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TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

SAFEGUARDS INQUIRY INTO THE IMPORT OF PIGMEAT

MR G.R. BANKS, Chairman

TRANSCRIPT OF PROCEEDINGS

AT ADELAIDE ON MONDAY, 3 DECEMBER 2007, AT 9.12 AM

Continued from 29/11/07 in Brisbane

MR BANKS: Good morning, ladies and gentlemen. Welcome to the public hearings for the Productivity Commission inquiry into safeguard action against imports of frozen pigmeat. I'm Gary Banks. I'm chairman of the commission and I'm presiding on this inquiry.

The inquiry commenced on 17 October, when the now former Australian government agreed to initiate a safeguards inquiry according to the rules set out by the World Trade Organisation. These rules have been laid out for interested parties in the inquiry issues paper which was distributed on 23 October and can be downloaded from the commission's web site.

Specifically, the commission, as Australia's designated competent authority to conduct such inquiries, has been asked to inquire into whether safeguard action is justified against imports of "meat of swine, frozen, falling within tariff subheading 0203.29". Specifically, the commission has been asked to report on - and I quote from the terms of reference:

- whether conditions are such that safeguard actions would be justified under the WTO agreements;

- if so, what measures would be necessary to prevent or remedy serious injury and to facilitate adjustment; and

- whether, having regard to the government's requirements for assessing the impact of regulation which affects business, those measures should be implemented.

The inquiry is to be completed by the end of March 2008, but the commission has also been asked to provide an accelerated report by 14 December as to whether provisional safeguard measures should be put in place for up to 200 days. The accelerated report relates to "whether critical circumstances exist where delay in applying measures would cause damage which it would be difficult to repair".

In the conduct of the inquiry so far, we've talked to a range of organisations and individuals within industry and government, both here in Australia and representatives from overseas. We've done that on an informal basis. The purpose of these hearings is to provide an opportunity for interested parties to discuss their submissions and to put their views on the public record, including in response to the submissions of others.

Following this hearing in Adelaide, we will have a final day of hearings in Melbourne tomorrow morning. We've already conducted hearings in Sydney, Canberra and Brisbane. We'll then finalise the accelerated report by 14 December and work towards completing the final report by end of March 2008. We're not proposing to have another round of public hearings, but further submissions will be welcome. The terms of reference specify that the reports, plural, will be published as soon as practicable.

Well, notwithstanding the rather formal surroundings, we do like to conduct the hearings in a reasonably informal manner, but I do remind participants that a full transcript is being taken and, while participants are not required to take an oath, they are required under the Productivity Commission Act to be truthful in their remarks. The transcripts will be made available to participants and will be available from the commission's web site following the hearings, usually within about three days. Copies can also be purchased using an order form that's available in this room, and of course all submissions are also available on our web site, and we put those submissions up as soon as we can, usually within 24 hours.

The only other matter to mention: to comply with the requirements of the Commonwealth's occupational health and safety legislation, you're advised that in the unlikely event of an emergency, requiring the evacuation of the building, the exits are located behind you, but staff are here to assist.

MR BANKS: I'd now like to welcome our first participant for the Adelaide public hearings, Parish Rural Pty Ltd. Welcome to the hearings. Could I ask you please to give your name and the capacity in which you're here today.

MR PARISH: Thanks, Gary. My name is Ian Parish. I'm here representing Parish Rural, which is my own private piggery. I'd also like to make supportive comments of our integrated operations in Auspork Ltd, which I am chairman of, and Big River Pork Pty Ltd, which I am currently a director of and the original founding chairman.

MR BANKS: Good. Well, thanks very much. We had the benefit of a conversation with you when we came to Adelaide previously. You've made an excellent submission which I've had a chance to read. It does have some confidential pages and it may well be - - -

MR PARISH: A single page, yes.

MR BANKS: Just one page, that's right.

MR PARISH: Where I bared my soul.

MR BANKS: Okay. It may be that more of it has been marked on my copy as confidential than you actually want yourself, but, as you know, in this inquiry it's best to have as much on the public record as possible.

