TRANSCRIPT
OF PROCEEDINGS

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PRODUCTIVITY COMMISSION

INQUIRY INTO PIG AND PIGMEAT INDUSTRIES: SAFEGUARD ACTION AGAINST IMPORTS

PROFESSOR R.H. SNAPE, Presiding Commissioner

TRANSCRIPT OF PROCEEDINGS

AT MELBOURNE ON MONDAY, 24 AUGUST 1998, AT 10 AM

Continued from 20/8/98 in Sydney

PROF SNAPE: Good morning, and welcome to the continuation of the public hearings of the Productivity Commission inquiry into the pig and pigmeat industry. As you all know, this inquiry has two parts. The second part of it, as specified in the terms of reference, is close to a standard Productivity Commission inquiry or, in the past, to Industry Commission inquiries and it relates to 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 safeguards agreement. This is the first time these provisions have been invoked in Australia. Indeed, they have not been invoked many times by 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 safeguards agreement and under the procedures gazetted recently by the Australian government. We might note that, in conducting this inquiry, the Productivity Commission is governed not only by the WTO safeguards agreement and the gazetted procedures, but also by the act establishing the Productivity Commission.

We also need to be conscious, should action be taken against imports 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 the action would facilitate adjustment. What is required is evidence of an objective and quantifiable nature. 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 be in the public interest. Written responses are quite acceptable and indeed are encouraged.

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 which might be summed up as a public interest criterion.

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 the transcription. Should you be unsure of any facts or find that any information that you give us today on subsequent reflection needs to be changed, we would ask you to get in touch with members of the staff. The transcript will also be placed on the commission’s website and we hope that that will be available in 2 or 3 days. If interested parties other than those whose statements are being recorded wish to obtain hard copy transcripts, they should get in touch with our staff. A number of members of the staff are present.

When we have concluded the presentations of today of those who have indicated they wish to speak, I shall invite any other parties present to speak if they should wish to do so. Because of the short timetables for this inquiry, these public hearings are being held very early in the process and few written submissions have yet been received. Today we don’t have a written submission from in fact the first participants today, which is of course no fault of them but a product of the very short timetable that we have. We hope that you will be able to follow up on your oral presentation today with a written submission.

First up today we have representatives of Bunge Meat Industries and we would ask you, if you wouldn’t mind, to identify yourselves separately so that we have the voices on the tapes - and I’m not sure who is going to open up the proceedings - then if you would like to do so. Thank you.

MR SMITH: Thank you, commissioner. Introducing myself, I’m Nigel Smith. I’m the general manager of sales and processing for the Bunge Meat Industries group.

MR CAMPBELL: I’m Roger Campbell and I’m general manager of technical services for Bunge Meat Industries.

PROF SNAPE: Thanks very much.

MR McGILLIVRAY: Alex McGillivray, national export sales manager.

PROF SNAPE: Would you like to - - -

MR SMITH: He is going to operate the slides.

PROF SNAPE: Thank you very much. Nigel, you are going to - - -

MR SMITH: Thank you, commissioner. Today’s presentation is a shortened version of our planned formal submission which we will be making to you in Corowa on 28 September. The reason for this is that filtered throughout our entire submission is significant quantities of commercial in-confidence information and, rather than have to do two separate submissions, we prefer to do it this way and talk to you about the commercial-in-confidence information at the visit to Corowa.

PROF SNAPE: You will be giving us a written submission then?

MR SMITH: I will be giving you a written submission probably a fortnight before you visit Corowa, so you have got at least 2 weeks to digest it.

PROF SNAPE: Good. I gather we are visiting on 28 September?

MR SMITH: Yes, the Monday after the AFL Grand Final.

PROF SNAPE: Okay, noted.

MR SMITH: So just commencing, to introduce the Bunge Meat Industries group to the audience and to the commissioner, Bunge Meat Industries is a vertically-integrated intensive pig producer with stockfeed milling, slaughtering, boning, distribution, wholesaling and manufacturing operations. We established our operations in 1971 near Albury as a means of more efficiently utilising the natural by-products of our flour milling operations. Our company, with 52,000 sows, represents 17 per cent of the national sow herd and is by far the largest pig producer in Australia. The company produces approximately 920,000 pigs per annum, which represents 19 per cent of the total pigmeat produced in Australia. Given BMI holds 17 per cent of the sow herd, this production clearly represents an efficiency over the balance of the industry.

Bunge Meat Industries is a clear leader in the industry's export drive. If Alex would like to put the first overhead up, a brief history from 1996 through to current, we will see in 1996 our export volume, a value of 5.3 million; 97, an actual figure of 10.3 million; and our estimate for 1998 will be 15.6 million, and at this stage we are well on track to make that result. The forecasting for the year 1999 is of 18.4 million and then a significant lift in the year 2000 to 33.5 million.

PROF SNAPE: I notice that has "commercial-in-confidence" on it. I presume it's not.

MR SMITH: No, that one is not. No, we are quite proud of this fact, so we're quite happy for the public arena to see our drive in the export arena. Our company is one of the few operators in the world capable of shipping fresh product, chilled, by sea to the Asian markets. We have an outstanding slaughter boning facility at Corowa with a hygiene status second to none in the world. Our production facilities exceed industry standards with new technology undertaken regularly. Our on-site abattoir at Corowa is the largest single-species pork plant in Australia, slaughtering something like 450,000 pigs per annum. That is a very brief overview and certainly when you come to Corowa we will give you a much more detailed overview in terms of the growth of the company over the past 25 to 30 years.

Moving on to the submission proper and going through the issues format with us, look at the history of imports. In July 1990, imports from Canada were allowed into Australia in frozen form, uncooked. From mid-July 1991 through to mid-July 1996, imports remained fairly steady and manageable between 3 to 4 thousand metric tonnes per annum. Alex, if you could put that chart up please. So you can clearly see from July 1991 to July 1996 imports really remained fairly steady. From July 1996, imports increased rapidly, more than doubling to peak at slightly over 11,000 metric tonnes in 1997. There is no doubt that imports have increased in both absolute and proportional terms.

Current trends do not indicate any significant easing from this new import plateau. In fact the most recent 2 months of imports - that is May and June 1998 -

were both up on the 1997 levels, particularly June at 1034 metric tonne versus 776 tonne in June of 1997, an increase of 33 per cent.

PROF SNAPE: Could I just ask a question there. Was that boom in June due to any lag effect due to the dock troubles in the earlier months?

MR SMITH: I would suspect not, no. I don't have categoric evidence of that but I suspect not. The figure for July, whilst it's not in the public domain, I know is very, very similar to July of last year. That's the concern as well. It's not in the public domain at this stage, so I can't give it to you accurately, but I do know it's very similar to - I mean, June certainly I think was a 5-week month as well and there may well have been an overlap into July. But there was a concern that, if you combined the June-July figure versus June-July of 1997, it's an increase of something like 15 to 20 per cent.

PROF SNAPE: Thank you.

MR SMITH: This raises a grave concern that imports were essentially boneless legs from Canada which will now compete very heavily with the Australian Christmas leg ham market as it gathers momentum during the second half of the year and, if not restrained, imports will again surge to new high plateaux, most probably in a similar short period to the recent import surge of 1997.

Just to analyse the imports, it's important to analyse what the imports are. The crude impact of the imports at 11,000 tonnes represents something like 3.22 per cent, if you compare it to the pig production in Australia. However, you're really comparing applies with passionfruit, and that's really the comparison I like to make - that you are not comparing apples with apples. To get the comparison correct, it is fairly detailed and we are quite happy to take the commission through that when it comes to Corowa. In terms of going through the understanding of the conversion rates to get the imports into a carcass equivalent, to talk about that they're primarily legs, so they're really competing at that primal part of the pig.

On that analysis you can see that imports now represent - certainly during the period of 1997 - something like, a tick a little bit under 30per cent of legs for leg ham production in this country. The concern now is what the volume lent is during the second half of this year. With June actual it's something like 33per cent higher than June 97. The industry has a real need for concern.

I'd just like to point out that the leg primal in Australia is the premium primal and as such is most demanded, particularly in the second half of the year as processors gear up for the premium Christmas ham trade and summer cold meat salad season. As a consequence imports being put onto legs has had a larger impact on the price as the demand fell for pigs as imports escalated during 1997. To show you how that's effective we might just put up that chart on the ham production, the ham utilisation, where we can see that the build-up certainly takes place in the second half of the year for this massive Christmas surge. You can see how the monthly sales split for ham throughout the year wanders somewhere between 5 and 8 per cent and then at Christmas time it surges to nearly 30 per cent. I think most of us can relate to that, that ham is festive season product and it certainly is a summer salad season item as well.

PROF SNAPE: Over what years is that?

MR SMITH: It's over an average of approximately 3 years. The APC provided us with that information last week - that's the Australian Pork Corporation. So the major impact of imports, particularly since mid-97, has been on reducing the price of pigs domestically across the board. Furthermore, domestic leg prices have also been negatively affected with the onset of significant quantities of imports. But the main effect has been on pig carcass price and it's clear there is a trigger point above 10 per cent of Canadian imports. There's a percentage of leg ham production that causes the domestic pig price to fall.

You can see there the line is the pig price and the bars is the imports coming in. So you can see clearly the imports representing somewhere between 5 and 10 per cent. The pig price performed at its usual, normal annual movements. As imports increased above 10 per cent - so there's a trigger point somewhere between 10 and 30 per cent that sees pig price plummet. You will see pig price plummeting even further. It's critical to repeat that the driver of pig prices from June, July through to November and the biggest factor affecting average pig prices is the processors seeking legs for their Christmas ham and summer production - again referring to that previous chart - because there's a real surge and a real demand for legs in the second half of the year. Importantly, the level of imports, which is predominantly legs, not only affects domestic leg prices but is the major effect on the overall pig carcass price.

These imports have escalated as premium primal has replaced the requirement for shoulder meat to produce alternative ham products. I refer to products such as the four by four square sandwich ham. A number of these products are now not seen on the market as they have been replaced by this premium leg ham product. This has subsequently caused an excess of shoulder meat and consequently devalued it, which further places pressure on the overall pig carcass price. In 1997, for the first time in 25 years, the industry saw declining pig prices during the July-December period. There is no doubt that this escalation of imports during 1997 and in particular the second half of 1997 caused this decline. This is the commercial reality. Whilst it's a little bit difficult to see on that, the important one is the 1997 figure. You'll see that the pig price in the 1997 figure in the second half of the year starts the trend downwards.

We can go back for the last 25 years and you'll never ever see that happen. This decline in price during the second half of 97 resulted in an opening price for 1998 not seen at this level in the past 10 to 15 years. The prices subsequently followed previous historical trends in falling for the first 4 months, although the price has fallen further in 1998 and is certainly at a level not seen for some 15 to 20 years or some 50 cents a kilogram below cost of production. This is clearly serious financial damage. Based on our production at 920,000 pigs per annum at an average carcass weight lot standard of 70 kilograms, a lot of 50 cents a kilogram equates to $35 per pig loss or 32.2 million on an annualised basis. Again that is serious financial, unsustainable damage.

The commercial reality for this increase and fall of pig prices during the first half of 1998 was a carryover of legs from the Christmas season which is out of character for the industry and is due to the excessive imports in the second half of 1997. As such, the processing sector was keen to absorb this carryover and consequently the pressure or demand for purchasing carcass pigs fell. Whilst the current prices during July and August are increasing, this really had to happen. Prices at 50 cents below cost of production would clearly be unsustainable and, should imports continue at June levels, prices will start to peak very rapidly and we could be in for a repeat of the 1997 second half of the year, which is of grave concern. At this stage, whilst there's anecdotal evidence of producers leaving the industry, we at this point do not have confirmed information.

Should there be a massive exit then pig prices will probably continue to rise significantly. But for the long term this does not help this industry in becoming a strong industry domestically with a strong export focus. BMI has been a clear industry leader in terms of investment, productivity, efficiency with an export focus. The following profit table shows BMI's historical profit. Now, I've actually taken the quantums off this chart and, whilst there are variations from year to year, 1998 will see for the first time BMI's history in making a loss. Furthermore, the forecast loss for 1988 is devastating. This is clearly out of balance with the usual fluctuations within the industry and within our business and again clearly demonstrates serious financial damage.

Just turning to the outlook, with the recent relaxation of cooked product being allowed into Australia from both Canada and Denmark, the outlook for pig farming is not good. We as a company forecast the price for 1999 at a level around $1.90 a kilogram. This would certainly be below cost of production for many pig farmers in this country. The outcome for this price will certainly be affected by the level of imports that we see coming in the second half of 1998. With the outbreak of foot and mouth in Taiwan in 1997, the opportunity for expansion of exports into Japan has risen. Our company and certainly another company have captured a small share of this market with an excellent potential to grow. However, it would be vital for this country to have a critical mass of production to service this important Japanese market. Up until recent times a sow herd of 300,000 sows, all production around 340,000 metric tonne, carcass weight equivalent, was servicing the domestic market together with small export orders.

A massive fallout of producers will put Australia's ability to be a long-term exporter at risk, which would be devastating given this terrific and fantastic window of opportunity that now exists in Japan. I think to refer to your opening comment, commissioner, we need to demonstrate whether the industry looks like hurting. I think clearly the industry is in a period of absolute hurt right now and has gone through and is certainly going to continue going through it.

To look at some other matters that arise in this industry and what some other outside analysts are referring to. There have been some suggestions that the industry is not restructured. In the continual drive for efficiency over the years, the industry has undergone massive rationalisation. From the mid-1970s the industry has reduced from 40,000 producers to the current 3337 while sow numbers have remained static. The industry has got smart, it's organised itself, has not relied on government support or regulation and is not subsidised. The industry has clearly restructured and will continue to restructure. Moving on to market share, the industry over the past 25 years has increased its share of the Australian meat consumption from 10 to approximately 17 to 19 kilos per person.

The recent drop in share was a result of a drought in 1994 causing extremely high feed prices during 1995 and we saw an exit of 1000 producers during that year or roughly 30,000 sows vacate the industry. Recent slaughtering levels indicate the consumption will return to the 19 kilogram level as sow numbers increase, providing there's not a massive fallout as a result of current prices. Clearly the pork and chicken industry have been the shining lights of the Australian meat industry over a 25-year period capturing market share over the red meats through excellent industry rationalisation, through driving quality, through innovative marketing and through campaigns with a focus on health. The industry has been helping itself and managing its own future with a clear focus on competitiveness.

Looking at production and productivity, production has increased from approximately 230,000 metric tonnes in the early 1980s to approximately 330 to 340 thousand metric tonnes in the late 1990s with a similar sow herd that's around 300,000 sows. That clearly exemplifies the massive productivity gain this industry has achieved. Furthermore, this chart clearly demonstrates the industry is not over-producing, as some analysts have suggested. You can see from that chart that we've certainly been at these production levels before. So we're not entering new uncharted waters in terms of production and productivity levels. In terms of productivity we're certainly achieving world's best practice.

Looking at other factors, the exchange rate. There have been some suggestions and public speculation that the industry has had a de facto subsidy. We often hear this from politicians and bureaucrats due to the exchange rate decline of the Australian dollar against the Canadian dollar, that is, the cost of the Canadian legs should have risen to the Australian importers. This chart clearly demonstrates this is not the case and in fact the price in recent months has declined. The same product is coming in, the exchange rate certainly has gone down but the price also has followed that down. So there is no commercial evidence to suggest that the recent exchange rate movements have altered the commercial reality that the surge of Canadian bonus leg imports returned to the levels of pre-1996, based on currency exchange rates.

PROF SNAPE: Could I just pause on that one for a moment?

MR SMITH: Sure.

PROF SNAPE: I've got a number of other things that I'll come back to later. What's been happening to the prices of pig meat in Canada?

MR SMITH: Certainly in Canada during 1997 they dipped and they certainly fell to significantly low levels. I think in more recent times during 1998 they have increased and I think in more recent levels they have been stabilising.

PROF SNAPE: You see, what one immediately goes to in this, they're asked, "Why has the price of imports continued to go down?" despite the undeniable fact that the exchange rate has moved in the way it has and the first thing one asks is, "What's happened to the price in Canada?"

MR SMITH: Yes, it certainly fell. There's no doubt about that.

PROF SNAPE: The point there is that if the exchange rate hadn't gone down what would be the situation.

MR SMITH: It would have been more devastating.

PROF SNAPE: Exactly. So there has been an exchange rate effect insofar it has meant things haven't been worse than they are.

MR SMITH: That's a very good point to make. In fact what I was trying to challenge was, there were people out there suggesting that we've been given a de facto subsidy, and you're absolutely correct. Having not had this exchange rate buffer it may well have even been worse, yes.

PROF SNAPE: I don't suppose you know what the contracts are in terms of imports as to what currency they have been denominated.

