Chisholms, as used as an example, are the upper part of the pig and not the legs, and it's the legs that are causing us grief in Australia. So we can compete with the shoulder and middle component of the pig with the North Americans - and the fact that we are competing at a very low price to the Australian producer. So I am not sure that we would continue to compete if we were receiving the sorts of prices that we feel we need to make a profit.

PROF SNAPE: Thanks.

MR REED: I guess that particular example would follow on to what is happening in Belgium, I understand, at this point in time where the Belgian government have increased their export subsidy to their pork producers as far as product that is exported because of what's changed in the marketplace. Iguess this is the end it's referring to, that as the price might change then that opportunity may deteriorate or whatever. On the export side of things I mentioned earlier that there is also a trans-Tasman agreement which state governments are reluctant to underwrite in this country where there is an acceptance of the meat standard in Australia into other countries. And I'm talking about where we don't necessarily need export-type accredited works.

PROF SNAPE: Yes.

MR REED: If we could just visit back to the feed grain issue at the moment, there is a risk analysis in place on corn to be imported into Australia as feed grain. Now, where that will end up I don't know, but again that is a time process to firm up that internationally competitive feed price.

PROF SNAPE: Yes, as I understand it that would change the nature of your product if you were feeding it corn, and I thought that part of the marketing strategy into Japan was in fact to take advantage of the fact that it was differentiated from the corn-fed product.

MR REED: That is absolutely right as far as the fat colour is concerned, but what it would do would be to put a price mechanism on the feed grain market in Australia. There are industries, the feedlot industry in particular, very keen on corn, but again that would put a different price perspective on that.

PROF SNAPE: While you are just thinking, you asked me a question earlier on which I should attempt to respond. That was on the definition of "serious injury". We have in our issues paper given the definition as it appears in the WTO's agreements on safeguards as being "significant overall impairment of the domestic industry". I agree with the inference that you made that that doesn't take us very far. It is also under the WTO processes greater than "material injury", "material injury" being the criterion used in respect of anti-dumping or countervailing duty cases. So it has to be a higher level of injury than that which would be appropriate for anti-dumping or countervailing.

As to what "material injury" is, the definitions of that are not very satisfactory, and as far as those who have attempted to define it in official circles have got, it is pretty well "injury which is not immaterial". I suppose someone gets paid for that. But it is a difficult question and what criteria can be used in it are in fact the criteria which are relevant which were listed in the issues paper which in turn was drawn from the agreement, and those various points there such as "lower sales and/or reduced market share, reduced profitability" and so on - "lower employment levels" - I think that in the industry trying to establish that there is serious injury, that that list should be used as a short of checklist, and that you should in fact attempt to provide information on those various criteria which are there.

Now, how to add those up at the end of the day and say, "Is there serious injury or not?" is something which similar bodies or similar inquiries around the world have tried to wrestle with, and at the end of the day it's a judgment. I don't think I can do much more than that.

MR CARR: One of the difficulties in that - for example, lower employment, reduced employment - is collecting data rapidly enough. You know, if the reference group included in pig stats may give a skewed picture of fairly simple things to measure like costs of production, how on earth are we going to get the statistics on reduced employment? Ian says that he has reduced his staff, and I could name a number of other businesses that have done exactly the same, but it doesn't appear anywhere in any official statistics, does it?

PROF SNAPE: That may be difficult to do, and at the end of the day one might just have to say that on that there are no satisfactory employment statistics on this. That is unfortunate but these are the criteria and the process which has been agreed under the Uruguay round.

MR CARR: Yes.

PROF SNAPE: Those processes, I might say, were enthusiastically endorsed by Australia to discipline the trade policies of other countries.

MR CARR: Yes.

MR NIELSEN: I am sorry to keep chipping in, but can I make a comment, please? There is a survey being carried out right at this moment by the Pork Council of Australia, and it is being carried out over 500-odd producers by a reputable survey company, and I think that is one of the questions that they are asking - "What are you doing with your staffing levels?" - and that is going to be across 20-odd per cent of the industry. So maybe that data actually might come out of that survey.

MR CARR: And will that be available in time for the submission?