MR PARISH: Sure.

MR BANKS: So we might revisit that. Certainly where you give numbers relating to profitability, et cetera - - -

MR PARISH: Yes. It's purely page 4. That was the only one I intended.

MR BANKS: Good. All right.

MR PARISH: Which is the financial comment.

MR BANKS: Yes, that's good, and that's quite helpful information which we will protect the confidentiality of.

MR PARISH: Thank you.

MR BANKS: All right. Well, I'll let you go ahead and make the main points you want to make.

MR PARISH: Well, having been to three of these submissions, you should be totally convinced by now that the industry is in trouble and we just should be topping up some extra background for you. I do have some sympathy for the time frame you're working in. To get these three submissions in in the time frame is challenging enough on our end, and for you to absorb them all will be a further challenge, but that's, I guess, the nature of what we're dealing with.

My first comment I'd like to emphasise to you is, I started with my own piggery some 25 years ago approximately, and I have mentioned in my comment here that my company has had major investments in Auspork Ltd, which is a marketing company we formed, which is owned by the pig supplier shareholders, and then we subsequently invested in some corporate piggeries, which Rod Hamann will speak to you on - Australian Pork Farms Group - and then we developed the Big River Pork abattoir.

In the Big River Pork submission we've made emphasis to you that Big River Pork came into its existence as a direct result of the federal government export enhancement package which came about after the last Productivity Commission. I just wanted to make emphasis there that that support was well used. It's a state-of-the-art entity. It's received the ultimate of challenges by having a neighbouring works burnt to the ground, and five working days later we were able to put a double shift on and go from slaughtering 13,000 to 20,000 pigs in five working days, so it stood up to its test.

While this is just a part, I guess, of our productivity gains that we've made since the last commission inquiry, I've emphasised that in my own submission, the efficiency gains in my own piggery. To make comment on the lamb issue in the US, I guess you've had others that have emphasised how integrated we are and I hope, from having read both the Big River Pork information and Auspork, the common shareholding, and that each part of the chain - we effectively receive our price for our pigs as shareholders based on the efficiency of that chain and based on the outcome of the actual marketing effort of Auspork.

My piggery is one of 20 which are mentioned in the Auspork submission, as one of the owners. We're owned basically entirely by the pig farmers, shareholders and suppliers. We actually had a share buyback recently, just to allow those that had exited the industry to have their shares go. So the emphasis is totally on supply of pigs, and shareholding value comes from the supply of pigs.

The integrated nature of the three entities is how we've had our efficiency gains to date. We've been forced - I'll have to read my own submission a little. I've made emphasis in the background of the operation of the piggery on how we've moved to breeder-only sites for our breeders and then we've taken piglets off site for efficiency gains in both disease control and in growth, and I've also emphasised that I took the approach of the expensive destocking - complete destocking - of the piggery in the last drought, in 2003. You'll see from my financials that that caused a serious loss period, which I was looking like attempting to regain, until we've come to this period again.

The substance of my Parish Rural submission is based around those efficiencies, and my comment at the bottom there, where I've gained a 10 cents per kilogram reduction in the cost of production above the inflationary costs. In other words, it's 10 cents below where it was when I was talking to the last commission in 1998, including absorbing the inflation from all this capital investment.

I've given you the financials to reflect the non-feed cost changes and the feed cost effects at that time, and that just confirms what I've put in the written submission. I have mentioned that I have lower non-feed costs than some of the average piggeries, simply because I'm a more mature member of the pork industry and my interest bills and my depreciation levels, et cetera, are lower. So you have to look at each entity in its own right, where it is in its cycle, and it's not reasonable just to pick on one and say, "This particular piggery seems to be slightly different. Why is it?" There are background issues that come into that.

I've then mentioned, which I'd like to particularly emphasise, the finance requirements and the capital value. I've mentioned that Parish Rural has joined most piggeries in Australia in losing money, and we've had to draw on our finance facilities strongly. We happen to have finance facilities in place due to our strong capital investment program of recent years and a destocking exercise. I've underlined particularly:

> However, no new finance facilities based on pig profitability forecasts can be created.