MR SMITH: No, we don't get that information. We're also unaware of what contracts have been written as well. In fact, to get information is very, very difficult. In fact it's impossible to get. We as a company and certainly as an industry have been trying to get information on the forward orders. The only time you receive the information is approximately 5 weeks after the imports have arrived in the country. So if we're looking at the July imports, we're now starting to get very close to being able to get the July imports of 1998.

PROF SNAPE: Thank you.

MR SMITH: Again, going through the issues paper, the safeguard measures that our company believes need to be put in place, we argue that the imports have had an adverse impact on our company and clearly we've demonstrated that today with profitability at devastating levels and unsustaining levels and we're suggesting that the very low prices during 1997-98 have caused this problem. As a consequence of this the profitability has fallen to unsustainable levels. Our recommendation is the imposition of a temporary tariff quota for 4 years on pigmeat set at 4000 metric tonne per annum; volumes in excess of this 4000 metric tonne to have a duty set at $2 per kilogram.

PROF SNAPE: Have you given any thought as to how such a tariff quota could be implemented. There's obviously a great incentive to get the first 4000 tonnes because it would come out in zero tariff. Who gets them?

MR SMITH: Yes, that's a good question.

PROF SNAPE: I don't think any advocacy of a tariff quota can really be put forward without some consideration of how it was to be implemented who were to be the very lucky importers who have got those first 4000 tonnes.

MR SMITH: Maybe it could well be spread across the year. The fact that demand for the import of product is certainly the second half of the year, that you could actually put - maybe you'd put quotas on on a monthly basis and once you exceed the monthly quota you then - - -

PROF SNAPE: You've still just driven the point to a monthly one. Who gets the first 3 and a half thousand - or whatever it is - tonnes per month?

MR CAMPBELL: You would set it on the basis of what they had imported for the last 2 years, proportionately.

PROF SNAPE: There is going to be some benefit for someone in there because what you're going to be doing is shoving the price up above the import by 2 kilograms. Who is going to get that 2 kilograms?

MR SMITH: Yes, definitely that needs to be analysed.

PROF SNAPE: $2 per kilogram, I mean.

MR SMITH: Yes.

PROF SNAPE: I think that one can't really advocate a tariff quota until one considers how that is going to operate so that it doesn't give, if you like, at best, windfall gains to someone or, at worst, lead to corruption.

MR SMITH: I'm quite sure this could be determined. My understanding is that other countries do have quotas and there's obviously systems in place at work.

PROF SNAPE: And other countries have, at best, windfall gains and, at worst, corruption, as we know and as we've been told.

MR SMITH: I'm unaware of that evidence but I'm quite sure that we could determine a method where those two factors could be eliminated. Just on a commentary of this, it is apparent to BMI that the industry could manage the levels of imports up to the mid-1996 levels, that is around the 3 to 4 thousand metric tonnes per annum which equates to approximately 7 to 10 per cent of legs used for leg ham production. This 4-year temporary tariff quota would allow sufficient time for our company to expand our existing slaughter capacity but more importantly will allow us to expand our bone operation from which exports to Japan will originate. Our plan is by the year 2002 to have up to 25 to 30 per cent of our production going export, up from our current 10 per cent.

If returns continue at this current low level which we argue is due primarily to the recent high increase in imports, then this expansion will not occur. It will allow us time to rationalise our production facilities, the new housing systems that we're currently undertaking. Furthermore, operators with expansion plans, namely the Auspork groups, the Danpork, the Darling Downs bacon operations, Hurstbridge and Westons, may also place their plans on hold. In addition, it will provide time for our company to develop domestically in areas such as the ready retail packs which is something the supermarkets are planning to introduce, especially to pork outlets, fast food and further penetration into food service areas.

Just in terms of, as you said in your opening discussion, the factors affecting profitability and competitiveness, we have a lot of private and confidential material in that area and certainly we will be delivering all that information to you when you arrive back to Corowa on 28 September. So just in repeating and summarising, our company is not about being a protectionist company and we've had a history of exports. Imports have escalated rapidly from mid-96 through to the end of 1997 to represent nearly 30 per cent of pig leg meat for leg ham production from the base of approximately 5 to 10 per cent from mid-91 to mid-96. This escalation in imports has caused pig prices to turn the trend downwards for the first time in 25 years during the second half of 97. The opening price for 98 was therefore at its lowest level for 10 years and furthermore, as a consequence of the huge increase in imports during the second half of 97, saw our company into 1998 at its lowest level in price for many, many years and with significant leg stocks on hand.

As a consequence, our prices fell more than the typical downward trend in the first half of 1998 as manufacturing had minimal demand for leg meat resulting in a rapid decline in pig price. The forecast price for 1998 will be at levels not seen since the mid-1980s. The resultant profit for our company was and is at devastating levels and out of proportion with the normal rural cyclical profit nature. The quantum of the loss is catastrophic and totally unsustainable. All other factors that affect pig prices were within the normal rural industry bounds. The outlook is of grave concern, given that June 1998 is up 33 per cent from June 1997. This increase could well mean imports will reach new record levels during the second half of 1998. In addition, the recent allowing of imported cooked product from both Canada and Denmark can only worsen this outlook. Going over it again, BMI recommends a temporary tariff quota and a safeguard action of $2 in excess of the 4000 metric tonne. This will allow us to adjust our export capability, our production facilities and our domestic capabilities.

I'd just like to conclude on one other chart. Certainly there's been analysts referring to information that comes from government and from government offices and I refer to ABARE in this instance. I would just like to put up a chart of ABARE forecasts of pig price. This information comes out of the ABARE commodities quarterly volumes. In June 1997 for their forecast for the year 97-98 they forecast a pig price of $2.43 a kilogram. They revised that in September 97, so there's 3 months under their belt, for a figure of $2.47. Come December they revised that downwards to $2.30 a kilogram and in March 1988 they revised it down a little tad by 3 cents to $2.27. If we'd achieved any of those figures or I'd suggest 20 cents below any of those figures, we would not be sitting around this table having this discussion right now.

It is of great concern that these operations that are run by government do not talk to industry. Interestingly, our company owns 20 per cent of the national herd. We have yet to have a phone call from ABARE as to what our thoughts might be on the outlook. I wonder if they talk to the poultry industry, whether they talk to Messrs Jack and Bob Ingham or Mr Steggles about the poultry industry. I believe it's an indictment on ABARE. They give out false information. I'm quite sure many small pig producers may well have taken some expansion plans based on these forecasts and I think they have a lot to answer for and I just wish to goodness that these operations would talk more to industry rather than being locked up in their little wooden cabinets. I thank you, commissioner, for the opportunity to give this presentation.

PROF SNAPE: Thank you very much. Roger, do you wish to - - -

MR CAMPBELL: No, I don't want to add any more just to that specific question.

PROF SNAPE: Thanks very much for that. That was a very interesting presentation and a lot of very useful information and obviously there's a lot more to come and we look forward to that. I wonder, do you recall what your own predictions were at those times that you just had up on those charts?

MR SMITH: Certainly a lot less than that. There's no doubt about that. We forecast a price - or initially put a budget figure in for the calendar year of 1998 and that was - we do our budgets in August of the previous year - August, September. I must admit we get a little bit frustrated with our company having to forecast most of the prices at that time. But at that time we forecast a price for the year 1998 of $2.10 and after 3 months we did an adjustment to the basic plan to revise that down into the $1.90s very quickly. So if ABARE had spoken to us, we would have certainly been forecasting figures down, clearly 30 and 40 cents below what they're suggesting. I might add - again anybody on this table can do the sums - the sensitivity in our organisation, a 1 cent drop in pig price equates to $700,000 to the bottom line. When you look at ABARE's predictions of being something like 40 cents a kilogram out, the numbers are just telephone numbers.

PROF SNAPE: Do you get back in touch with ABARE, instead of waiting for them to contact you?

MR SMITH: We would have thought that ABARE would be - I mean, they’re the ones that do these quarterly revisions. In fact I’m on the board of the Australian Pork Corporation as well and we talk to ABARE about when they discuss and disclose slaughterings in Australia. Our Australian Pork Corporation has advised ABARE that their information is incorrect. Australian Pork Corporation receive the levies from every pig producer in Australia so it’s very easy to divide the total levies produced in Australia to determine the slaughterings and ABARE consistently come below us. They’re obviously not surveying every slaughter plant in Australia and they have yet to take up the Australian Pork Corporation’s figures for publication.

PROF SNAPE: Bunge is in a unique position, as I understand, in that you produce grain - as a company you produce the grain. In fact quite a lot of - - -

MR SMITH: Not really. I mean, whilst we have a couple of very large properties, the grain we produce off those farms is very small. In fact it may equate to 1 or 2 or - - -

MR CAMPBELL: It would be less than about 1 and a half per cent, the grain we use in production.

MR SMITH: But obviously from our feed mills point of view, we are huge grain buyers, no doubt about that.

PROF SNAPE: You mentioned I think that Bunge started in 1971 to use the by-products from your milling process but that’s no longer a major source of - - -

MR SMITH: Yes, it is. In fact the company has been in Australia for some 60 or nearly 70 years now, early days as a grain trader and then very quickly converting the items they were trading into milling and they then had set up flour mills across Australia. As a consequence of that, in producing flour you then produce the by-products - the bran, the pulp or the offals as we refer to them which then go into stockfeed mills for then mixing into stockfeed diets - and then if you look at the two most "using" industries of those stockfeed products, the poultry industry and the pig industry, and more recently the dairy industry is a large user of prepared feeds from feed mills, as a consequence of that, the company decided to, rather than be selling it, convert through an animal and produce some protein.

PROF SNAPE: What proportion of your feed then is coming from - all protein supplements or whatever is coming from your internal - what proportion is coming from internal operations?

MR CAMPBELL: About 15 per cent of the grains and the ingredients we use would come from the flour mills in the form of pollard or bran.

PROF SNAPE: So you're buying in the other 85per cent?

MR CAMPBELL: Yes, and we use about, what, 250,000 tonne of grain or feed ingredients a year in Australia.

PROF SNAPE: Going right through it, you then grow the pigs; you slaughter about half of your own, I think you said. I think you've got 920,000 and you slaughter 430,000.

MR SMITH: In that order, that's correct. The other half are slaughtered at third-party slaughter plants.

PROF SNAPE: Close to Corowa?

MR SMITH: One is in Melbourne. In fact, all the other slaughter plants are in Melbourne. There's one other plant that slaughters in the order of 90per cent of the balance of our production.

PROF SNAPE: I thought generally that pigs didn't like to travel for more than a couple of hours.

MR SMITH: Yes, that's correct. The travelling from our operations - obviously our operation at Corowa slaughters all of our Corowa pigs and our other operations are located at Bendigo, St Arnaud, Seville and Trafalgar.

PROF SNAPE: So these other pigs aren't all at Corowa?

MR SMITH: No, we have approximately eight growing sites.

PROF SNAPE: Okay. With that you're slaughtering about half of your own and then you've got the processor; you're a big processor as well in the company structure through to Don?

MR SMITH: Through Don Smallgoods. Don Smallgoods represents approximately 9 per cent of our total production, of take. All the pigs that we slaughter in Melbourne, other external plants apart from a couple of smaller ones, we actually use that as a service kill. We slaughter and we're selling carcasses. In Australia you don't sell live pigs. The animals go to the slaughter works and normally the first change of ownership would be at the scale, where the animal has been slaughtered and eviscerated. Certainly in our company we actually take it a number of steps further down the chain than that.

PROF SNAPE: That actually could be quite important. One of the things we have to do is define the industry. Bunge of course are producing right through to Don Smallgoods and it's an integrated thing right through. But in looking at what is a like or directly competitive product, which is what we have to do as the first step in our series of questions, we have to ask - - -

MR SMITH: I would see that as pigmeat. As far as we're concerned the leg is pigmeat. There is no doubt in our mind - the commercial reality is we know what drives pig prices in the second half of the year. It is processors gearing up and demanding the pig in order to obtain their legs for that Christmas ham production. There's a fierce demand out there for that.

PROF SNAPE: You're absorbing about 9 per cent of your production into Don's?

MR SMITH: Of our production into Don's, yes, and the other 90 per cent go out - we have a wholesaling operation in Melbourne where we actually wholesale to retailers - supermarkets, corner store butcher shops. That operation takes another approximate 9 per cent. We have our boning room and operation and Corowa, which consumes approximately 15 per cent, where we actually bone the animal down to its primals, subprimals, and that's where our export capability comes from and that's where also we sell the primals and subprimals and the balance of pigmeat to other operators, be it the supermarkets in the fresh area or processors in the manufacturing area. The balance of the carcasses are then sold to other manufacturers. In fact, we sell to direct competitors of Don Smallgoods, for argument's sake; we sell to other wholesalers around the country as well and to the retailers direct.

PROF SNAPE: We heard comment from other sources that the retail price has not changed very much. The price of pigs has plummeted, as you've indicated, so who's doing well?

MR SMITH: The supermarkets - there certainly has been some evidence of that. More recently in the last 3 to 4 months there's been very active promotion, there's been very active specialising of fresh product - this is fresh pork - in the supermarkets, at certainly significantly lower prices. Certainly their mainstream products such as the butterfly steaks, leg steaks, leg cutlets by and large have not changed considerably. However, they will also argue that when pig prices are very high they don't change that either. They take the swings and the roundabouts, to use their terminology. So when pig prices may well be high, for argument's sake in 1996 where pig farmers in Australia - there was a reasonably good level of pig price - the retail selling price has not altered that greatly from that point, so they will argue that during periods of high price they will not alter their prices upwards.

PROF SNAPE: So they've been absorbing the risk and their argument then would be they're absorbing the risk in the swings and the roundabouts, so at the moment it should be a pretty good time for processors, including Don Smallgoods?

MR SMITH: It depends on what the other processors do. It's probably not a very well organised industry. There's a dog-eat-dog attitude out there from time to time and often margins tend to go out the window, but in terms of an overall comment I would argue yes, the processors are probably experiencing a reasonable time at this stage. But I wouldn't suggest it's a licence to print money or anything like that.

Just getting back to your previous point also in terms of the retail prices, we would not see that as an effect or cause of pig prices plummeting or not getting the full through effect at all. We don't see that as a cause of the state of the industry at this stage at all.

PROF SNAPE: No, but if, as we say, the pig prices have plummeted - and no doubt about that - and the retail prices aren't changing significantly in the same proportion, someone's doing well, and we haven't really heard that confession yet.

MR SMITH: Not in the retail business.

PROF SNAPE: You suspect it's the retailers?

MR SMITH: During those times they have to. But certainly in the last 3 or 4 months there has been very active specialising in the fresh line. There's no doubt about that at all. It's very difficult to get that information. The scan data in the meat side at this stage is not available to industry. There is some selective price recording at the supermarket level.

PROF SNAPE: You mentioned before that perhaps the processors, perhaps the retailers, are taking the swings and the roundabouts and you also said that there were two good years after the drought for the pig growers.

MR SMITH: I wouldn't suggest two good years. If you look at our profit chart, 1996 was certainly one of our better years in more recent times.

PROF SNAPE: But certainly the herds went down and the prices went up as a consequence of the drought.

MR SMITH: Yes.

PROF SNAPE: So that swing up was not good enough to absorb the current swing down?

MR SMITH: No, certainly not. I mean, the concern is - if you could just find that profit chart, Alex - - -

PROF SNAPE: This is profits for what part of the business? Does this include the processing?

MR SMITH: No, this is our - all bar the processing segment.

PROF SNAPE: So this basically goes up to when the ownership changes, if the ownership is changing?

MR SMITH: Yes, that’s correct.

PROF SNAPE: And a similar adjustment for the company’s internal transactions?

MR SMITH: Yes.

PROF SNAPE: So it’s on the scales basically?

MR SMITH: Yes. They’re just not within normal annual movements at all, totally out of kilter, and what you see from 1990 through to 1997 is pretty classic typical rural-type profitability going up and down.

PROF SNAPE: How does the price of imports of legs compare with domestically? Are they equivalent products?

MR SMITH: Yes, they are. In terms of comparing leg for leg they are equivalent products. What’s happened, of course, in order for the domestic wholesalers and the people who are supplying legs in Australia, they’ve had to compete with the Canadian legs.

PROF SNAPE: So if the price of the imports is $4 a kilogram- - -

MR SMITH: $4 a kilogram. That’s what they call the C105, which essentially - Alex, you might just elaborate on that. The C105 is a leg that’s denuded to approximately 16 millimetre of fat, star flat out, opened up in one piece.

PROF SNAPE: So the domestic product would sell for exactly the same as the imported product?

MR McGILLIVRAY: Yes, it does. It has to be competitive with the imported product and that’s certainly the way it’s used, if you like, against us.

PROF SNAPE: So there’s no difference in quality or what have you?

MR McGILLIVRAY: No. In fact, one of the comments I suppose that we got a lot of in the second half of last year when we were offering legs out is, "Well, we are being filled up from Canada. You are just going to have to match those prices." That’s what really then drove that pig price down, because you had to match it, and external boning rooms, wholesalers, had to buy their pigs at a much cheaper rate in order to compete at those prices. So they were taking the legs off those pigs and then selling them to processors at that Canadian type level.