MR NIELSEN: It’s been done. It was done last weekend.

MR CARR: Okay.

PROF SNAPE: It is being done for this inquiry.

MR REED: The commission would - hearing what you’re saying there, if you have the check list and you’re working down through it and you strike a negative, do you then say, "That’s the end of the story," or do you work on a percentage? Do you work on 50 per cent or do you work on 60 per cent or what?

PROF SNAPE: One would not work on - you are trying to bring me to the end of the process whereas we are at the beginning.

MR REED: No, I am not.

PROF SNAPE: There wouldn’t be any hard and fast rules for evaluating those things. On the path going down - I might just go back a bit. On the path as a whole, if one was to say there was no increase in imports, then that would be the end of the process, of our process. If we then get to, "There is no serious injury attributable to those imports," that’s the end of the process, and so on and so on. But as to how one adds up the various criteria under the serious injury, I can’t really say in advance on that one.

MR REED: Commissioner, in the GATT rules, if I can quote - I think it’s GATT 6, is it - it says, "If the commissioner deems that there is irreparable damage" - I am quoting from memory at this point - but while the inquiry is being conducted he can, at his discretion, recommend to the minister that an interim tariff be put in place.

PROF SNAPE: That is not something which is within the terms of reference for this inquiry.

MR REED: That's outside it, okay.

PROF SNAPE: It was something which was available to the government prior to the inquiry being instituted. Anyway perhaps we could talk about that afterwards, if we could. Is there anything else? Robin, are you wishing to- - -

MR CHARTERS: Yes, just the definition of what the commission means under step 3 on page 8. You say they are changing inventories. I would like clarification on that particular word "inventory". Is that stocks held in Australia?

PROF SNAPE: I think you could interpret that as you wish. That was in fact not one of the points that was specifically listed under article 4 of the agreement and it's one I think we added in there, but it's stocks held wherever. I'll leave that to your interpretation.

MR CHARTERS: Thank you.

PROF SNAPE: Is there any more that you wish to add in your own presentation?

MR CHARTERS: No.

MR REED: No, not at this stage.

PROF SNAPE: If we have details of the inquiries as to what we have meant by something - perhaps you could contact the staff by writing or phoning us and we will see what we can do with those. Thank you very much for your participation today, it was very helpful, and we look forward to the written submission. We are then quite likely to be back in touch if there are things which we want to explore further in that. Thank you very much for your participation.

PROF SNAPE: We have a fourth participant today, as I mentioned before. It is Ms Virginia Clarke, who is the ALP candidate for Blair. We are particularly grateful in that she is the only participant so far who has given us a written submission ahead of actually appearing. We got that just before and have read through it and we would like to thank you very much for coming and if you would like to identify yourself on the tape for the benefit of the record.

MS CLARKE: I would like to just enter a caveat before I produce my submission. I am not an economist. This is really a submission based on the broader view of the community in which I live and I would think that it would be a serious mistake for this commission not to take in some of the implications of the broader aspect of the downturn of the pork industry in the wider community, particularly the one in which I live. I make this submission on behalf of and for the communities that make up the new federal electorate of Blair.

The issue of dumping pork products in Australia is likely to have a wide-ranging impact in this region. Pork farming is a significant industry in Blair. Production is at least one-third of the state's output. This is a low estimation and it could be as high as 40 per cent, although I have some trouble finding the statistics. Many farmers in the pork industry were experiencing difficulty early in the year. 10 to 15 per cent have a moratorium on their levies for the Queensland Pork Producers Organisation. It is a certainty they will not be in the industry next year and the probability is that number will be doubled by next February. Of course these figures only cover farmers with over 70 pigs under the aegis of the statutory body.

For Blair this will mean the destruction of a long-standing industry in the area and it will have profound effects. Pork production, according to some recent studies, is the highest income multiplier in agribusiness and, after chicken, the second highest employment multiplier. As with all regional areas, we are dealing with unacceptable levels of unemployment already in Blair. For example, Laidley, a small regional centre but fairly typical of towns in Blair, has over 50 per cent of the town on some form of social welfare benefit. Youth unemployment for 15 to 19-year-olds is 27.4 per cent. The local council has just asked staff to work 2 hours unpaid work each week to help with $1,000,000 worth of unpaid rates. And in February and March there were eight suicides in Laidley.