In other words, we've basically run out of the ability to borrow or increase facilities because - I've made emphasis here - of the capital value of our assets. There are some individual piggeries that happen to have alternative assets, particularly - as Rod will mention - where you've got a corporate piggery where the assets are totally piggery based. They tend to be isolated by nature and they tend to be very specialised by nature and the alternative uses are basically not there.

Then I've made strong emphasis in the following page, which I'll come to in a minute, on the loss of confidence in the industry; the confidence loss both internally and externally, and I think the external is the most serious one. Once your bank loses confidence in yourself - and they lose confidence as soon as they lose asset support - then there is discussion - as an industry with a high cash flow, we've tended to have a dominance of overdrafts rather than permanent facilities because we receive weekly cheques as part of the normal cash flow of a piggery. There's financial advantage in normal times for operating an overdraft, because you get - in my case, the $100,000 worth of sales per week and you bank on day 7, 14, 21, 28. You tend to pay your accounts on a 30-day basis. That's fine when the industry is operating well, but it's a high-risk strategy because overdrafts have got annual reviews, and I have extreme concern about the annual reviews that roll over throughout the year for myself and my fellow pig investors.

I've emphasised here that all pig enterprises will run out of available cash at some point unless the terms of trade alter in the industry. In other words, we've got the facilities we've got. We don't have the ability to increase those facilities. As we're losing money, eventually you've got to run out of cash unless something alters.

As you're aware in your inquiry, I understand that while the effects of imports - which I'll discuss in a minute - in my opinion, strongly have caused part of the problem, but it's not the only problem. I understand that it's not a case that we have to show to you that it is the only problem. It is just one of the problems that's been compounded in the situation we're in. Is that correct?

MR BANKS: That's correct, but you have to be able to demonstrate that serious injury has been caused - - -

MR PARISH: I understand.

MR BANKS: - - - by imports as a separate contributor, although of course an economist is always confounded by the fact that everything is related to everything else, whereas I think the WTO agreements have a more lawyerly perspective on the ability to separate all the different confounding influences. Certainly the link between serious injury and imports - - -

MR PARISH: Prima facie - - -

MR BANKS: - - - in itself is the important one for the purposes of safeguards, yes.

MR PARISH: Having been privy as an Auspork director to the submission you got from there and the analyses on that, it definitely requires an economist to put the final analysis through to you.

MR BANKS: Yes.

MR PARISH: I've emphasised here that a percentage of the industry has taken the decision to preserve what cash and assets they have and exit the industry or reduce their throughput to free up livestock assets. The concept behind destocking quickly is to regain the cash held in the livestock value, and some have elected to totally go and many have elected to reduce by a third or by a half as a method of raising cash. It's an alternative to not being able to get it from banking sources.

I've emphasised here that that's a triple whammy situation, because excess sow sales and pork add to the price depression by adding to the oversupply of meat, and the production and throughout of those attempting to hang on significantly increases their future costs of production - in other words, they're dividing their overheads into much lower kilograms produced per farm - and the sizeable number of vacated and vacating breeder and grow-out facilities across the country, particularly in Victoria, has slashed piggery valuations. So it's contributed to the total loss of confidence by the banks in the valuations they hold, because once you've got a stock of empty facilities of the same nature, the possibility of selling those is totally reduced to - - -

MR BANKS: Selling the actual facilities they're operating?

MR PARISH: For the bank recovering their funds, is how they judge whether they will lend you money. They look at these facilities and they say, "Well, there are three more facilities just down the road. Why would yours be of any value?" I've written here:

> Unless your pigmeat safeguards inquiry recommends a sizeable interim tariff and creates a slowing of these losses, the current spiral will see many in the industry forced to exit.

My emphasis is on the imminent financial crisis; the damage - in my opinion, irreparable damage because, as we've mentioned in the other submissions, which I'll make comment in a second, is that throughput is the criteria for survival in the pork industry. Each week we set out on our mating to achieve the throughput, and all of us have a targeted throughput of pig production, a targeted throughput of kilograms produced, and that's divided into the overhead costs, and that's how we get our cost of production to be competitive.