PROF SNAPE: Recently the prices of pigs has increased somewhat. Do you see this as continuing?

MR McGILLIVRAY: That's a very good question and it's something that we look at in our crystal ball, and at this stage it's very cloudy, very hazy. I mean, as I said in my presentation, the price that it was at was totally unsustainable and it had to move, and certainly we're now coming into the second half of the year, as pig prices under traditional circumstances would normally trend upwards, and they have certainly trended upwards, as they did last year, for June and July, and from there onwards, basically from August, September, they then started to trend downwards, which was something that we hadn't seen. At this stage it's difficult to determine what pig prices are going to do, and it will be totally dependent on the volume of imports coming in. That's what will determine the balance of pig price for this year, the level of imports. This is one of the difficulties we have, as I said before. We don't know what's being ordered. You cannot get that information. You only know what's come in 5 to 6 weeks after each month.

PROF SNAPE: It's been suggested that perhaps the Australian industry is integrating into the world industry and, as you indicated, you intend to increase your exports very substantially.

MR SMITH: Yes.

PROF SNAPE: And that part of that integration would be an evening-out of the price over the year, that the historical pattern is perhaps not going to occur in the future: Australian demand is essentially biased towards legs as compared with the rest of the world's demands and so in a sense there's an excess demand for legs in Australia. The rest of the world markets therefore are biased towards shoulders and middles as compared with legs and so Australia might be seen in a natural position to be importing legs and to be exporting shoulders and middles and that that might be the integration into the market; so that in the future you would expect the imported legs to be chopping off the price surge that comes in the latter part of the year but you might be in fact getting a better price for shoulders and middles over the whole of the year so that you in fact get an even price over the whole of the year reflecting much more the pattern in the rest of the world. Is that how you would see things?

MR SMITH: The difficulty with that is what the rest of the world is prepared to sell the other parts of the pig at in terms of the loin, the belly and the shoulder meat. One of the problems that we as a company have had since participating in the export arena from 1986 and certainly for the first 7 or 8 years of our export drive - it was very difficult to be exporting out there. We were competing particularly against countries like Denmark, who have had a long history of being heavily subsidised, and certainly the Canadians in the late eighties and certainly the early nineties had national tripartite stabilisation schemes, which I now know have been dismantled. But certainly back in the eighties and early nineties we were competing out there against those countries and very, very difficult indeed. Certainly export we don't see necessarily as our panacea. We see it as a necessity for our country and for our industry in the future to be able to participate out there.

But in terms of suggesting that there's a premium for shoulder meat and middle meat out there, it's difficult to forecast at this stage. Certainly our exports have in more recent times provided an improvement over the domestic price - and goodness me, so it should have, at the levels that they were. I mean, even exports would have been totally unsustainable. We're one of the few companies - given our size, given our corporate nature, we were able to participate and dabble, I suppose, in the export arena for many, many years and certainly that activity that we had held us in very, very good stead when Taiwan contracted foot and mouth disease and we were able to really gear up very quickly with a quality product with a country like Japan that really needs to know and understand a company before you're going to do any volume with them.

PROF SNAPE: I suppose there have been a couple of fortunate events for the world for Australia and one has been the foot and mouth in Taiwan and the other is classic swine fever in Europe, which have presumably helped us to get into the Japanese market in particular. Will we still be able to compete when the foot and mouth has gone from Taiwan and the classic swine fever has subdued in Europe?

MR McGILLIVRAY: It's a very hard question to answer because we're not sure that - I mean, production levels in other countries, particularly the United States, greatly affect the price the pigmeat is sold in places like Japan. So while there has been a window of opportunity to initiate exports because of those reasons, it certainly has made the major markets of the world, like Japan and Russia, look around a little bit further and see who else is able to supply pigmeat, and that has helped us open some doors. Whether it remains - I'm sure it will remain extremely competitive because of, you know, the other countries that are involved. Particularly the United States has tended to take very much the position of Taiwan in terms of volume into those markets, so not a lot from that point of view has changed. There was a big expectation that prices in Japan would rise dramatically after the Taiwanese problem and they did for a month or two, but they have subsequently dropped well back.

MR SMITH: But in general we see it as an opportunity long term and I think it's an opportunity this country can take on board. We believe there are significant markets out there. If we look at what Japan imports, Japan imports something like 770,000-odd tonnes of carcass weight equivalent, which is more than double Australia's production. So we would certainly see some positive opportunities in that country. In actual fact, our operation at the moment, the exports that Alex has been able to develop - we now have branded Bunge pork on the shelves of the supermarkets in Japan. So that's an interesting exercise and we're very pleased that we've been able to achieve that, and it's certainly something that we believe other operators in this country can do and achieve. Certainly Japan sees Australia in good light in terms of its meat products, so we believe that there is a good opportunity out there for this industry. But this industry has got to be able to survive this current crisis and we need assistance in order to survive it so we can take on board this terrific window of opportunity.

PROF SNAPE: How is it that Australia can compete with Canada and Japan but is having a lot of trouble doing so in Australia?

MR SMITH: In terms of the Japanese pig farmer, you have - - -

PROF SNAPE: No, to compete with Canada in the Japanese market but is having trouble competing with Canada in the Australian market.

MR CAMPBELL: I guess it's the mix of products you're competing against and what drives price, and the other factors which we've found in Australia in Japan is - certainly our company - the quality of the product is perceived to be a lot better than product from either Canada or the USA, and part of that is how the pigs are reared.

PROF SNAPE: But it's not perceived that way in Australia?

MR CAMPBELL: Because it's the same product in Australia. Again, you're looking at market segments and demand or consumer demand, and they are different.

PROF SNAPE: So you're sending a superior product to the Japanese market - - -

MR McGILLIVRAY: No, there's a difference. When we're sending chilled product to Japan we're sending it literally straight into the retail area. The product that is brought into Australia from Canada is used in the manufacturing area. From the manufacturing point of view my belief is that there is no difference in, if you like, our leg versus their leg. When you get the chilled product into a retail area there is a perceived difference, particularly with the US rather than Canada. I think the Canadian pork in fact is a lot more similar to ours, whereas I would say both types are perceived as better in the Japanese market than the US product but the US are the major exporter to that region just out of sheer volume. But from a manufacturing point of view it's a little bit different.

MR SMITH: That comes from the feeding. The corn feed in North America and so that means that the fat is of a yellow tinge.

MR CAMPBELL: A lot of Canada corn feed too.

PROF SNAPE: I'm interested in this trigger point that you perceive, that is that you're saying that there's a trigger at 10 per cent imports of legs but up to that there's not much effect. So you could say that there wasn't much effect from the reduction of the quarantine barrier in 1990, the opening of the market at that time; you would say there wasn't much effect from imports until last year?

MR SMITH: Not sustaining. When it first came in there was certainly a reaction to it and that was probably a normal, typical reaction, but by and large from the period up until July 1996, where the levels were between 3 and 4 thousand metric tonne or between approximately 7 to 10 per cent of legs for leg ham production, we were able to manage that level of imports. But once they got over the 10 per cent, that was when we saw pig prices plummet, and certainly at the levels of 27 to 30per cent clearly the demand for leg meat has just gone right off.

PROF SNAPE: Is it the actual imports or is it the threat of additional imports? Again it's been put to us by other people in the industry that it's not so much the imports that came in but it's the process which you in fact described before, that the processors were out there saying, "We can import any quantity at that price," so it was the threat rather than the actuality.

MR SMITH: Yes, you could have a situation where maybe nothing comes in but, "Look, fellas, if you don't get your act together or drop your price to a level we'll bring it in."

PROF SNAPE: The retail price and the link of the retail price to beef prices, those prices are pretty closely linked as I understand.

MR SMITH: As far as beef prices - as far as we're concerned we don't even consider them. You don't make leg ham out of beef. It's as simple as that. We don't have an issue with beef, and it's interesting to hear the ABAREs of the world try and link them. The commercial reality is when we're doing budgets and when we're doing strategic planning, which we look at other industries in terms of forecasting prices we don't even consider what beef prices may well be or may not be.

PROF SNAPE: Yet at the retail level there does seem to be a very close link and that consumers will switch from one to the other as the relative prices change.

MR SMITH: They could well do that but you'll see in the pig industry the consumption levels, if you go over the last 20 years, that we've gone from roughly 10 kilograms to averaging somewhere around 18, 19 kilos. Certainly the more recent drop was due to the drought, and again there have been some suggestions that Australians are going off pork. They haven't gone off pork at all. There was less available because pig producers were hurt and there were roughly 1000 producers vacated, which was approximately 30,000 sows, and that volume just went off the market. It wasn't because you and I as a consumer wanted to eat less.

PROF SNAPE: Yes, I was going to ask you about that chart of consumption before. But if there was less coming onto the market from domestic sources, it's not surprising that imports went up.

MR SMITH: Where it would have been affected more so would have been the fresh area. In the processing sector they have factories, they have volumes that they must meet. Certainly they would have been putting similar sorts of volumes out. In the fresh area, that's the area that would have been affected, and the fresh arena is not affected at all by imports in terms of competing per se on the retail shelf.

PROF SNAPE: Not even in substitution of parts of cuts?

MR SMITH: Not in the fresh retail area, no, because the product that comes in from Canada has to be cooked. The protocols say it has got to be cooked for - - -

PROF SNAPE: No, I was meaning domestic substitution so that what was going into leg was going into other products, the way you indicated before, as a matter of fact, that some of the leg meat was now going into what would previously have been shoulder product.

MR SMITH: Shoulder ham products, yes.

PROF SNAPE: So there is some substitution of parts of pigs?

MR SMITH: Yes.

PROF SNAPE: You were saying - I forget the words exactly - that if the price stayed at 190 there would be a lot of producers going out.

MR SMITH: Certainly if you look at the pig stats which actually surveys a number of pig producers, and quality pig producers, the cost of production of those operators is certainly above $1.90 a kilogram.

PROF SNAPE: Is that a price at which you can continue?

MR SMITH: I think that's commercial-in-confidence information, commissioner. I'd be happy to discuss all those competitive attributes that we may have as a company with you private on 28 September.

PROF SNAPE: Let's come at it another way. Are there significant economies of scale?

MR SMITH: Yes, to a certain point. If you take a very good 250-sow family farmer who home mixes and doesn't buy prepared diets from feed millers, certainly they would be able to compete and be as competitive as the best of the larger integrated operations. Certainly there are some benefits, obvious benefits, in terms of being large and being integrated. Obviously our closeness to abattoirs, or our own abattoir in particular, particularly the Corowa one where the transport is half a kilometre from most of our big sites, obviously is an efficiency in that operation.

PROF SNAPE: So if one can envisage certain hypothetical prices and the prices coming down from a price level at which everyone can survive who's in for the moment and it's coming down, who would be knocked out first?

MR SMITH: I think probably the small guy. If we reflect back to 94, 95 when a thousand producers exited this industry, a thousand producers went out and 30,000 sows went out, so the average of those was 30 sows and they're obviously at the smaller end of the pig-growing spectrum. That would be our best estimate. Where the price got down to $1.30, $1.40, particularly $1.30 in South Australia, in fact probably the most vulnerable there would have been the intensive operators around anywhere between 400 and 800 sows who had - and to have 400, 800 sows in intensive operation you're talking significant capital investment and probably with significant borrowings. Those sorts of 50 cents a kilogram losses - I think the bank manager would have been rushing to get at them very, very quickly, whereas the smaller pig farm, let's say a 30-sow operator who would also have other agricultural income streams in that instance probably could survive it a little bit better. But as you get closer to cost of product those 500 to 800-sow pig producers probably have a lower cost of production than the guy who's at 30 and 40 and 50 sow.

PROF SNAPE: One of the things that we have to keep our eye on on this side of the table, if you see what I mean, is that any safeguard measure which were to be applied not only has to prevent or remedy serious injury but it has to facilitate adjustment. What sort of adjustment would you be envisaging in the industry with the sort of recommended policy which you've advocated?

MR SMITH: I think the industry would do similar things that we're doing. We would obviously expand our export base, as we have a plan out to the year 2002, and I certainly suggest that there are other operators out there, the Ausporks, the Darling Downs - those two companies particularly have already declared their hand, that they're going to put plans up, one in South Australia and one in Queensland, with a focus towards export. Similarly the Westons group are also planning to do the same. So there's been certainly some general industry comment on that, that, "Yes, we will anticipate in that activity," along with ourselves, and certainly we want to grow ours. So that would be the key adjustment, the industry focusing on plants, and one of the problems we have in Australia is the lack of the infrastructure to be able to export. You must have the abattoir and the boning room on the one side. To be an effective exporter that's what you must have. We believe the real growth in the future will be in the chilled fresh product, and Australia has a distinct advantage in that area.

PROF SNAPE: Not in any smallgoods?

MR SMITH: Certainly from the value added point of view, yes. There's certainly an opportunity there. In fact, our company now at the Don Smallgoods level does moderate exporting to Japan right at this stage and has been one of the few processing companies in Australia that's had an export history into Japan.

PROF SNAPE: You haven't thought of flying it?

MR SMITH: Of air freighting?

PROF SNAPE: Yes.

MR SMITH: No, not at all. The cost of air freight is prohibitive. You're looking at in the order of $1.50 to $2 a kilogram freight.

MR McGILLIVRAY: And we don't need to.

MR SMITH: We get the life by sea. That's the key to it. That's one of our real strengths, that we're one of the few operators in the world that can - we can guarantee our customers 45 to 50 days shelf life of fresh product.

PROF SNAPE: So the extra shelf life that you would get from paying $1.50 a kilogram instead of, what, about 50 cents a kilogram?

MR McGILLIVRAY: 25.

PROF SNAPE: But on the Japanese price that probably doesn't make a great deal of difference.

MR SMITH: The retail price of fresh product - - -

MR CAMPBELL: If you could get to the retail price - - -

MR SMITH: The retail price of fresh product is not that high.

MR McGILLIVRAY: It's not that high at all.

MR CAMPBELL: There's not much difference- - -

MR McGILLIVRAY: In fact, I could take you to a supermarket in Japan where they're selling loin steaks from Australia cheaper than Safeway will here. So the price in Japan - it's a bit of a misnomer to say prices in Japan are higher.

PROF SNAPE: I also happen to be involved in the inquiry into international air services and I'm aware that the freight rates out of Australia are in fact probably close to the lowest in the world out of Australia.

MR McGILLIVRAY: There's still a big difference between 25 cents in the dollar - - -

MR SMITH: The other problem with that, commissioner, as well, is that you just don't - you can't get the volume. I mean, you're limited in terms of the volumes you can get onto aeroplanes and also the times of the year maybe where you're kicked off too - things like if the crabs are running or the prawns are running or the crayfish are running, you become very much a poor brother to those.

PROF SNAPE: Yes. Well, thank you very much for that. Just one other question. Your exports are focused on Japan.

MR SMITH: Yes. Japan is the largest importer of pork in the world.

PROF SNAPE: You're not exporting to Russia?

MR SMITH: Yes, we have.

PROF SNAPE: You are.

MR SMITH: We have done to Russia, albeit very painfully.

PROF SNAPE: And other countries?

MR SMITH: Yes, New Zealand - New Zealand probably being our - up until more recent times, New Zealand has been our biggest market. We've been exporting steadily to New Zealand since 1987; some of the Pacific Islands, New Guinea, Philippines. We do a lot of offal into Hong Kong. We're doing a considerable amount of product into Korea right at this stage. What we're attempting to do is to balance the pig up as to be able to - where countries have a requirement for a particular primal we'll certainly try and balance the animal up.

PROF SNAPE: Okay. Thank you very much for that. I think I've got through my list of questions. No doubt we will be asking you a lot more when we visit and also when you've got your written submission we may get back in touch then and ask you to elaborate on a few more points. If we did then we might treat the answers then as a supplementary submission and say that it is on the public record. One of the things we do have to watch - the Canadians are watching very carefully in this - is that things are on the public record as are required by the WTO safeguards agreement, that participants do have the opportunity to comment on the submissions of others. We do of course have the provision for confidential submissions or parts of submissions being confidential. We have that provision both under our act and under the safeguards agreement. Thank you very much. We will have a short break of perhaps 5 minutes and then we will resume with Ms Sara McClintock.

PROF SNAPE: We will resume our hearings now and we have Sara McClintock who is a pig producer - a little bit smaller than our previous pig producers - and she's going to make a presentation. We do have a written presentation which is confidential but Sara McClintock will now speak to it.