The DEETYA small area labour market figures show that from March 1997 to March 1998 unemployment rates for Kingaroy have increased from 11.6 per cent to 14.9 per cent in 1 year, and for Nanango 16.4 per cent to 21.2 per cent. The removal of a large sector of local industry in this area will lead to even more disastrous consequences for this community. Certainly under the GATT agreement's article 19 the World Trade Organisation provides for some alleviation of such devastating community outcomes.

Not just pork producers will be affected by the current downturn in the industry; stockfeed suppliers in one instance may go out of business as well. Many of them are acting as ancillary bankers in Blair. Some are carrying weekly debts of $17,000 to

$20,000. These businesses will not be able to do this for much longer and many of them will crash with the farmers. There is a cynical argument that says pig farmers who are going under this year are inefficient and uneconomical, but that isn't true. The process of trimming the industry has been in place for a decade. Over the last 10 years in Queensland, from 87 to 97, the number of establishments with pigs have been reduced from 1822 to 821, a total of 59.4 per cent. ABARE has estimated that over the past 25 years the indicator pig price has fallen by an average of 2 per cent per annum in real terms.

When the issue of dumping caused prices to fall below production costs in February, my local senator received over 80 letters and faxes from farmers in south-east Queensland. Many of those farmers have spent most of the profit of the last decade in capital reinvestment. Many of them own state-of-the-art piggeries. They are not asking for hand-outs but simply for time. The poultry and salmon industries were allowed 12 months to adjust to these changes; why not pork?

Our pork industry is an extremely attractive proposition in international terms because we have no Chernobyl, acid rain or various pork diseases such as PMS. We are clean and green and this has great potential as an expanding export market in the decades to come. However, no industry can compete with the distinct possibility of unlimited volumes of imports from countries with inbuilt subsidies. President Clinton recently made the observation that the world trade agreements were there to increase access to markets, not to impoverish industries in individual countries. I hope the Productivity Commission sees the sense in allowing some aid to an industry, in terms of time, which contributes to much to the economy of south-east Queensland.

I would just like to say that listening to some of the arguments that have been given today I think there is some real urgency in what the final deliberations of the Productivity Commission will be - and I have been travelling in Blair for 6 months now and as I have pointed out it is an area with a considerable amount of pork farmers in it. My basic opinion is that in 6 months a lot of the farmers that I am speaking to, and this is just on a rough headcount base - about 50 per cent of our pork farmers will go in that area. I have spoken to them on a personal basis and said, "How long can you hang out till?" and they're talking about September, October, November, certainly not past the end of the year. So I think, in terms of that area - I am not sure about other states - there is some urgency about what we do for pork producers in regard to imports.

I would also say that there will be devastating social impact in this area on unemployment and this is the major problem, because as you can see from the statistics I have already quoted, there are real difficulties in our regional areas. I think we have got a viable industry there and we just simply need to give it the courtesy of allowing it time to adjust to changing circumstances. Thank you.

PROF SNAPE: Good, thanks very much for that. As I mentioned earlier in the day, there are some constraints on what we can do in this particular inquiry, under the safeguard inquiry, and much of what you described in terms of the general state of the industry, and so on, is perhaps irrelevant for one part of the inquiry but in terms of what we can actually do, in terms of safeguard measures, that is fairly well specified in terms of the criteria that we can take into account. I should have mentioned earlier that the date that is set down for the completion of this is 13 November, which of course was, for such an inquiry, a fairly short period but that's the date on which in fact the inquiry is due to be completed.

At the beginning of the day I said that I would invite people at the end of the day - anyone who has been here today listening who wishes to make a contribution, could they indicate if they wish to do so. We will adjourn the proceedings today and resume the hearings in Sydney tomorrow - at least I will. I will then continue on next Monday in Melbourne. Thank you very much for your participation and we will now adjourn the proceedings.

AT 3.25 PM THE INQUIRY WAS ADJOURNED UNTIL
THURSDAY, 20 AUGUST 1998

INDEX