As you go down the chain, Big River Pork, with the rebuilding of the Primo abattoir, will go back to slaughtering only 10 to 12 thousand pigs per week, and if that diminishes below a critical figure - and as directors we've asked for that figure to be produced. I have a suspicion it's around the seven to eight thousand pigs per week; that that is viable on a competitive kill fee. Certainly valuations, in my opinion, have been reduced by half in recent times, if you did ever possibly have a buyer.

I then made comment on the impact of imports. Throughout the last six months, as the industry has grappled with high grain prices, no relief has been forthcoming on our pricing side of our product. I've commented there on my roles as chairman of Ausporck. I'm in direct contact with the major users of pigmeat across the eastern seaboard. Massive freezer stocks of intrastock inventories have built up following the Danish strike threat, which you've had plenty of comment on, and you've had plenty of comment, I'm sure, on the stock inventories that are in the country. Not that it's a publicly available document, but when you're intimately part of the industry you tend to get to hear these things more clearly.

The movement in the Australian dollar and the cessation of the traditional internal trading of middles and leg cuts within Australia has had a serious effect. Fresh meat and boning operations suddenly faced a total loss of sales in the area of on-selling their middles and leg cuts that they traditionally do as part of the normal trading, and locally the Port Wakefield fire and the merger of the KR operation from Queensland with Castle Bacon in Victoria brought about production slowdowns and added to the already considerable stock inventory.

So while there was already an issue of excess inventory that came about due to the Danish strike approach, and the subsequent movement in the dollar, which brought the surge in the American and Canadian imports, which is a logical way for those businesses to follow, it then compounded massively by the loss of the Port Wakefield abattoir and the transfer of KR operations to Castlemaine in Victoria. I don't know whether you've had any comment on that at this point, but they operated a smallgoods production in Queensland, producing a volume per week, and they had previously purchased the Castlemaine operation from the Harris family. By merging those two together they attempted over a weekend to shift the total smallgoods operation from Queensland to Victoria.

For many reasons, which I won't attempt to guess, it took them between four and six months to get back to the level of production they could then sell. They actually lost a significant percentage of their sales due to their failure to produce. I mean, obviously empty shelves get filled by alternatives very quickly, and those alternatives in this particular case have been those that there were pure importers of meat, who have sprung up. I think you've had comments in two or three of the submissions on the basis of a new smallgoods producer group has been created in particularly the last three years, where previous - through Auspork we used to sell significant product to two or three Melbourne smallgoods operators, which now purchase very small product. They're up to 90 per cent importing. They only buy in a few legs for prosciutto and they don't bother to do the leg market. If it wasn't for the bone-in-leg market, I think a lot more of the smallgoods operators would become completely import orientated.

MR BANKS: The domestic supply disruption in relation to smallgoods as a result of this - - -

MR PARISH: These two factors, yes.

MR BANKS: Yes. Well, in particular the Castlemaine, KR Darling Downs merger. When was that disruption occurring?

MR PARISH: One week before the fire at Port Wakefield, because through Big River Pork and through a company that Rod will tell you about from Australian Pork Farms Group, we negotiated with the KR Castlemaine to take over the slaughtering of their stock, and so they closed the abattoir one week before the fire. I believe it was March, on a guess, or February. Sorry, it might have been February. February. And in doing so, that freed - they used that on the basis of freeing up a workforce; to give them an instant workforce to take over the smallgoods, and also we were able to provide through the volume concept a significant reduction in their cost of slaughtering and handling and boning of the product. We both slaughtered and broke the product into their production format.

So that occurred, and so there was a concurrent - virtually from February till July before they totally recovered back to a level that they could market. So they never actually got back to the combined total. So that was in that period of - the Danish strike concept occurred just prior to that, as you're aware. The dollar took off just prior to that, and so it was a concurrent occurrence, while the other two issues were occurring.

MR BANKS: Yes.