MS McCLINTOCK: Thank you for allowing me to speak. I was really very surprised when I was told how many people were speaking here. I was told initially there were only three people speaking from all of Victoria and I was very shocked and surprised. I've spoken to other pig farmers and they say, "Why are you wasting your time?" They're people with enterprises of my size. They're angry, they're despairing. They feel the government has given up on them, particularly when a newspaper like the Australian Financial Review, the first of these proceedings that are going on now, they refer to it as "a lark" and "the government mustn't be taken in by the pig farmers coming to speak" at this sort of presentation. So that's one reason why there have been so few people coming to talk here. They just feel as if nobody is interested. They're going as a sacrificial lamb being sacrificed for the beef and the pork and the lamb industries and the sugarcane industry. So that's one reason why there were so few representatives from farmers of my size.

A little bit about me personally. I'm just an ordinary pig producer but at the same time I've got contacts in some ways that give me more of a perspective of what's going on than perhaps even the people as big as Bunge. For instance, I have a Japanese exchange student. She came as an exchange student 4 years ago but has carried on at Melbourne University. Her mother is the fresh food representative for the Japanese housewives, like a consumer association. So I'm very much aware of what the Japanese want and what the Japanese think. We've been in close contact with this family and with our exchange student's mother. So we know pretty well what the Japanese people are thinking when it comes to going around the supermarket shelves looking at pork.

At the other end of the business, the Canadian point of view,I'm also very much aware of what's going on in Canada. One of my co-workers came back from Canada and North America on Saturday night. He's not able to be here today because he's still fairly jet-lagged. He had a 3-week tour of North America looking at pig production. So even though I'm a relatively small pig producer I do see the big world. I'll tell you a little bit about the business and how the business would normally run. The present prices and then I'll go through the sorts of returns that we're making and then give you an idea of how we're looking at things - the present and the future - from the point of view of the producer, from the worm's eye view, so to speak.

My particular enterprise is 300 sows. We produce about 6400 pigs for sale annually at the present rate. Our particular site where we are is very well suited to pig production. It's very isolated. It's well away from any settlement, any streams, any groundwater, unlike some of the farms that I've seen. I was brought up on a farm in Ireland and we had four pigs and the next-door neighbour could look right into the pig shed and we could look right into his cowshed too. So we're much more spaced out than the European systems.

The buildings are far and away the most expensive part of the enterprise. The actual land itself is a fairly derelict bit of land. It might be worth a nominal 2 or 3 hundred dollars per acre. It's land that's not suitable for any other agricultural production. Where it's very good for pigs, it would have virtually no resale value other than as a piggery. The buildings are custom-built for pigs so you can't really convert them to anything else.

Sometimes with old sheds you can convert old sheds for use as finisher sheds or grower sheds perhaps but the farrowing and nursery units are custom-built. You can't really use them for anything else. So if we closed our business it would be almost a total capital loss from that point of view. I'll just go through - just in case nobody else has done it - the buildings and housing. We've got a farrowing shed where the pigs are kept. They're kept in crates so that the sow doesn't roll on the piglets. The piglets themselves have to have little nests so they can get away from the sow because occasionally the sow collapses onto them and will squash them. So they have got a little nest and there's a heat lamp over the top of the nest so they're kept warm and comfortable and that encourages them to get away from the sows so they're a bit safer.

The farrowing crates are hand-made (indistinct) steel and you weld them together. After about 3 weeks they go into the nursery shed and again that's custom-made with a mesh floor with a little nest in the corner with a heating lamp over the top so they stay warm. They stay there for about 3 weeks and then after that they no longer need the heating lamps - it's quite expensive equipment - and they go into probably the cheaper grower and finisher sheds. The mother pig - the sow - in the meantime goes back to the dry sow shed where she may be kept in a single pen by herself or she may be kept with perhaps two or three sows - the gilts. Those are the sows that haven't had any piglets yet. We often keep them in a group but the big old sows, they tend to get a bit upset unless they've got their own private pen. So again that's a lot of capital expense in that.

In this dry sow shed there will be a mating area. We have the boars there. We also use some AI. That's just recently because it's really expensive but that's the fourth shed. So we've got these four sheds. The feed that we feed them on, each of these stages here has its own sort of feed. So the sows will get fed - if they farrow they'll get special high protein feed. The little pigs - they're little piglets in this stage - will get just a very small amount just to give them the taste for food. It's fairly expensive food. The food is about $1000 a tonne - between 600 and 1000 dollars a tonne.

PROF SNAPE: Do you mix your own?

MS McCLINTOCK: No, we don't, we get it in from Ridley.

PROF SNAPE: How many times do you change the feeding mix over the grain?

MS McCLINTOCK: About four stages. There's the newly weaned pigs and then they get a slightly less expensive one and then they go on to grower and then finisher. That's for the growing pigs. The lactating sows and the dry sows get other sorts of feed. So we would have six sorts of feed on site.

PROF SNAPE: Only six.

MS McCLINTOCK: Only six, yes. Pig life cycle: after she's mated she'll be pregnant for about 16 weeks. She'll move into the farrowing crate, she'll be there for about 3 weeks and the piglets are weaned and about 19 weeks after they're weaned they will get sold and then the sow will be mated probably the week after they're sold. So you've got a 39-week production time. This means if the market suddenly goes down you can't just turn off the pig supplies because you've got 39 weeks of pigs in the pipeline. This is something a lot of people can't understand, that you can't just stop selling the pigs. When a pig is ready for the processor you've got a very small window of time in which it has to get to the processor. If it's too fat you get heavily penalised; if it's too think you don't make any profit or you make an even greater loss on it.

The dirty end of the pigs, the effluent, everything is pumped out. The pens are over mesh or concrete beams and everything drops out. So there's none of the shovelling of pig manure around that there was in my youth. It's all highly automated. The feed is very largely delivered in augers except for the lactating sows and the pregnant sows when you go around with a wheelbarrow and dole it out to them, depending on the stage of their lactation and pregnancy and also it gives you a chance to inspect each one, so you feed and inspect at the same time. So even though we could automatically feed them it's probably worthwhile sticking to the manual one.

PROF SNAPE: At 22 weeks you're producing bacon as well as fresh pork.

MS McCLINTOCK: Yes. If you're producing pork you probably get them at about 19, 18 weeks, depending on who you are selling the pork to.

PROF SNAPE: But you're not selling pork?

MS McCLINTOCK: Yes.

PROF SNAPE: You do both?

MS McCLINTOCK: We do both. We do whatever the processor wants. The processor will tell us what he wants. We just hope that he doesn't say, "Okay, I want bacon, bacon, bacon," and then suddenly go to pork and you've got all this bacon that's looking a bit big.

PROF SNAPE: Right.

MS McCLINTOCK: The people who work there, we've got about one and a half people. We've got a full-time person and casuals. They would generally be regarded as unskilled by anybody else. They have no skills of use in any other industry, even though we have various grades of people - people who could be left to more or less run the whole piggery by themselves. They're very competent and capable in that particular field but in general employment they would be looked on as totally unskilled. We can take in a totally unskilled person and train them up and they would often get - well, get people perhaps from the CES who have very little hope in life because they have no qualifications. Some of them are barely able to read. We do like people to be able to count up to 17 because sometimes we have pigs that have 17 litters. We had one pig who has consistently had 17, she's had up to 28. But we don't need much skill. We need people to preferably like pigs and like animals. That makes a big difference.

While talking about people - talking about other pig producers of my size and smaller, particularly the smaller ones, I've been meeting a lot of people and speaking to them recently. They're not what you would call entrepreneurs, they're farmers. They wouldn't really be much good for anything else. Most of them have been in farming all of their lives. They have got a fair amount of capital investment in their farms. If their farms continued to decline the way they do now, they would face huge capital losses and be almost unemployable.

The last stage of our production I think about is the sale, the transport and the slaughter. These two aren't necessarily in that order. We sometimes sell at auctions like in Ballarat or Bendigo, so you transport them to the saleyard and they're sold afterwards. Other times the abattoir will say, "We want 80 or 90 bacon pigs." You'll transport them to the abattoir. Our freight costs have been going up because we've had to transport them for greater distances than usual because the - we were selling quite a lot of pigs to Perfect Pork here in Melbourne but they stopped taking our pigs. They said they had an oversupply to the extent that we did have one truckload of pigs that was actually on the Calder Highway and they rang up and said, "Sorry, we don't want your pigs." So this is the sort of thing we've been having to put up with; processors saying, "Yes, we'll have your pigs," and they're halfway there and saying, "No thanks, we haven't got the space for them."

PROF SNAPE: It's not that you have firm contracts even for quantity, let alone quantity and price.

MS McCLINTOCK: We don't have firm contracts for price. The contracts will go up and down.

PROF SNAPE: But it would seem that if they can refuse them when it's on the way, on the road to them, you don't even have a firm contract on quantity.

MS McCLINTOCK: No, no. It means that you're stuck in the - there were a lot of people caught like this last October, November in the lead-up to Christmas when they actually had trucks on the road on a hot day. The abattoir would ring up - thank goodness people have got mobile phones - and say, "No, we don’t want your pigs." The truck driver would park the pigs under a tree while the owner of the pigs tried to find somewhere to park the pigs because you can’t take them back to the farm because of the disease problems. So even though we thought we had buyers for them - and we’d been sending pigs out very regularly to them - they would just say, "We don’t have the space. Our chillers are full, are yards are full. We can’t shift the pigs, so can you hold onto them."

PROF SNAPE: So there is no written contract with any processor.

MS McCLINTOCK: No.

PROF SNAPE: It’s a sort of a handshake contract - - -

MS McCLINTOCK: It is, yes.

PROF SNAPE: - - - which sometimes gets broken.

MS McCLINTOCK: There are some processors who are more honourable than others who haven’t done that at all; they will always take the pigs.

PROF SNAPE: Have you explored getting longer-term contracts on quantity and price?

MS McCLINTOCK: One of the things - because our feed price isn’t constant because the grain price isn’t constant, the grain price goes up and down. So our profitability depends very much on what the grain price is.

PROF SNAPE: The way to go might be the grain price plus a negotiated margin.

MS McCLINTOCK: That would be a very logical way to go and I would be very interested in a long-term contract that was on that basis but the processors here don’t seem to think that way at all.

PROF SNAPE: You haven’t seen the Pork Council trying to push the processors in that direction?

MS McCLINTOCK: Not that I’ve noticed but I’m down at the very low levels, so I don’t really know what the Pork Council is - that would be a very obvious solution to the problem because the grain price is the big variable cost. Anything else we’ve got a pretty tight control on.

PROF SNAPE: Your grain prices would be about 65 or 70 per cent or your feed price cost would be 65, 75 per cent.

MS McCLINTOCK: Yes, I do go into detail with that later on.

PROF SNAPE: Yes.

MS McCLINTOCK: The usual situation is the prices tend to be low in June and higher around Christmas and they've got a variable baseline. I've got a whole lot of people's data and I've fudged a bit. So this is the sort of the standard curve. The actual price here would vary a bit. That's what we would normally expect. Sometimes, depending on exactly where the baseline is, there will be a period of loss here perhaps. But most pig farmers are fairly well geared to that and expect to make up for the loss they make here by the profits they would make here. That's the normal pattern.

PROF SNAPE: You don't try to adjust your production pattern over the year, realising that you've got a 39-week lead. But presumably there is some discretion as to when you meet your sales, so therefore you could in fact increase the production when the prices are higher.

MS McCLINTOCK: You could increase your number of sows but at the same time you've still got all your overheads to deal with. You've still got to maintain the sows. You've got to keep the whole place ticking over. You've got to keep effluent ponds alive and kicking. You've got to keep staff on. So sometimes you may actually be making a small profit down here but you don't know. You've still got quite a lot of overheads that need to be covered. You've got the grower accommodation. We've actually got a contract grower who also expects to have his income coming in. So it's probably best to keep the whole thing ticking over.

Another thing that causes this increase in price here is something called "summer infertility". If it's very hot the sows don't cycle particularly well. The boars don't perform very well. Even if you use AI you still get a certain amount of summer infertility creeping up and that's partly why there tends to be a bit of a shortfall in the supply here, the actual supply level goes down here. So here you're marketing the pigs that were conceived in spring when the pigs' reproductive system is more geared to produce piglets; it's natural for mating to happen in this time. Pigs are not particularly interested in mating then and they tend to have quite small litter sizes too. So it's probably better to keep things going as most people do.

I've just plotted out the terms that we've been having with the dollars per pig, I've called it, just since 1995 and you can see there the big drop when a lot of pig producers got out and then the starting of a drop here that didn't actually happen because there was actually a shortage of pigs. The prices stayed up. Then there's a traditional drop again here. Here prices started to go up and then in October the prices started to go down again. This is because it's on an actual per pig it's a little bit distorted by whether it's pork or bacon so that's an extra confusion there. But the price has steadily gone downhill. Our cost of production would be around about $138.

PROF SNAPE: 138?

MS McCLINTOCK: About $138, so the tail-end of that draft is magnified a bit. You can see the great drop in prices we've had there. I'm again confused a bit by the imports. So there was a little bit of an increase in Christmas as we produced more bacons.

PROF SNAPE: If the price is kicking up a little bit are you sending more to market rather than to the processors?

MS McCLINTOCK: No, we're sticking with the processors.

PROF SNAPE: Even though they didn't stick with you?

MS McCLINTOCK: Well, one has got to hope that perhaps next time things might be better. So to summarise the present crisis we're used to a period of negative returns in winter and the processors are actually cancelling orders and not taking pigs. The prices in the shops have stayed steady, haven't dropped and neither have the payments to the growers. Now, being in a small country place I know the managers of the various supermarkets and butchers shops and I know how much they are having to pay for pigs. We have arranged for some private kills. We pay the abattoir $18. I believe they still make a good profit on that and sell direct to butchers and supermarkets. They're very happy with it and we're very happy with it. But you know, in a small place there is a limit to the number that we can sell that way.

PROF SNAPE: When you're doing it that way when does the ownership change?

MS McCLINTOCK: After the money has been paid over to them.

PROF SNAPE: So it's your meat until the butcher has actually taken it?

MS McCLINTOCK: Yes.

PROF SNAPE: Until the retail butcher has taken it?

MS McCLINTOCK: Yes, it's done very largely on faith. They've got to live in a small town community and so have I. Now, with the stressful situation I got onto the Internet and was able to look at the prices at the Ballarat market by comparison with Canada and the USA. Now, the Ballarat market is down here and the Canadian and the American prices were up a little bit higher. I'll be coming to a different version of this later on. But there was still a lot of imports coming in because the processors appear to have been locked into contracts or to be building a relationship with the importers.

But it was particularly frustrating at this particular stage here when I was unable to interest the processors in even taking pigs and my pigs are not bad pigs. They are amongst the best. When I sell direct to the local butchers they are usually delighted with what they get because it is a very lean pig, a very good muscling on the pig and very low fat cover. So it's not that the quality of the pig that I felt has anything the matter with it. I think my pigs are in there with the best of them and it was very frustrating here when I wasn't able to sell pigs but I knew that pork was coming in from Canada at prices that were - they were paying their farmers considerably more than what I was getting.

So this is the live weight thing. Now, I want to say something about how that was calculated. This particular one, the Canadian one, is the Manitoba 100 index and that's on a dressed weight of 75 per cent. Dressed weight is when the pig is on the hook and looking at, sort of, a butcher ready. So I had to do a certain amount of conversion there to convert it to live weight and I've also allowed for changing weights between the Australian dollar and the US dollar. I believe that is a fairly accurate conversion of apples with apples. We're not looking at apples and passionfruit there.

PROF SNAPE: Pigs tend to be bit bigger, don't they?

MS McCLINTOCK: Our pigs or their pigs?

PROF SNAPE: Their pigs are bit bigger?

MS McCLINTOCK: Yes, they have a higher weight at which they kill the pigs, yes.

PROF SNAPE: But you've allowed for that.

MS McCLINTOCK: I've allowed for that too, yes. One of my children is a third year economic student so he has been checking up on that. The cost of raising a pig - this is over 3 months. Now, I had difficulties working this out because I had to look for 3 months in which things were fairly steady so pig numbers had to be fairly steady. So there's still a few anomalies in it. For instance the feed price is higher than I would normally expect because in those particular 3 months I was looking at the truck that came on the first day with the feed and also we had a truck on the last day. On the first day of that particular month it was bringing a truck load of the most expensive feed. So that is probably a fairly high estimate of the feed price. The wages would be perhaps a little bit lower than usual because nobody went on holiday then so we didn't have to pay any extra casuals.

PROF SNAPE: Are they actual wages or do they include an allowance for you as well?

MS McCLINTOCK: Well, they were the wages that I would have paid. We haven't actually taken anything out.

PROF SNAPE: No, but it includes an imputed wage for yourself?

MS McCLINTOCK: Yes, and the feed is the feed bill that was incurred rather than the feed bill that was paid. So that's the cost of the feed that came in not the amount that we actually paid. The wages would have been perhaps fractionally higher if anybody had gone on holidays. Grower fees - we are a bit outside our normal capacity so we have a farmer nearby who used to keep pigs who takes in our older pigs and grows them on as finishers. So possibly that would be a little higher now because we've got more there.

The freight bill is higher than it would normally be because we've had to ship our pigs further than usual to try to get to market so it wouldn't usually be as high as that. The breeding fee - the sows are leased from the Pig Improvement Co. So that includes the breeding fee plus semen. Now, we've cut back on the semen sales recently so that's gone down. Interest payments; that's to keep the bank happy. The repair and the maintenance and the rest are fairly standard.

PROF SNAPE: You don't have any depreciation in there then?

MS McCLINTOCK: No, we don't.

PROF SNAPE: So that came to the total of about $137 a pig over that period.

MS McCLINTOCK: Yes.

PROF SNAPE: Over that period you were selling at an average pig - - -

MS McCLINTOCK: I sold 1544 pigs, I've got a feeling.

PROF SNAPE: At an average of?

MS McCLINTOCK: About $106 a pig and that includes pigs that were sold to the butcher. Some pigs are not particularly buyable so they are sold off as spit pigs. Those are runty pigs that people put on the spit for barbecue. So that gives us an average loss of $16,000 a month. Some of that was a near loss.

PROF SNAPE: Yes, I see.

MS McCLINTOCK: This next one goes back to the Ballarat market compared to the Manitoba market. This is up to date as of last Saturday.

PROF SNAPE: This covers a longer period than the previous one.

MS McCLINTOCK: Yes.

PROF SNAPE: It shows the recovery.

MS McCLINTOCK: Yes, the recovery of the Ballarat market which dropped again last week. The Canadian prices are very depressed right now. They're actually below the cost of production. Looking at Manitoba in particular which I have been keeping a very close eye on, not only because I know people there but I'm in quite a lot of contact with the industry there, they've had a 10 per cent increase in their pig numbers just in the last year and they're projected to increase their pig numbers even more. They're in an over-production situation. They are below the cost of production now.

The relationship between the processors and the producers in Manitoba is different to what it is here. The processors are highly efficient. They will work for three shifts for instance so the killing line on the one regional abattoir, the killing line may well work for three shifts. So the equipment is being very well used. They also, until very recently, have had a single desk and selling arrangement so you've been able to sell your pigs only to one purchaser who gives the same price to everyone. In the industry here, one processor will give different prices to different customers and the processors seem to have no idea that the cost of production is quite significant here.

So recently when one processor put his prices up by 5 cents he said, "Aren't I wonderful? I put up my prices by 5 cents." I said, "Yes, but we've got a way to go until we actually cover our cost of production," and he said, "What?" and I said, "Well, we're not like a beef or lamb farm. We actually have to put a lot of money into the pig to get a pig actually ready for production." A cow goes out and it eats grass. It can be sold at various times depending on what the market conditions are and the loss that you make if you don't get the prices you were looking for for a cow are not the losses that you make if you're a pig producer.

If you make a loss when you're a pig producer it means you can't pay your feed companies for instance or the feed company has to go onto a very long account. The processors here are not aware of the producers' situations, whereas in Manitoba there is a lot of contact between the processor and the producer. The processors in Manitoba are only too aware that if they go below the cost of production for any period of time, their whole livelihood will go, their industry will go bung.

The processors here will happily tell you that if you go under, they will just import pork - and I have had this said to me on several occasions, that it doesn't matter what happens, there are plenty of people who are prepared to sell the meat at the price that I want.

PROF SNAPE: If we look at the Ballarat processor and that, what, would be 100 kilogram, would it?

MS McCLINTOCK: Yes.

PROF SNAPE: You would be selling about 100-kilogram pigs.

MS McCLINTOCK: This is for live - I've converted for live.

PROF SNAPE: But the pigs that you would be selling would be about 100 kilograms?

MS McCLINTOCK: In bulk, about, yes.

PROF SNAPE: You see, that would then convert into about $170 per pig at the end, which just covers the costs that you are specifying - no, the costs before 137 - so that would be quite a nice price if that price could be sustained.

MS McCLINTOCK: Yes. Now, the trouble is right now, because of the - we were unable to shift any pigs in Victoria at all. Our Ballarat operation is actually in New South Wales so it's not - we've been putting some more down here - it's not feasible to truck them down on the odd chance that the Ballarat market is favourable.

PROF SNAPE: Is the price that you are getting from contractors following that price?

MS McCLINTOCK: Yes, it is going up, yes. We are getting about $1.85 right now - that's a dressed weight - and about $2.05, $2.10, $2.15 for pork. But we also are aware that the imports from Canada went up dramatically last month. There has been a great surge in imports again.

PROF SNAPE: Right.

MS McCLINTOCK: This is a draft that you have seen before but it was a - now, the imports here, they next month have stayed up at about this level. So it's about 10,000 tonnes came in in July and the exports too are going up. So the exports are actually going up.

PROF SNAPE: Do any of your pigs finish up being exported in one form or another?

MS McCLINTOCK: Yes, they are. I can tell you about that privately.

PROF SNAPE: Okay, thank you.

MS McCLINTOCK: The export specifications - we know the sorts of pigs that the Japanese are looking for so we produce what they want, but that's just on a very, very small scale.

PROF SNAPE: Does that information come from your processor or is that information - - -

MS McCLINTOCK: Yes, that's one particular processor who just services a very small niche market so I can tell you more but that's commercial-in-confidence. One of the things that is hurting so much now is the tremendous price instability and not really knowing what is going to happen. I know of farmers who are getting out now. This is not just anecdotal evidence. I know farmers who are winding down. If you go to the Ballarat market there are plenty of farmers who are selling their sows because they are getting out and the prices for sow has dropped very dramatically a while ago because there were so many people putting their sows up for sale.

There's another property about 50 kilometres west of us who I thought of as being a very well-established piggery. They have been at 300 sows for a long time and they have just sold their last sow. The young pigs are still going through now but they have got out of the business and I know two others who are running around like headless chooks. One particular man heard that there was going to be a shortfall of pigs and he did what a lot of people did in Australia; he increased his sow herd to the extent that he had to build new sheds and he was just about suicidal because he is having to pay off these new sheds that he has only just started operating and just can't keep up with the capital payments and he is not even able to work out how to go out of the industry with dignity.

I talked to his wife and she is very stressed. She has gone to the extent of handing in all of the firearms at the amnesty that we had in Ballarat. She managed to persuade the police to take all of her firearms and if he has a pig that needs to be destroyed she goes and borrows a gun from someone else. Now, he is in the situation that he cannot work out how to get out of this situation with dignity.

Looking to the future, I'm an incurable optimist so that I tend to see the ways out. Even a lot of my colleagues would say you need to put your head into a bucket and just shut up. Our feed prices recently, we've worked very hard on feed prices. It doesn't come through on that graph. But by reformulation of the feed prices we managed to get them down very significantly.

PROF SNAPE: Is that by changing your own mix, is it?

MS McCLINTOCK: By changing the mix that comes to us, yes. We've changed the specification and honed that down to an extent that it's minimal.

PROF SNAPE: So your feed suppliers will in fact change their suppliers to your requests.

MS McCLINTOCK: Yes, they have always done that and they will- - -

PROF SNAPE: So it's not a standard feed that you buy.

MS McCLINTOCK: It's not, no. Well, because they make it up by the tonne they just press the buttons on the machine and it comes out. We have been able to get our cost of production quite a long way down and that will pay dividends in a few months' time. The feed cost is the main difference we have between us and Canada right now. Everything else is very comparable so our labour costs are very comparable. The depreciation costs, the shed costs - our veterinary costs are probably a little bit lower because we don't have the disease problems that they have got. They have got some nasty diseases which we don't have.

So the big difference between us and Canada is the feed costs. Now, the feed cost differential is about 25 cents a kilo as is right now. So that means that per kilo of dressed meat that you actually sell, you will be able to knock 25 cents off that due to the cheap cost of feed. The shipping costs, I am told by my Japanese contacts, work out at about - if it's frozen it's about 25 cents a kilo. If it's chilled it's 50 cents a kilo for some reason. It's a lot more if it's chilled than if it's frozen. From the US, the feed advantage is only 6 cents for the feed costs. That's 25 cents per kilo dressed weight feed advantage for Canada and 6 cents dressed weight for the US.

PROF SNAPE: So feed is cheaper in Canada than the US?

MS McCLINTOCK: Yes, they feed largely barley. This is looking at the prairie states, the mid-west.

PROF SNAPE: And do we know why it is more expensive in Australia than Canada?

MS McCLINTOCK: No. I think they feed a lot of barley there and barley is cheaper. The Victorian government, I heard, had a program for encouraging people to grow feed barley, particularly in the sheep growing areas where farming is fairly marginal in the sheep growing areas but they could grow barley and they have had a feed grain program. I think it started about 2 years ago that they were trying to crank up. I haven't heard much about what has happened to that and I don't know what has come of that.

PROF SNAPE: Have you considered what difference it might make if we didn't have single desk selling for barley so that you might be able to buy barley at world prices?

MS McCLINTOCK: It would make a lot of difference if we were able to buy grain at world prices. Grain prices here are more expensive than the Canadian ones. One of the reasons the Canadians have got into pig production on such a great scale is because of the value adding that is done to the barley crops that were pretty marginal. People were making a heavy loss on barley and in the mid-west in particular, over the part called the western and the eastern prairies - the eastern prairies in particular - when the freight subsidy came off they had something called the crow line where you got a subsidy, depending on how far it was from your farm to the shipping port, as the crow flew. That helped keep their grain price up.

I gather that's gone now and the eastern prairies are now able to - that's why they are getting into pigs so heavily because the grain subsidy has gone.

PROF SNAPE: It would be very helpful to us if you or perhaps other participants can in fact give some consideration to this question of feed prices and to what extent the feed prices are being sustained above world price levels. I mean, if Australian pig farmers are having to compete in the world market with zero tariff on pig production and if they are having their feed prices increased in one way or another above world prices, then obviously that is a disadvantage to them.

MS McCLINTOCK: It is, yes. That's very much what we're putting here.

PROF SNAPE: To some extent, one might even regard it as a self-inflicted disadvantage when one is looking at the country.

MS McCLINTOCK: That's something that we're acutely aware of. If we didn't have the grain prices above world grain prices, we would be probably the most competitive pig-producing company in the world.

PROF SNAPE: I remind the participants that the second part of our terms of reference relates to factors affecting the profitability and competitiveness of Australian pig farming. The first part of course was the safeguard action, but the second was this more general consideration, and to the extent that - well, as feed prices are 65, 70 per cent of the costs of production, obviously any factors affecting those are highly relevant. So we would appreciate further information on that from any participants who have it.

MS McCLINTOCK: That is something that we're acutely aware of, because I did send in a copy of this George Morris Centre report, but for everybody else it comes off the Internet.

PROF SNAPE: We do have that, yes, thank you.

MS McCLINTOCK: It would show that once you go through the costs, places that we have traditionally worried about, as imports coming from places like Denmark and the Netherlands - they are grossly uncompetitive by comparison with the Australian pig industry. It comes out very strongly in this book. The only thing that we're not competitive in is the feed prices. The feed prices are coming down. They have managed to get them down quite considerably. So, if I was able to do this graph again in a few months or a couple of months, I would expect this cost here to be 10 or 15 dollars cheaper.

PROF SNAPE: Okay.

MS McCLINTOCK: But it depends very much on the grain harvest. My coworker, who has just come back from Canada, said it was very depressing - they're just coming up to their harvest time now - to go after hundreds and hundreds of kilometres of fine pig food that he hasn't got access to. So that's really our main problem. Everything else works out very nicely, except for the feed prices. So basically we need a bit of breathing space. We can, with my eternal optimism, make a go of it, but we just need to have a bit of a stopper on exports or even better, just for the exports to come in at a steady rate - - -

PROF SNAPE: "Imports" I think you mean.

MS McCLINTOCK: I'm sorry, yes, imports to come in at a steady rate. We have got the Japanese market out there that's very keen on Australian pork. They like what they see. Our exchange student's mother is continually saying to me, "But we don't get enough of it. We can't get enough of it." But we have got to just keep going for long enough. Now, the Australian pig industry is really very small by comparison with the pig industries in the rest of the world. The George Morris Centre goes through all the other countries that produce any significant amounts of pigs. The Manitoba market of pig production is equal to just about all of Australia's pig production.

Australia could be a very major exporter of pork. We have got everything. We have got the know-how, we've got the land. We could have reasonable feed prices too. I think the feed companies are starting to see that too. It's still an embryonic industry. It's an industry that's been very small. It's only been really geared to deal with its own market. The way things are going, it's going to go straight from embryonic to vestigial. I think we just need a bit of breathing space.

We need the tremendous support that the Canadian industry gets. When I get onto the Internet and I see the advice - not actual money going to the pig farmer, but what you can get about the Chicago pork future that are of great relevance to the pig producer and you can see how they're doing in the future. We have got very little access to that sort of thing on the Internet here. We need to have more information. Instead of the government basically laughing at the pig industry that's going to be sacrificed for the sugar, beef and lamb people, it needs to take us seriously. We have got a huge market out there in Asia that we could be supplying. The European market, their costs of production are just too high now. The Netherlands and Denmark, their costs of production are about 160, 170 Canadian dollars. That's nearly 180 or 190 Australian dollars. We have no worries at all with the European industry. In actual fact, we should be gearing ourselves up to be importing to there. But we have got to have a bit of breathing space to just keep us going, to stop us from going vestigial.

PROF SNAPE: Thank you very much indeed. I think that most of my questions I asked on the way through, rather than to ask more at the end. You have marked your submission "confidential', but in fact I think most of what is in here you have been covering today, so I wonder if you might have a word to a staff member, perhaps Mr Gooday there, to see what parts of that you may wish to retain in confidential form and what in fact could have the confidentiality off it. We do like to make it as much as possible open and so it's really only if there is any data there which is confidential to your commercial-in-confidence to your farm, which I think would - perhaps you may wish to keep it on, but even today you have told us what the cost per pig was, which was part of what was marked confidential before.

MS McCLINTOCK: Yes.

PROF SNAPE: So you may be able to reduce that right down in discussion with the staff and then we can make it more generally available.

MS McCLINTOCK: Yes.

PROF SNAPE: It was very helpful. Could I just ask one question. That is, in the time that you're asking, the industry has asked for adjustment. What would you see as the adjustment which would occur in the industry over that period?

MS McCLINTOCK: I don't - - -

PROF SNAPE: Any form of safeguard action which was to be granted has to facilitate adjustment. What sort of adjustment would you see? How would you see that adjustment occurring from your perspective in the industry?

MS McCLINTOCK: I would like to have the imports pegged down but then gradually increased, but increased so that pork comes in at a steady rate.

PROF SNAPE: That's the adjustment of the imports.

MS McCLINTOCK: Yes.

PROF SNAPE: But what about the adjustment of the domestic industry?

MS McCLINTOCK: If imports are restricted and if we know it's being restricted and if we know it's going up, that will automatically get people into the mind-set: people who want to get out will get out in an orderly fashion and people who don't want to get out can get their act together, get contracts in place. The processors I think need a bit of negotiation to happen with them. That's one of our biggest problems, along with the price of feed, the attitude of the purchasers. They just haven't a clue what's going on in the industry itself.

PROF SNAPE: There are some adjustment funds currently being made available and I think you make some reference to processors needing to get their act in gear. Do you see how these adjustment funds are being used at all? Have you seen any evidence?

MS McCLINTOCK: What I have understood is that the funds are available basically to the processors in order to get them to help organise themselves for exports. A lot of the processors right now are making a lot of money. I can work that out just from talking to the local supermarket managers as to how much they're paying for a pig. With my brand, I know how much I got for it, I know how much they have had for it - there's my tattoo on the pig - and you can work out the margin that the processor is making. There have been times when I have sold a pig for perhaps $115 and that same pig has gone to the butcher and he's paid $305 for it. The killing costs are $18. The processors are living in what I would see as the lap of luxury. One processor is operating just one shift and he is thinking about putting up another abattoir, instead of putting on an extra shift.

Another thing that you mentioned about the distance that pigs travel - you mentioned it was only 2 hours - in Canada and the States they will move pigs for 18 hours. We ourselves in the present harsh times have sent pigs on fairly heroic journeys and when the pigs have got off at the other end and they have been just fine. The abattoir, which is an export abattoir, has been very happy with what they have got and those pigs have been on the truck for an obscene length of time. They have gone across two state borders.

PROF SNAPE: It takes them to Queensland, I think.

MS McCLINTOCK: Somewhere like that. So it’s a bit of a myth that pigs can’t travel. The little pigs, in the States and in Canada, they will ship them for 24 hours, and when they get off the trucks they are like little school kids going on a school excursion. They will skip off that truck and they will be really very happy. Your mortality rates will be very low.

PROF SNAPE: Yes. Thank you very much. It’s been very helpful and it is very good to see both ends of the industry, if you like, not that you’re anywhere near the lower end of the industry at 300 sales. It’s not a small farm. There are a lot smaller than that. In fact it’s about greater than the average, isn’t it? The average is under 300 sales, I think.