MR PARISH: Where I'm asking that you give full awareness of the serious nature of the injury that is occurring to us due to the failure to be able to recover these costs is that we're in danger of a major overshoot with subsequently irreparable damage. Throughput at places like Big River Pork and the fresh meat boning facilities in Melbourne and Sydney have to be maintained at critical levels. Once these operations close, the loss of capital, credit facilities and workforce skills does not allow a reopening in most circumstances. If that overshoot - we've talked about 300,000 sows, which you're aware of; we're certainly down in excess of 10 per cent at this point, well in excess of 10 per cent. If that overshoot continues, which I believe at the moment will occur, due to the financial stress, the inability to continue as the cash runs out - and the continuing danger of I guess another season of high grain costs. There's no surety in this country it will rain.

I'd like to just pause there and make a comment: we accumulate in the order of 60 to 70 per cent of our grain requirements as an efficiency or insurance mechanism. In this particular harvest, we've failed to gain more than approximately a third of our supplies. We would normally go for two-thirds. That's been brought about by the very high competition from export and the arrival of the Saudis looking for barley in this state and the continued strong wheat market. So deliveries in normal, even though we've continued to - the usual system is to hang one's plate up at purchasing points around the state. They move on a daily basis and it's been the incredible leapfrog situation that occurs when there's just demand that exceeds availability. So we've been compounded.

What I'm really pointing to you is that we're sitting on a powder keg because normally we have grain through till July, August and we get past these potential surges in cost if the season is late or doesn't occur. We're going to run out of grain before the season establishes. That, to me, becomes a potential Achilles heel that we're heading for. I think you'll find in the eastern states, the ability to accumulate grain - that's currently the summer harvest - is extremely limited and they'll all be hanging on the shirt-tails of their coming sorghum crops that they're hoping for. It's too far away for us.

MR BANKS: So the price outlook as far as you're concerned - - -

MR PARISH: Is extreme danger. We've paid record prices, we've averaged over $300 for all the grains we've purchased, delivered in the new year, and the wheat price has exceeded $350 to $360, so it's double where we were. I've then emphasised that the circuit-breaker in my opinion needs to be a significant tariff, and I think there will be others that will point out to you that there are different levels of competition that come. As a country, we're in the rather unique situation that we get one cut from one country and another cut from another. I don't know of any other country that has that unusual combination.

You've had plenty of submissions and emphasis on - and I've mentioned it - the reduction in carcass weight, the fact that we used to have some export to Japan, and because we could sell to the processing sector we were up averaging 80-kilogram carcasses. We're now down to the low 70s as all of us move to fresh meat sales and marketing, and I've mentioned that. The Auspork submission emphasises the move to fresh meat, away from processing, and that in itself has lifted our costs, but the unusual system is, traditionally we're one of the few countries that use middle rashers as the bacon source. That's our bacon. I think you got a submission from at least one processor that emphasised the uniformity and the ability to reduce waste, et cetera, from that.

So they're coming from a country that normally could not compete with us, because they have an excellent local market where they can utilise the balance of the pig and supply us a middle, and it's far more sensitive to price. It's usually more competitive. We're closer to the middle price than we ever will be to the three leg cuts we get. Those three leg cuts come from pigs that are some 15 to 20 kilograms higher dressed weight. Now, there's no middles could come, because those middles wouldn't fit in any of the processing plants in this country. If there was a reason that the middles couldn't come from Denmark, there's no middle can come, because of the size of the alternative middles out of UK and Canada, whereas legs out of Europe will never be competitive because the local market there sets them at a level higher than our own.

So when you're looking at that tariff - I believe you've had submissions that suggest different levels of tariff on the different cuts, and there is quite a significant difference between the two cuts, and there needs to be a difference. A flat inadequate tariff wouldn't help us.

MR BANKS: You've seen APL's submission. Could you just comment from the point of view of your operations what this would do for you, both in terms of the fresh market but also access to the processed market.