MS McCLINTOCK: There are a lot of very small people and- - -

PROF SNAPE: A lot of very small ones, yes. So thank you very much indeed. We shall now adjourn for lunch. We perhaps might start just a bit later than advertised, if that is convenient to Freehills and to Christine Sapwell and John O’Dea. Is it okay then if we push you a bit back further in the afternoon? So we will start after lunch at 1.30 and adjourn till then. Thank you.

(Luncheon adjournment)

PROF SNAPE: Good afternoon and welcome back. We resume the hearings, and this afternoon we're starting off with MrDaniel Moulis, who is a partner in Freehill Hollingdale and Page, who in turn are representing the Canadian Meat Council and the Canadian Pork Council. Daniel, I wonder if you would care to identify yourself for the tape, although there's only one of you nevertheless.

MR MOULIS: For the record I confirm that I'm Daniel Moulis from Freehill Hollingdale and Page, the Canberra office of Freehill Hollingdale and Page. I'm a partner with the firm, and thank you for that clarification: yes, we do represent the Canadian Meat Council and the Canadian Pork Council, lest it be thought that I was appearing as a representative of Freehills solely to give my views about this industry. That's not the case.

PROF SNAPE: Thank you very much. There is a written version of the submission, which will be included as a submission in the normal manner. Daniel, if you'd like to go ahead.

MR MOULIS: I will. In the 17th century pigs were sometimes accused of terrible crimes. One of the worst was infanticide. This was in France, and counsel would be appointed to represent the pig. I think in some ways the Canadian industry and myself as counsel can be excused for feeling somewhat in the same position. There have been quite a lot of inquiries into Canadian pigmeat imports, going right back to the relaxation of the quarantine requirements in 1990, followed up by a dumping and countervailing investigation in 1992, the research project that was conducted by the Industry Commission in 1995. There have also been rules of quarantine about the production methods which must be observed when Canadian pigmeat imports do come into the country, in relation to their treatment and their separate treatment from Australian pigmeat. In the background of all of this there has also been quite a lot of controversy about labelling laws. So through all of that there have been quite a few obstacles and hurdles for Canadian importers to deal with. They don't shirk from the need to address these things, and that's why I'm here today.

The submission that's been lodged for the Canadian Meat Council and the Canadian Pork Council at this stage is in the way of opening pleadings in the sense of giving the legal environment and the framework within which the safeguard side of this inquiry must take place. It is the intention of the councils to lodge a further submission by the 18 September 1998 date, and in that submission they will be bringing forward all of the evidence and the information which supports the propositions which I will be putting to you today. I apologise for not having total recall of those facts. I am quite happy to be questioned on the content of this submission insofar as it deals with these opening pleadings and matters of law.

First I'd just like to outline who my clients are, the Canadian Meat Council and the Canadian Pork Council. The Meat Council is the national trade association representing Canada's federally inspected meat packers and processors and their suppliers of goods and services. The Meat Council members slaughter about 94 per cent of all of the hogs, or pigs, processed in Canada. It also includes a significant number of the trading houses that are involved in the trade with Australia and with other parts of the world.

The Canadian Pork Council for its part is the national federation of the hog producers, or the pig growers or pig producers as they have been called during the course of this inquiry. There are some 20,000 of those producers, and there's some information in this submission about cash receipts and the size of that industry. Also in the submission there is some explanation of those people who are representing the Canadian Meat Council and the Canadian Pork Council from the point of view of experience in law and in international law.

I'll now turn to the substantive aspects of the submission that's been lodged today. I think the first thing to particularly note is that the GATT and the World Trade Organisation create a framework for the observance and enforcement of specific international trade rules. I think this is obvious, but it's no less important that I state this up-front, because your inquiry is in two very distinct areas, as you've correctly identified, the first area being related to whether there is a justification for safeguard and the second area being a wider inquiry as to the policy and industry policy issues which are relevant to the Australian pig industry.

This investigation must take place in accordance with Australia's laws obviously and with the Productivity Commission Act, but they also must accord with the international agreement to which Australia is a party. If those laws and rules are not met, then what will happen is that we'll have a possible challenge in the Australian courts and, of course, in the international sphere the inquiry and its results may be challenged within the dispute settlement body of the World Trade Organisation. Unlike the antidumping code and the countervailing code, there's no domestic legal implementation of the agreement on safeguards, although we have had procedures for this inquiry gazetted for the assistance of the commission. But the agreement on safeguards is no less important in your consideration and in fact is essential in your consideration of these issues.

Let me talk a little bit about the philosophy of the GATT and the agreement on safeguards. Safeguards action derogates from the fundamental tariff binding commitments of the GATT and the imposition of safeguards is therefore a very severe step. That's because in essence it strikes at the very heart of this trading system that countries have agreed to abide by. Accordingly, you won't be surprised to find that in the agreement on safeguards the threshold tests and the definitional matters which need to be satisfied are quite steep. They're quite severe, and there's a reason for that. If they were not steep, then there would be many countries taking advantage of the ability to derogate from the promises that they made at the end of the Uruguay round.

So let's look at the conditions for the application of safeguards measures. One thing which perhaps hasn't been considered enough in all of this, although it is mentioned in the issues paper, is that article 19 itself in the GATT 1994, which is elaborated upon in the agreement on safeguards, is headed and deals with the requirement that emergency action be taken on imports of particular products. I think it’s worthwhile through the course of what I’m about to say to remember this emergency context of the article. One issue which has tested the commission and about which you’ve asked many people is this question of like or directly competitive products.

Now, the agreement on safeguards makes it clear that the domestic industry concerned is the industry which produces these like or directly competitive products to those being imported. So there are two questions which have to be asked. Firstly, is there an Australian industry which produces these like or directly competitive products and, secondly, what constitutes that industry? Clearly, some people may have a different view but I don’t think that there could be any argument against the proposition that the Australian industry makes like products to those which are imported.

I say that notwithstanding the fact that people may try to market their products a little differently. People will claim, perhaps with justification, that their products are of a higher quality or of a slightly different cut etcetera. But I think within the meaning of the term "like goods" it’s quite fair and open for it to be said that these products, the imported products and the domestically produced processed products, are like each other. This question of like goods has been interpreted in the antidumping area and we have had antidumping inquiries, investigations, into this industry. In those inquiries it was found that the processed pork cuts were like products to the imported processed pork cuts.

That’s an interesting observation in this case because, as has become apparent to the commission, the firms which are complaining in this forum and requesting that safeguards measures be imposed are not the pork processors. They are not the industry which produces the product which is like the imported product. It’s a very important threshold issue that we need to grapple with here. I don’t doubt and I don’t think anyone can doubt the commercial interest that pig growers have in the results of this inquiry and my own client, the Canadian Pork Council - it’s interest in this inquiry is a testament to that. However, the interest of Australian pig growers in this inquiry does not merely by some bootstrap reasoning qualify them as members of the industry which produces like or directly competitive products.

The proposition has to be tested. We have to analyse it carefully. We have to do it within the matrix of the agreement on safeguards and international precedent. I have said that there previously was an antidumping account of an investigation into imports of these processed pork products. For the purposes of that investigation the industry did include pig growers, pig producers, and you might ask, "Well, why is that so?" Why was that so? The reason that was so is because Australia’s antidumping legislation has a provision which enables the industry producing so-called close processed agricultural goods to the imported goods to be included in the ambit or scope of the Australian industry, which is considered for the purposes of assessing whether a material injury has been caused.

This was done, as I say, by legislation. In other words, provisions were inserted into the Customs Act to enable an upstream industry to have standing in the antidumping forum to complain about the importation of downstream products, the processed pork products. From the point of view of GATT compliance, I will just make the observation that this concept is quite controversial and that the European Union for example threatened that they would implement the dispute settlement procedures within the GATT, before the WTO came onto the scene, to test this proposition, to see whether it was GATT-compliant. They did so in relation to cherries where the Australian cherry growing industry wished to complain about the importation of canned cherries.

PROF SNAPE: Was that canned or glace?

MR MOULIS: It was glace, was it? Glace - I stand corrected. So what I want to stress there is that the interpretation under the antidumping act which led to the inclusion of pigs within the industry, which was considered for the purposes of material industry findings, does not apply in this area. In fact it is an admission by the Australia legislature that pigs are not like processed pork. So the primary submission of my clients is that, as a pig is not a frozen processed piece of a pig, the imported product is not like the product produced in Australia by pig growers. This flows ordinarily and in my view quite naturally from the proper interpretation of the international legal instrument pursuant to which this inquiry must be conducted.

But the agreement on safeguards goes further. The agreement on safeguards extends the ambit of the industry which is the focus of this injury analysis by including within it the industry which produces directly competitive products to the imported goods. So the question which needs to be answered is whether pigs are directly competitive products with pork which is derived from them by way of upstream processing.

We consider that an upstream product cannot be directly competitive in the sense required under the agreement on safeguards with something that it later becomes. Quite a lot needs to be done to a live pig before a buyer can consider it side by side with a processed piece of pork and be faced with a choice as to what he should buy. If there is a flow-on effect to pig growers by reason of, say, the comparative price of products which compete directly with each other - and in this sense I define directly competitive products as being products like imported processed pork, domestic processed pork, beef, chicken, lamb etcetera - then this flow-on effect could only be referred to as an indirect competitive effect, not the very direct competitive effect which you would expect to see at the level at which this product is produced and sold.

We don’t think that processed pork and pigs compete in the same market. There are transport issues, abattoirs, certification issues, finishing and packing processes which all need to be performed in respect of pigs before they become the like product. Commercial risks must be assumed by the firms which are in this chain and expense incurred from the farm all the way to the processed pork cut.

Interestingly, what we've heard over the 3 days of this inquiry suggests that there is all the more reason to view the industry in this way. Steady retail prices would tend to show that there is no relevant competition between products produced by Canadian as opposed to Australian processed pork at that level. So market dynamics and the actions of people within that market appear to feature very heavily as a cause of injury. It would be curious indeed if that cause could be in some way ignored by treating what appears to be in some respects a warring industry or an industry where the different levels use their power quite to excess.

If that warring industry could be treated as one happy family - because on the basis of things that we have heard it doesn't appear to be a happy family and the councils will be presenting more information in the final submission on this point. It's at this stage that I'd like to ask the commission for some guidance, because I think it is very important for interested parties to know what they should be dealing with in terms of an industry definition. Whilst I don't think it's appropriate for me to ask for a decision on the spot, I simply would like to ask for some guidance as to how submissions which are due by the 18 September due date should be presented, because it seems to me that if you started with a blank piece of paper in relation to the industry the possibilities would be endless. I might just leave that with you and we can come back to that.

I would also like to add that a wider industry definition introduces much wider injury issues and also would require the commission to balance loss and profit across a disparate industry front. We have seen graphs presented, evidence presented by other interested parties, which focus solely on a particular part of this industry. At the very least, all parts of the industry must be taken into account and no one part can be ignored. Next I'd like to talk about the nature or definition of the investigation period. Over what period should these increased quantities of Canadian imports be considered. The agreement on safeguards doesn't define a relevant period over which an investigation of this type should consider the effect of the imports, and this is to be contrasted with the position in relation to Australia's implementation of the antidumping code in the Customs Act, where the determination of the investigation period is a very important aspect.

We've seen graphs which go up and down like roller coasters over the past 3 days. It takes me about 2 or 3 minutes to actually interpret what the axes of these graphs are saying to me. When I do this, the roller coaster effect fades in my mind because of the approach that I have taken to the relevant investigation period. The first proposition is that the investigation period should not extend too far back, and that would be consistent with previous no injury findings by various investigating authorities here in Australia and also by the emergency situation which safeguard measures are meant to deal with. So in 1992 - I'll take a step back. There were no imports until June 1990, when quarantine restrictions were relaxed.

So, if you were starting from a nil base and you took the investigation period as June 1990, you'd probably have an amazing percentage that doesn't bear thinking about. So that would appear to me to be an illogical starting point. In 1992, we had a finding by the Australian Customs Service which was confirmed by the Anti-Dumping Authority that Canadian imports of frozen pork did not cause material injury to the Australian industry again. That was in the dumping context. We then had an Industry Commission finding in 1995, one of the key findings of which was that imports did not appear to have had an appreciable effect on the performance of the pig and pigmeat industries.

So, given that background, I'd submit that the most appropriate investigation period would be the period commencing in 1995, which was the date of the last finding of the Industry Commission about the industry's condition, and that it should extend up until the present. I would add that in my experience this is in the middle of the range of the length of investigation periods that have been adopted in antidumping investigations.

PROF SNAPE: Do you wish to stop at the present in view of the words "or threat thereof"?

MR MOULIS: No, we need to look ahead when we look at the issue of threat, obviously. So we have got an administrative precedent at least that, in terms of considering a causal link between imports and the performance of an Australian industry, this time period of 3 years and 6 months is the average. This is also consistent with the intention that safeguards are meant to deal with unforeseen circumstances. Where imports already have a presence in the market and that presence has been found to be non-injurious in earlier periods, as in this case, I think it's reasonable to accept the proposition that only a large increase in imports relative to domestic production or absolutely during a later period can form the basis for a safeguard investigation like this and an attempt to attribute injury to these increased quantities of imports.

Let's look at the concept of increased quantities of imports under the agreement on safeguards. As I've said, safeguard measures are meant to address unforeseen developments, and these words appear in article 19 itself, for example, a sudden flood of imports for which a domestic industry is unprepared and which caused serious injury to the industry. As I've already said, that increase of imports must have some significance, absolute or relative, to domestic production.

Again we submit that the 3 and a half year period would be a relevant period for us to consider in this regard. If there is any injury proven to the domestic pork processing industry - and that remains to be seen, as they do not appear to constitute the complainant industry due to some impact on its ability to profitably sell or to transfer this domestically produced pork to the next level of trade or its production - we believe that the evidence will show that such injury cannot be attributed to the small increase in Canadian imports relative to domestic production. Again, over the 3 days so far graphs which show these relativities have not been seen. We have seen many graphs about the absolute change but the councils will be submitting that Canadian imported processed pork occupies only a small part of the local market in a relative sense.

Next I would like to look at the concept of serious injury because, as the agreement makes abundantly clear, it must be shown that serious injury has been caused to the industry as defined by the imports. This serious injury test is of a severity which exceeds the test which is applied for antidumping purposes under the Customs Act, and the words used in the antidumping provisions are that of material injury. But it goes further than that because it doesn't just say that serious injury must be caused; it refers to a number of added dimensions and requirements.

These underline the very strict nature of the safeguards injury test. One of those is that there be a significant overall impairment to the position of a domestic industry. Again, here is another very important part of the agreement which turns or is impacted upon by the definition of the domestic industry. But once the industry is defined it suggests to us that there needs to be a pervasive aspect to the injury which has allegedly been caused.

The commission is required to evaluate all relevant factors of an objective and quantifiable nature which have a bearing on the situation of the industry. The causal link between these increased quantities of imports and this injury must be demonstrated, again on the basis of objective evidence, and competing causes of injury must be weighed up so that, when factors other than increased imports are causing this injury, such injury is not attributed to the increased quantities of imports.

The commission also has to deal with the concept of the relevant causal link which must be established. This has been examined by the Federal Court in the antidumping arena, the court having ruled in that circumstance that the necessary causal linkage required a finding by the investigating authorities that the dumping - dumping in that case - involved was a sole cause of injury which could of itself properly be called material.

This is not to say that dumping must not be the sole cause of injury,or in our case that increased quantities of imports must be the sole cause of injury to the domestic industry. What it means is that there must be a finding that injury which can objectively be quantified as serious has been caused solely by the increased quantities of imports. There may be other causes of injury to the industry, and it's a job of separating out the injury caused by these different factors. All of this emphasises the strict approach which has to be adopted by the commission in determining whether circumstances exist for action to be taken by way of safeguards measures.

The severity of the serious injury standard is supported in the material facts which have been alleged by members of the WTO in safeguard cases notified to the dispute settlement body since its inception, and there is also some useful precedent which we'll be offering to the commission about the way in which this concept of seriousness has been considered in that international forum in a slightly different context. The councils submit that the evidence will show that the Australian pork processing industry has not suffered injury. In fact, again depending on your definition of the industry, it may not have suffered injury at all.

It would be remiss of me not to reiterate that in any wider industry approach not only would it be reasonable to expect that there would be other causes of injury, because you're considering the injury along a wider front, but that the good performance of one part of the industry must be seen as offsetting the poor performance of any other part. Also there will be swings and roundabouts in the performance of the industry over a period of investigation as good years follow bad. Serious injury, I suggest, must be considered over this continuum, over this period of investigation we've identified, and not just now.

Let's turn to the issue of threat which you've raised, quite properly. Again, there are strict tests which need to be satisfied before you can determine that you can take action because of a threat of increased quantities of imports. The agreement on safeguards gives further guidance on the question of threat, saying that a determination of this threat must be based on facts and not merely on allegation, conjecture or remote possibility. We believe that the evidence will show that there is no such threat under this test and that factors which have led to recently decreased import volumes show no sign of changing in the time period suggested by the use of the word "imminent". Also, there is evidence of a recovery in prices here in Australia, and our client will also seek to address this issue in its later submissions.

I'd now like to comment a little on some of the evidence that has been presented to you so far, or at least some of the submissions which have been presented to you. In that increased quantities of imports must be a sole cause of serious injury which is significantly impairing the industry overall, one would expect there to be only a few minor competing causes of injury. If it shown that the processors of Australian pork are suffering serious injury, then it will be necessary for the commission to carefully consider why this is occurring. In the short period since the investigation commenced, interested parties have suggested that things like poor returns on international markets and a concentration of retail buying power may be hurting the Australian industry. We even heard mention about inadequate labelling laws having had some effect. We would add other factors to that list and we will do so in our submission, such as the price of directly competitive meats and reduced consumption as a result of health scares concerning pork products.

If input costs are high for Australian pork processors, then the reasons for this would need to be examined, but all of the evidence appears to suggest that the opposite is true as input costs - in other words, the input costs of the pig - are low. So it's a little bit contradictory in that regard, because the commission has heard much about the problems faced by pig growers, including weather, feed and protein costs and even quarantine restrictions on genetic materials.

In conclusion, the councils submit and will continue to submit that there can be no grounds to apply safeguard measures to imported pork products falling within this tariff subheading. The councils will offer their further assistance to the commission by lodging another submission. They're very appreciative of the opportunity to put their views on the table. They wish to do so fully and frankly so that there can be a proper debate of these issues and a proper finding which flows from your consideration of them.

What is happening here in Australia does not fit within the safeguards agreement. I say that with the utmost respect to the industry and without any intention of suggesting that those who have appeared before you are not passionate about their industry and its success and what needs to happen to make it tick. So this general Australian pig industry can't get into the tight clothes of a safeguards agreement. It's a legal document, it's not a flexible policy instrument, and for all of those reasons the commission needs to very, very carefully consider the evidence which is put before you in arriving at its finding. Thank you.

PROF SNAPE: Thank you very much. That is a helpful submission and I trust that other parties will note the various points which have been made. It underscores some of the points that we have been making in our issues paper, with the points that I've been making at the beginning of each of the 3 days of these hearings, that the safeguards agreement is a framework within which one has to operate and if one were not to do so properly one would be holding oneself open for challenge at the WTO proceedings, as Mr Moulis has been indicating. A number of points there I think need consideration. It's a submission which is rather different from the submissions that we've had heretofore, but it is drawing out the legal ramifications of the agreement and the process, and they have to be taken very seriously.

I would just like to ask Mr Moulis if he could address, not necessarily today but in subsequent thinking, and this of course applies to all other participants who are looking at it from this approach also - I would like just to draw one or two things to their attention in asking queries. One is the relationship between the agreement on safeguards and article 19 of GATT 1994. Article 19 of GATT 1994 is of course, as Mr Moulis indicated, headed Emergency Action on Imports of Particular Products. The safeguards agreement says in its preamble:

> Having in mind the overall objective of the members -

this is, the members of the WTO -

> to improve and strengthen the international trading system based on GATT 1994 -

and then -

> recognising the need to clarify and reinforce the disciplines of GATT 1994 and specifically those of its article 19 (Emergency Action on Imports of Particular Products) to re-establish multilateral control over safeguards and eliminate measures that escape such control -

and so on. Then after a bit more preamble it goes on to the articles. A question that I think needs to be addressed is the relationship between this agreement and article 19.

A number of other agreements were reached in the Uruguay round and adopted by the members of the WTO. There were agreements, for example, on textiles and clothing, on the application of sanitary and phytosanitary measures and rules of origin, subsidies and countervailing measures. Each of these agreements were interpretations in some way or other of relevant articles of GATT, but in many cases their provisions are somewhat at odds, and in some cases quite substantially at odds, with the provisions of the articles which they seek to interpret and elaborate. So we do have then to consider the relationship between the two.

I mention that because today Mr Moulis has drawn attention to two words which appear in article 19 which do not appear in the agreement on safeguards. He didn't draw attention to one word that goes the other way, in fact a word which is the agreement, which is, as I understand it, deliberately not the same as is in article 19. But the two to which he referred were in fact "emergency", that is, emergency action - and, while that appears in article 19, it does not appear in the agreement on safeguards - and "unforeseen developments", which appears in 19 and which does not appear in the agreement on safeguards.

My question then is, as we are working on the agreement on safeguards do those words "unforeseen" and "emergency" carry over in how we have to apply and interpret the agreement on safeguards. Putting it another way , it may be argued that the unforeseen provision refers and was part of the GATT and is part of GATT 1947 and has carried over into GATT 1994. But it could be argued that it was deliberately not used in the agreement on safeguards. So one line of argument would be there was a reason for it not to be used in the agreement on safeguards that no longer did one have to show the things that happened were unforeseen. Another line of thought was saying that the agreement on safeguards is sitting on top of it and it was not that it was deliberately avoided but it was just that one should be interpreted in the light of the other.

So that's the other word to which he didn't refer to which I might draw attention is that article 19 refers to domestic producers, whereas in the equivalent, if you like, places in the agreement on safeguards it refers to the domestic industry. Again it could be argued that that change was deliberate. It may have been deliberate; if it was it would lead, for example, on the one hand to be saying, "If the majority of producers are affected, then" - such and such. But if one says that the change was deliberate, to go to industry, it may be that one has to establish that the majority of the industry is affected. So there's that change also. I don't intend and certainly would not try to be answering those questions at this stage, but they're questions which have to be addressed and Mr Moulis, as I say, has raised two of them and I'd draw attention to other parties to those points there.

One or two other points that I may address - Mr Moulis has asked that the commission give some guidance to interested parties with respect to industry definition - I think if I could correctly shorthand the request. Again I don't intend that that should be done at this stage. It is a crucial question, as I have been indicating in the hearings in the last 3 days. One point I think which is relevant - and the extent of its relevance of course I'd invite comments upon - is the following: part of the industry is vertically integrated and we had one of the representatives of that - in fact the major representative - vertically integrated section of the industry with us this morning and that was Bunges. They are in fact going right from peaks through to the final product at least with some of their pigs. So part of it is vertically integrated.

We have another section of it which is sort of vertically integrated in KR Darling Downs which is a cooperative and owned by the pig farmers. So again one could say that that part of it is essentially vertically integrated because the abattoir and processing plant is owned by the pig producers themselves, so the pig producers have a direct interest right through. They're not in the same arm's-length relationship as some other parts of the industry. A very small proportion of a total number of pigs - I think it's around 5per cent or so - are sold at auction. When they're sold at auction of course the ownership - in that case the farmers are essentially producing pigs and selling pigs.

Much of the rest, the bulk of the industry, as I understand it, the pigs are essentially sold on contract and the ownership passes, not as they walk into the abattoir but basically as they're coming out of the abattoir - that is, the ownership passes when they have been killed and gutted and are hanging on the hook over the scales. With that being the case it might be argued that the farmers are not producing pigs because what they're selling is in fact a slaughtered and eviscerated pig. So the relevance of that to the definition of the industry might also be considered, the point there of course being, is a bone-out frozen leg the same industry as the slaughtered animal hanging on the hooks, passing over the scale.

So these are some of the questions which I think are relevant to defining the industry which are a little bit different perhaps from at least part of the picture that Mr Moulis was giving. Again I'd invite attention from parties in general to the question of the definition of the industry when one takes into account those relationships.

MR MOULIS: It's very helpful to have that indication.

PROF SNAPE: We then go to page - it's a small technical point as to the implementation of the agreeing of subsidies and countervailing duties and the anti-dumping agreements into Australian law and Ithink the implication there was not quite correct in that Australian law doesn't directly implement those agreements. What it does, law is passed to implement some of the provisions of those which as you suggest later on, part of that implementation may not be strictly in accord with what was agreed. So it is not, as occurs in some legal frameworks, that the treaty in fact becomes the law of the country and that treaty is then implemented as such. It is in fact some provisions of it are legislated and the legislation may be or may not be fully in accordance with all or some of the provisions of that international treaty. So the legal position there is not quite as I think was implied in some parts of this paper.

A reference was made in the paper to the question of increased imports being a sole cause of serious injury. This may be in legal language and which of course as an economist I'm not an expert, but let's jump in. The point there of course is what must be established is that any injury - the serious injury - that the industry is trying to establish that there must be serious injury attributable to an increase in imports. That doesn't mean that there may not be other causes of serious injury but there has to be enough, if you like, serious injury attributable to the increased imports in order to sustain the argument.

Whether that means how big that has to be, relative to other serious injury, I think is not questioned. It could be - in the way in which the Australian gazetting has interpreted the agreement and the agreement itself - that there are other sources of injury which have caused a greater amount of injury. That incidentally differs I think from the way the Americans have in fact legislated into their legislation the relevant provisions of the agreement where they in fact have said, as I understand it, that it has to be greater than any other - that the increased imports have to be a greater effect than any other sole influence. The Australian legislation or the Australian gazetting and the agreement itself, more importantly, does not have that provision in it.

So, yes, it has to be increased imports which are themselves causing serious injury and that is the criterion. How big those imports have to be I think is not specified. It's suggested in the paper that they have to be a large increase in imports. I don't see that as such in the agreement. It says there has to be an increase in imports and so a threat of increased imports is not adequate. There has to be an increase in imports. A threat of injury can be there but not a threat of increased imports. So it is not specified how big, so far as I see at this juncture - and I'm open to persuasion and these are the points I'm asking for a reaction to. I don't see in my reading of it that there has to be a large increase in imports as such.

Criteria for serious injury is very difficult and as you point out in this paper, the competent authorities should evaluate all or are required to evaluate all relevant factors of an objective and quantifiable nature having a bearing on the situation of that industry. It says that they shall evaluate - I'll just read it again:

> In the investigation to determine whether increased imports have caused or are threatening to cause serious injury to a domestic injury under the terms of this agreement, the competent authority shall evaluate all relevant factors of an objective and quantifiable nature having a bearing on the situation of that industry, in particular the rate and amount of increase of imports of the product concerned in absolute and relative terms.

Then it goes on to a number of other points there. I'd invite comment on this interpretation. My interpretation of that would be that one has to go through - and in fact operate as a bit of a check list - in fact look at all the points that are evaluated there. It's not necessarily an exhaustive list; one could look at other things as well.

But one would be wise, I think, to at least look at the various points which are specified there but I don't think it is required that one has to get an absolute positive on each of those points. In other words, one takes them all into account and evaluates them, taking into account all of them, whether there has been serious injury. One doesn't have to in fact give it a tick on every one in terms of saying, "That is showing it, this is showing it and the other one is showing it." Rather it is going through to establish that one has looked at all of these but taking account of all of them and balancing it up to see whether there is serious injury that can be established.

MR MOULIS: Perhaps if I could just mention that there is authority to that in that respect.

PROF SNAPE: To my interpretation just then?

MR MOULIS: Yes, in a technical way in one of the panel findings in the agreement on textiles and clothing where it was said that the list of factors in that agreement needed to be considered as part of the investigation process.

PROF SNAPE: Although one must point out, of course, that one could draw on that but that is under a safeguard procedure under the agreement on textiles and clothing and not under the agreement on safeguards. That of course brings me to another point and that we would be very grateful if you and other parties can bring all the case law that one is aware of to our attention in trying to decide and to make a judgment on it. Part of the problem, as I have said before, is that this agreement on safeguards is a new agreement and there isn't much case law in the context of the agreements on safeguards itself, though there are a number of decisions over the years by the GATT panels and more recently the WTO which have relevance and which can be applied and we would be most grateful if you can help us as much as possible on that. We don't want to find out that we have missed the crucial one at the last moment. I'm sure you wouldn't want us to find that out either.

They are my comments on the very helpful presentation. I suspect that you would probably not want to comment back at this juncture but if you did, then do.

MR MOULIS: No, that's fine. As I said, the council has appreciated this opportunity and the process issues are important.

PROF SNAPE: Thank you very much and to Daniel Moulis, Freehills and the Canadian Meat Council and Canadian Pork Council. Again I would ask that other participants note this submission and the points made in it very seriously in trying to establish their case. Thank you very much.

PROF SNAPE: We have next - lagging a little bit but I think we are still within the framework of catching our planes - so we would invite Christine Sapwell and John O'Dea to come and make their presentation. I gather you have come from interstate and we thank you very much for that and I am sorry that we are not able to hold hearings everywhere, but you will appreciate some of the constraints. If you would, when you are ready, both like to identify yourselves separately for the tape and then, Christine, you will be doing the presentation first, will you?

MS SAPWELL: Thank you. For identification purposes I am Christine Sapwell, a pig producer from South Australia.

MR O'DEA: I'm John O'Dea. I'm also a pig producer from the upper north of South Australia.

PROF SNAPE: Thank you.

MS SAPWELL: My presentation is different to those which you have heard before and it's really my background in the industry and where I find myself today. I commenced in the pork production industry in 1968, having come from a background of bookkeeping, clerical work in the public service and private enterprise. With my husband we invested our own funds, together with an arranged overdraft, and built a hundred sow piggery and home. Working long hours per day, 16 plus, 7 days a week and taking from the business only enough to buy food and clothe children with essentials, we were debt-free by the end of 1976.

Profits were not large - sometimes quite low - but we were building up an asset and found the industry interesting, with a challenge to always improve on aspects of production and thereby increasing our efficiency. We managed to take a holiday after 11 years' continuous work and eventually educated three children and remained debt-free. In 1992 my husband and I divorced and despite a substantial property settlement figure, I managed, by relinquishing my share of our off-farm investments, to remain debt-free. At this time the number of full-time employees now totalled three, plus myself as bookkeeper, overseer and financial manager.

Through 1992 and 1993 I considered my future options as my own ability to work as hard was diminished through a spinal problem which had seen me have a fusion of the 6th-7th vertebrae. After contemplating other areas of investment available to me I was offered the opportunity of an investment with others in a 3500 sow piggery. That was the size at that time. My decision to take up this opportunity was made on the basis that 25 years' experience and hard work should equip me with greater knowledge in this field of investment and the ability to make some business decisions with others from similar backgrounds.

With a little persuasion on my part my bank agreed to use my existing business and property as security against a loan to enable me to commence business within a joint venture operation of a larger piggery. This group of investors had interests in a slaughtering facility in Victoria, through which the production from this larger piggery would be slaughtered and sold. This improved the integration of the business, taking control of the product to the wholesale retail stage and well beyond the farm gate. The new investment increased the sows I now owned from 150 on my original property to a total of 470 - 320 now being held within the new investment. The finer detail of this investment is within my commercial-in-confidence submission.

Because of its size, the larger piggery gave me the scale of production to bring about efficiencies not possible on my original property. However, my smaller, privately owned property was run efficiently within the bounds of its operation and was responsible for generating the income to cover the cost of borrowings for the larger investment in the initial phase. The new investment needed considerable updating in the areas of technology and feeder design, feed delivery systems, effluent disposal and handling and expansion of facilities in line with improved production outcomes.

This responsibility meant that the home piggery needed to be running very efficiently to fund its own outlays and financially back the new investment. Progress was sure and steady, with budget predictions accurate and board meetings within the joint venture lively and informative. Decisions were based on the collective experience of members, many of whom had more than 25 years' experience in their own piggeries. Dividends in the form of drawings from the new investment were used solely to repay borrowings and by January 1996 the debt had been reduced by 42 per cent.

The pig industry was hit byhard times in late 1994, brought about by high feed grain costs attributed to shortages caused by a widespread drought, along with increased quantities of subsidised imports which competed with the higher priced local product. With increased production costs and reduced per kilo returns for pig meat the industry tightened its belt, postponed non-essential outlays and tried to ride out the downturn. During this period 1000 pig producers decided to depart the industry and took with them the estimated 30,000 sales.

Toward the end of 95 and during 96 there was a drop in production Australia-wide which resulted in higher pork prices in real terms than I had seen in my 28 years in the industry. However, those pig producers remaining in the industry at this time had been made well aware that costs of production must be reduced if we were to have any chance of survival against future subsidised imports. On my own, home farm maintenance had been put on hold during the downturn in 95 and new feeders were required to reduce feed wastage, along with structural improvements to bring about improved growth rates. This expenditure on increased efficiency amounted to $31,640 on a reasonably small piggery.

The joint venture piggery embarked upon a similar exercise with parallel aims of reduced cost of production. For most of 1997 prices received per kilogram in South Australia were just above the cost of production for most piggeries but for the first time ever the normal price increase expected and relied upon by pig producers as the Christmas ham market demand occurs just didn't happen and in fact from August to

December the average price in South Australia for prime grade pork went from $2.20 to $1.95 a kilo.