MR PARISH: Well, I think one has to give emphasis to the fact that we're asking for a tariff and not a quota. I mention in my own submission that a quota would cause a shortfall of supply, a loss of customers, a loss across the board of the ability to supply whatever smallgoods and whatever we wanted to produce, so we've asked for a tariff to allow a cost recovery during the period of which this tariff can apply, and we're aware it's a short-term tariff and the tariff has to be phased down over three or four years as we continue, and my emphasis in my piggery submission is for you to see we are doing lots and we are improving our efficiency. We've just run out of time, being hit with two or three most unexpected salvos all in one hit.

I think you've had a submission showing pricing of middles in the last period since the last commission inquiry, and those periods, if you relate those to the pricing mechanism for pork here, our response has been that, as the middle price gets above our middle price, the price of our pigs go up and so forth, so you'll be able to determine a relationship between the two. So I guess the request is for a tariff of significant level to allow us to get a cost recovery, to allow us to survive. We have to get through till the next harvest, whatever that shall be.

MR BANKS: Yes. Okay.

MR PARISH: Changing now to the Auspork and the Big River Pork submissions, I think the main thing with Auspork is that Auspork is basically owned by the APFG group - certainly the majority shareholder that owns over 75 per cent of Auspork. Us other farmers own the balance, and the payment of the funds and how they operate returns is what level of payment we get for our pigmeat. They directly compete with imports. We sell broken meat to our retail outlets, and seasonally those broken cuts are different, depending on what time of the year you're at. We can sell legs right now because people are wanting to make Christmas bone-in hams, but we can't sell legs between February and August because the storage and freezing and holding costs far exceed what the competition can do from imports, and that's the disadvantage.

While we say we've got the bone-in leg market, it's a market - we've got to get Christmas for 10 months of the year, because the significant freezing and holding costs, et cetera, of the leg in February - you'll notice you've had quite a few submissions showing you the tilt following Christmas, and a high slab of that relates to the requirement to carry that product through the season, whereas if we were talking about just using it for other purposes like the imports are used for, well, then it can be utilised at the time of production and so it would be more competitive. So that's a significant negative, carrying through the bones.

Then the alternative time, of course, is not being able to sell middles because of the middle build-up that occurred in this country this year. Our middles hit the wall. Basically, there's emphasis there we've made - and the Auspork submission is confidential, I believe, in its entirety. The emphasis there to their customers - because they mention customer names - who traditionally had sold their middles throughout the year to the smallgoods operators, who just totally lost the sale because of the Danish strike con, which they've done twice. You'd think by the third time they'd pick it up. It's not the first time they've pulled the stunt. I guess why they got believed is why they did it. It dried up that middle market entirely, and that has company suppressed the prices significantly. I think you've had that from quite a few different sources.

I think the last comment is on Big River Pork abattoir. We gave you that as an information document rather than a total submission following your request for information, and we just felt we needed to describe our operation and our throughput, which is what's different to when you talk about other species - cattle or sheep and the lamb market in the US: that the abattoir or a primary processor tends to buy the product and then owns the meat and then distributes the meat and has to on-sell the meat, et cetera, so it gets severely damaged - those operations who own the meat - while they're attempting to put throughput through their abattoir.

I think if you had any bankers coming to talk to you - when we first applied for funds to create Big River Pork, we had some support from the federal government, and the bank computers all shut down as soon as you type "abattoir" into them. They all lock off. They're all programmed to shut down because I think 90 per cent of abattoirs in this country that have been created have gone into liquidation, which is the cattle and sheep side, because they've tended over the years to get hit with seasonal whatever the costs and whatever the crisis is, that they can't carry through, whereas in the pork industry the abattoirs are service abattoirs. They're part of the chain rather than the primary owner of the meat.

The emphasis here is that Big River Pork at no stage owns any meat, any cuts. At no point does it ever own a cut of any description. It purely offers the services for mainly its six shareholders, plus some contract kill, and a short-term contract kill, of course, to the Port Wakefield abattoir.

MR BANKS: In the case of Big River, as you say, it doesn't own the pigs that are going through its processing, but who does and at what point?