Throughout 97 a positive cash flow was therefore only marginally maintained. In South Australia in January 98 prices continued to fall until a low of $1.36 a kilo was the average gross received for pork in May. Since that month there has been a gradual increase in prices but to date they still remain below the average cost of production throughout Australia. In real terms this has meant substantial losses on a weekly basis for pig farmers throughout Australia. The very best producers throughout the country have been suffering substantial losses.

On my own home farm, since the beginning of April 98, I have been losing $2300 a week. Losses at the larger piggery investment have been proportionally equivalent, with finance having to be borrowed to keep both piggeries operating. Pig farmers have only two choices in these circumstances: to find the cash to feed their animals or make the decision to market them immediately. When there is a lack of demand in the marketplace, increased marketings will only further reduce the prices received, thereby increasing the losses.

For each 100 sow herd the investment required is approximately 400 to 500 thousand dollars per sow place, with a further $300,000 in working capital being required to provide feed for progeny to reach market weights and hence income positive. For this reason, the pig farmers who survived the 1995 industry crisis have substantial capital investment at risk and departure from the industry in the current crisis will mean losing all they have worked for over many years. It will also be a choice of last resort.

In my own situation my asset base has been substantially reduced. My piggery buildings effectively have a value of nil because investment in Australia’s pig industry would be financially disastrous and banks are well aware of current trading problems. My livestock valuations would now, if sold, barely recover my indebtedness. Effluent dams would prevent the property in the short term being of value for another enterprise. My ability to relocate would be reliant on the property being sold.

In summary, all I have worked for over 30 years has been reduced by at least 50 per cent, with around 4 to 5 years’ work to clear the site before I could totally salvage any value left in the property. Pig breeding, which is all the property can currently be used for, can’t generate income to repay my recently acquired debt. My own situation is serious. My workforce has reduced their hours by 40 a week. I am working off-farm 3 days a week to assist with cash flow. Without an improvement in the market situation the larger piggery is also in danger of being unable to trade profitably. With permission of my other partners, I would be prepared to make their financial figures available in commercial confidence.

PROF SNAPE: Thank you very much for that. John O’Dea, do you wish to come in at this stage or - - -

MR O'DEA: I'm quite happy if you want to ask Christine any questions.

PROF SNAPE: Thank you. I gather things have improved a little bit in South Australia of late - you may wish to comment on this, as to whether they have - with the new abattoir at Port Wakefield, is it?

MS SAPWELL: I don't think that's had any effect at all.

PROF SNAPE: It hasn't.

MS SAPWELL: No.

PROF SNAPE: Are prices turning up in South Australia?

MS SAPWELL: Prices have recovered slightly but bearing in mind that it's about a 3 and a half week lag between when you sell the pigs and when you get paid. The cheques coming into the piggeries are still very low at this stage. So, no, although there is an improvement which will show itself quite soon, it's only a marginal improvement.

PROF SNAPE: What about your feed costs? Do you mix your own feed?

MS SAPWELL: Yes, I mix all but two rations which I have done feed trials with and received better growth rates on a pelleted ration for very much smaller pigs. So we purchase a pelleted ration for those two areas.

PROF SNAPE: You don't make your own pellets?

MS SAPWELL: No, a pelletising plant is a substantial outlay and you have got to have a large throughput to justify that.

PROF SNAPE: Have you considered your feed costs in terms of the world prices of grains to see what effect - - -

MS SAPWELL: A nutritionist prepares the rations and they would be similar and cost similarly to most other piggeries feed grain-based rations. I can obtain some figures relating to the import versus the domestic cost of grain in Australia. I can provide you with some figures, although not here directly. I can provide those figures which show that over the last 11 years the variance between the domestic and the imported price has averaged $17 against us - sorry, $17 a tonne.

PROF SNAPE: If one were then to be comparing with the export price of grains rather than the import price of grains, since Australia is a net exporter usually of the relevant grains, do you have any evidence on that?

MS SAPWELL: Over 11 years the difference has been 17 a tonne against us so, yes, there - - -

PROF SNAPE: But that's comparing with import parity rather than export parity?

MS SAPWELL: Yes.

PROF SNAPE: The export parity one must expect to be lower.

MS SAPWELL: It's really comparing the international market for grain and therefore what we're exporting our grain for, versus what the domestic industry must pay for it. I don't believe we need to get away from a single-desk arrangement which might be in Australia's international best interest, to be able to buy grain at internationally competitive prices. It's really just this difference of domestic pricing versus the international pricing.

PROF SNAPE: You mention or implied that there were economies of scale in the production. Where would they be? Where would see them stemming from?

MS SAPWELL: You mentioned earlier in one of the other presentations the number of rations mixed. That's one of the economies of scale that can be introduced on a larger piggery that's very difficult on a small piggery - mix many rations - and certainly a larger piggery lends itself to more refined and finetuning of feed requirements for pigs. Even in the scale of negotiating sales of pigs, if you are negotiating larger quantities you're considered to be of more value to a processor than if you are a small producer.

PROF SNAPE: Have you explored long-term contracts?

MS SAPWELL: There are no such things in Australia. There are short-term contracts and in the recent downturn without exception those contracts were withdrawn. Perhaps I shouldn't say without exception, because it might be that there are contracts which I'm not aware of which remained in place, but there are very publicly known cases where the contracts were withdrawn. They were offered to sign an agreement which would relinquish the company from the contract, and the letter read that if they valued their future trading relationship with that company they would sign the form.

PROF SNAPE: No-one challenged that?

MS SAPWELL: I think there were one or two producers challenged that and they're no longer dealing with the company.

PROF SNAPE: They haven't sought any legal action on that?

MS SAPWELL: No, they didn't, because it was correct that their future trading relationship would be damaged, and we really are at the mercy of the purchasers of our pigs.

PROF SNAPE: When you were talking about short-term contracts before, were they, what, 6 months or so?

MS SAPWELL: They might be for a period of 12 months and they'd be reviewed on a monthly basis, so there would be a fluctuation of a price depending on the marketplace maybe on a monthly basis. That would be an agreement that would be reached with the people signing the contract. All I'm alluding to is that those contracts have not been worth very much, because when times get tough they're withdrawn.

PROF SNAPE: They're not very robust contracts, are they?

MS SAPWELL: They probably were but there is a threat that if you insist on the contract being met, your future trading relationship with that company will be damaged.

PROF SNAPE: It would appear that some investments are going ahead. Particularly there are a lot of plans to invest in new abattoirs, so some people must see a future in the industry here.

MS SAPWELL: The larger piggery that I'm involved in is one of the people who are one of those proposed larger investments. We did see a good future for the industry because there are a number of aspects which hold promise for the Australian industry, and the Bunge representation to you alluding to the opportunities in Japan is part of that. However, currently the downturn in the industry is so severe and the situation is so urgent now that unless we're able to do something to encourage pig farmers to stay in the industry and encourage their lending authorities to allow them to stay in the industry, the sow base is going to be severely damaged. Without the sow base the levels of production won't be there to justify the planned investment in new slaughtering facilities, because those facilities must have a throughput to be competitive and profitable themselves and repay their own debt.

PROF SNAPE: You see then the current state as really a temporary phenomenon, that given assistance to get over that temporary phenomenon, then say in 3 years or 4 years or whatever that assistance could be withdrawn and the industry would be self-sustainable from then on?

MS SAPWELL: Yes, I do see that.

PROF SNAPE: But what is the adjustment which would then have occurred to make it self-sustainable and not be requiring emergency assistance again?

MS SAPWELL: As the Bunge representation mentioned to you, the infrastructure is not currently available in Australia in sufficient quantity with boning rooms within slaughtering facilities, and there is nowhere that the Japanese actually purchase pigs where the boning room is not alongside of the abattoir. In all of the planned expansions they involve a boning room or boning rooms within the abattoir. This would give us the ability to export more. Currently we would probably be almost at maximum capacity for potential exports. In other words, we are exporting as much as we can physically kill, and therefore that is a limiting factor, that we don't have that infrastructure there.

I believe the other area that Australia has to attack is the cost of our feed to produce pigs. We must find cheaper sources of feed or re-refine our rations or in some way minimise our feed costs, because that's the one area where we are not competitive, and time will allow us to do that. We have not been daunted by anything else that was put in our way and our research capabilities are probably second to none in the world, and I believe that with time we will be able to investigate that and come up with solutions.

The export opportunities will also mean that we are less vulnerable to downturns in the domestic industry, because a greater proportion of our stock would be being sold in another market and therefore we would be less at the mercy of this fluctuation of imports coming in. It would give us time to have the subsidies which other countries are meant to be reducing coming closer to allowing us to trade on a level playing field.

PROF SNAPE: That really brings me to the point I was going to ask a moment ago, and that is that you do see that, once the world market is less distorted with subsidies and once perhaps the Japanese market is more open, as is foreshadowed, the Australian producers would be able to survive on world prices?

MS SAPWELL: Yes, I believe they would. I wish I'd brought a slide with me which the ABS provided the figures for, which shows that in fact on a productivity basis we are more efficient than Canada and the US, and they would be our two closest competitors. They do beat us in our cost of production.

PROF SNAPE: But they get cheaper grain than you do.

MS SAPWELL: That's correct. All things being equal, we are more efficient.

PROF SNAPE: Good. Thank you very much. Mr O'Dea, do you wish to - - -

MS SAPWELL: Could I just add - - -

PROF SNAPE: Of course.

MS SAPWELL: Something that Sara said this morning and a figure was used which was incorrect, and I would just like to mention that. It referred to a graph she had up relating to Ballarat prices and you mentioned a 75-kilo carcass at $1.85 and then someone mentioned a figure of $190 and therefore that was profitable. $138.75 is the income from a 75-kilo dressed weight carcass at $1.85, and less costs of selling - which I'm not equipped to provide you because I don't sell in a live market - and less levies and less transport would still have you well below the cost of production currently on those Ballarat figures. I thought the inference was that that figure was profitability, and it isn't.

PROF SNAPE: Thank you very much for that. I may be recollecting a different slide. The slide that I'm recollecting was in fact a liveweight calculation which was $1.70, which I then asked whether she was selling 100-kilogram pigs, since it was a liveweight price of $1.70, which converted into $170. But we can check it back through the transcript. That was my recollection, but I may have it wrong. Thank you very much for that.

MR O'DEA: I'm John O'Dea. I come from the upper north of South Australia. I'm a pig producer. The reason I'm here is that 2 and a half years ago two other producers and myself in our area looked into expansion - and we had between 30 and 50 sows each - to take on some of the world best practices to ensure that we had a long-term future in the pig industry. We set up a 200-sow joint venture between the three of us. We used segregated early weaning principles, we destocked and restocked our piggery. I had a pneumonia problem. The two others weren't as serious as we were, so we restocked, started again with the highest health status stock we could access in Australia. We set up three units, a breeder unit, a weaner unit and a finisher unit. We set up the principles of batch farrowing, artificial insemination, which originally was 50per cent of our herd and is now 80 per cent of our herd, using terminal size for meat production, plus we were in a boor syndicate for maternal line boors with a closed herd that we can access our own breeding stock.

With the weaner unit, the pigs are sent in there at 3 weeks of age. They stay there for 9 weeks. We've split sexed, we've brought in phase feeding. We use all pelleted feed that we obtain from Ridley's feedmill at Wasleys and then we run batches of between 270 and 300 pigs every 3 weeks.

PROF SNAPE: Batches off to the - - -

MR O'DEA: Of pigs. The batch farrowing system is a system whereby we get our pigs set up that we farrow down 32 in a week, then they are all in a very similar age. Then they can go into rooms and they can be grown out. Because they're a similar age we can change the feed at certain times to maximise growth. The reason we've done this was to try and use some of the economies that have been mentioned that the larger-scale piggeries have, with numbers and being able to specifically feed those numbers on their way through.

We have only been going for 2 years. That's the major problem. I'll put some of the graphs in front of you to show that our sales of kilograms is consistent, our pigs sold is consistent, but the price, especially since March through to - well, even now the price has gone up a bit, but it's had a very serious effect on our joint venture, even though we do have what I can see is a very, very competitive cost of production. I've got a batch sheet in front of you. That's how we set up our rooms with all those figures there and that's how we work out our cost of production. Our cost of production over the last 4 months since we've had these in action has varies between $1.65 and $1.87, and that's landed up at the abattoirs. That's will all selling costs out.

PROF SNAPE: Between $1.65 and $1.87?

MR O'DEA: Yes. One of the reasons that we went into it was to use the economies of scale but also to give us a chance to have an expertise in each section, being the breeder section, the weaner and the finisher, instead of being the jack of all trades, and we've seen a lot of benefits there. While we're still building up now, we believe we're on the right track. I know in my own situation before, I was putting out a 95-kilo pig about 24 to 25 weeks, and now we're putting out a 95-kilo pig in 20 weeks. That's an average.

The chart I have for the last 6 months - we average 72 kilos dressed for all our pigs sold and a back fat or P2 measurement of 11.5. So we know our pigs are of a very consistent quality. We've outside people come in and check them. So we believe that we've done as much as we can as far as being medium size or smaller producers, whatever you class as a small to medium producer, but we've still come through this, where we've been severely hurt. There's one graph there with the expenditure-income feed cost. We're consistently above feed costs up until the April, May period, where our pig prices plummeted, where our pig prices plummeted, and we had no say.

In our setup with the joint venture, the joint venture owns the stock, supplies the feed, the vet, the consultancy and pays contract rates, and the three joint venturers contract their services with their units back to the Porfect Pigs joint venture. That way we can access a total cost of production. The contract rates include labour, depreciation, repairs, capital outlay, repayments and interest, power and water. So we believe that with our cost of production we've pretty well covered everything we can. That's really an overview of what we've done.

PROF SNAPE: You then contract to whom?

MR O'DEA: We sell our pigs to Daylesford in Victoria, which we've become involved with recently. We had a contract last year but that was reneged due to the circumstances that have happened since then.

PROF SNAPE: So you've now moved to Daylesford?

MR O'DEA: Yes.

PROF SNAPE: This year, is that right?

MR O'DEA: Yes, in February.

PROF SNAPE: In February. So you have in fact moved away from the contractor that you were selling to before?

MR O'DEA: Yes. We've moved away but we didn't just move on from choice. The contract wasn't available any more.

PROF SNAPE: Daylesford is a fair way from where you are.

MR O'DEA: Yes, it's about a 12-hour drive with pigs on a truck, but once the pigs get on there it doesn't seem to matter how far they travel, within reason.

PROF SNAPE: The 2-hour figure which I got this morning - - -

MR O'DEA: Yes, it's a lot of difference.

PROF SNAPE: - - - was a figure we were told up in southern Queensland actually. Perhaps it's climate or something.

MR O'DEA: Where we are we don't have an option. Adelaide is the closest and that's at least 3 hours, but we belong to a group marketing system where we've tried to target marketing over the last 5 to 6 years and access the best markets, and we sort of believe that we're looking to the future where we've gone.

PROF SNAPE: Are you getting any prospect of long-term contracts with Daylesford?

MR O'DEA: No, Daylesford is a producer-owned abattoir, and by that you look at obtaining the best price that you can all the time.

PROF SNAPE: So it's just on a shipment by shipment basis?

MR O'DEA: I'm not really able to answer that. Our sales are, yes, but I couldn't really elaborate on that properly.

PROF SNAPE: Okay. Thank you very much. It may be that you would like to run through these tables. A couple of these or at least one table is commercial-in-confidence, I note. Will the others form part of a submission?

MR O'DEA: They will, yes.

PROF SNAPE: You might like to run through the details of this with a staff member afterwards just to point out where things hang together on it. Thank you very much for that picture of how things are. We look forward to a written submission, if that's possible, from both of you.

MS SAPWELL: Thank you. I've got some in-confidence detail here.

PROF SNAPE: Fine. Thank you very much. So thank you very much for that. As I said at the beginning of the day, if there are other people present who would wish to be making a presentation, then I'd invite them to do so. I don't see any volunteers. This is the last day of the currently scheduled hearings, and at this juncture it's the end of the hearings. I suppose that if we had a sudden demand for additional hearings we may find a way of accommodating it but that is the end of what is currently scheduled for the hearings.

We do have a very tight timetable for this inquiry. It's due to be completed by 13 November and we've asked that submissions be in on 18 September. There has to be an opportunity for other parties to comment on submissions in accordance with the provisions with the WTO agreement on it, and so we can't be in a position that we're getting a major submission on 5 November or something like that. That would not give the other parties adequate opportunity to comment. We can't of course be in a situation where we have an infinite series, that is, a comment on a comment on a comment on a comment. Nevertheless, we must provide adequate time for major submissions to have comments from other parties. With that I thank you all very much for your attendance at the hearings and close the hearings for today. Thank you.

AT 3.11 PM THE INQUIRY WAS ADJOURNED ACCORDINGLY

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