MR PARISH: In the case of Auspork, who the piggery owns, I guess the shareholders of the piggery own the abattoir and own Auspork, so we own the pigs right through until we deliver them to the shop or until we deliver them to the retail outlet or we deliver them to a processor, et cetera. In the case of the other shareholders, one of them is George Weston Foods, who are a smallgoods operator who purchase the pigs live. When I say that, they don't actually purchase them live; I've got to retract that. All carcasses are purchased past the scale, so they've been weighed and inspected, and so if they don't make any of the process, it's the farm that loses the animal. If they don't make the chiller, they're not paid for.

MR BANKS: So the farmer is bearing the risk up to the point where they're weighed and cleared.

MR PARISH: In all cases, and then, as you know - I think APL has given you the figures, but I think in the order of 60 or 70 per cent of pigs are then still owned by the farms, as in the case of QAF and the case of the CHM group, et cetera. Then we have a Sydney fresh meat distributor in B.E. Campbell, who operates on a similar basis. He buys pigs post the scales.

There's comment here on the fee structure, how that fee structure relates to throughput, and also the emphasis on the fact that the fees have declined by 40 per cent since the last Productivity Commission hearing due to the creation of these new export abattoirs and the concentration of throughput, and the introduction of significant offal sales by pooling the offal. The secret of offal marketing is to have a container packaged quick enough to get to the customer fresh enough - it's frozen - but to get it there quick enough for them to be having a regular, reliable supply, and in the smaller abattoirs, the three we mentioned here that closed as a result of creating this, we could never pack a container quick enough. Even though two of us were export abattoirs, we could never pack containers quick enough because we didn't have enough volume to get the benefit, and that's a significant part of the efficiency. The return of the offal per pig is a significant contribution to the suppression of the fees.

And there's a mention of boning fees and throughput, and I mention future industry changes relating to if we drop below that critical level it will be the demise of the Big River Pork abattoir. It will be over. I think that concludes my emphasis.

MR BANKS: We've had conversations at other hearings and also here in Adelaide about, I suppose, the complications brought about by the fire at the Primo operation and then the re-entry of Primo again. How do you see that playing out in terms of the viability of the primary processing operations in South Australia or more broadly?

MR PARISH: There are two ways of looking at it. Having seen a fire and having two operations, it's far safer having the ability to operate on if unforeseen circumstances occur. On the contrary side of it, in the normal commercial arrangements that occur and the competitive nature of those that are handling the meat and processing the meat and their relation with their customers, I don't think in any country you could get all of the competitive processors and packers and marketing of meat persons all in one facility. We did quite well to get three or four in one facility to gain the efficiency, and I think the concept of Primo staying there as well was a little bit too hot, given that they're competing with the animals coming in and they're competing with the product going out. It got too close. The emphasis there is, by going to their own works, we've re-created the throughput danger, not anticipating a sudden turn-down in the industry. They certainly didn't anticipate that with their decision to rebuild.

MR BANKS: When did they take that decision? Almost immediately, did they?

MR PARISH: Basically. They've been back in their boning room since, I think, late September, early October, and they've certainly had plans, and these lead times for rebuilding these things are a long process, so that's been well on the way. You'd have to ask them whether they'd reconsider in the current circumstances. Certainly what's it's done is brought throughput back into the equation significantly.

The whole emphasis of those comments from Big River Pork and Auspork: viability comes from throughput. If your throughput goes, that's where, I've emphasised to you, is the danger of the overshoot. If you get the overshoot and the loss of confidence from your financiers and the loss of confidence from your assets, the whole thing just starts to spiral. It just literally spirals on itself, because they lose confidence in all parts of the chain, and any refinancing has to have asset-backing. So unless you change the terms of trade, we're in trouble.

MR BANKS: You mention that you are seeking a tariff, or a significant tariff, as you put it, as opposed to a quota, and you say in your submission and repeat it today that quotas would cause loss of product supply and lose valuable markets for pork products overall.

MR PARISH: Yes.

MR BANKS: When we had the representative of the Danish industry here, he was making a similar point in a way, from a different perspective, and saying that the Danish exports in a sense had contributed to the development of the Australian market, but I thought I'd just get you to elaborate a little bit on that, because some other participants are seeking a quota based approach.

MR PARISH: Well, based on a tariff, then we've still got to market to - I mean, our assumption on a tariff is that there will be a slowing of the imports and a utilisation of our product. We need a market to have there. It's not a permanent tariff. There's no illusion that it's permanent. We have to re-form, get through the drought, get through these other challenges, and maintain a market. Obviously the consumption of pork is continuing to rise across the board. The strongest growth area, as you've had emphasised, is the fresh meat area, and very recent figures have shown we've grown another 20 per cent in the last quarter.

I've always seen imports at a controlled level as being part of the industry. It's an illusion to say that, with the free trade and what's happening in the world, you're not going to have any import competition, but the situation you and I are discussing today is the timing of those imports, the surge in those imports that is brought about by whatever reason it's been brought about, that is causing this irreparable damage to us. We're not in a fit condition to handle them. It's just the timing, the surge, and the happening, is what we're discussing; not the long-term removal.

As time goes on, we will continue to get more efficient, as we put the state-of-the-art abattoirs in, as we emphasise the fresh meat. We're being creative in the cuts and the type and the packaging and the use of moisture-infused pork and all these other things we're doing that are improving our marketing and improving our competitiveness. But you've got to remain viable. You've got to be able to survive to get across these chasms that come up.

MR BANKS: I suppose an economist would say for every quota there's a tariff equivalent, that the quotas have different implications over time. I guess it comes back to my earlier question: you wouldn't see, by implication, a tariff of 40 to 60 per cent, which is around the area that APL has been asking for, as impacting adversely on the market domestically in the longer term?

MR PARISH: No, mainly because in both cases the product will still be available, and I think maybe 40 per cent is not enough. I had my computer on and unfortunately the battery has gone down. I was going to read you - which I'm sure you've been sent 25 copies of - the Danish government announcement. They initially, some three or four months ago, put on a storage subsidy, and that's resulted in some 85,000 tonnes of product gone into store, from figures that I've been given through APL, and now the government has changed and is announcing that they're going to introduce export subsidies for the export of meat from the EU to assist their farmers to survive through the extreme pressures of the cost of grain and the cost of farming in the EU.

So one would anticipate that meat is going to get cheaper. I'm not sure how level that playing field is under those circumstances, so we're in trouble currently without the subsidy. We're in terrible trouble.

MR BANKS: Yes. I've asked the EC to provide information in a variety of areas. They didn't say anything about this. I'm just trying to think.

MR PARISH: Were you surprised at the omission?

MR BANKS: The notice I've got is dated 26 November. I think they appeared on the 27th in Canberra.

MR PARISH: This arrived on my computer on Friday, so it's a sudden - - -

MR BANKS: I think we'll be seeking from them further information about this to see what the extent of that subsidy is and what likely effect it would have.

MR PARISH: I think it's in the process of being established, but I think they got a shock at how 85,000 tonnes could be created in such a short period of time.

MR BANKS: Yes.

MR PARISH: Obviously that's not a cure, because they're going to finish up with old-fashioned mountains - meat mountains.

MR BANKS: Well, they've been there before, as Australia has, I guess, in relation to wool. But I think we've all drawn lessons out of that experience.

MR PARISH: That's right, and I guess they've come to the conclusion that the only solution is they have to move it and the only way they're going to move it in this current world market is - as you've been given, the world price of pork on a low base around the world - - -

MR BANKS: Yes.

MR PARISH: - - - and the only way is to make it lower. So we're up to whammy number 4, I guess.

MR BANKS: As you know, in the safeguards process there's both serious injury and threat of serious injury - and this is only happening now - and it's certainly relevant, as you say, to the period ahead.

MR PARISH: Absolutely.

MR BANKS: While this is not an investigation into subsidies per se overseas, any change in the subsidy regime that would cause injury or threat of injury in the context of the safeguards is - - -

MR PARISH: As to the threat.

MR BANKS: - - - something we'd need to look at.

MR PARISH: And you can imagine a banker's response. Bankers multiply everything by four. They see that and they say, "It's going to get worse." Again, there's that loss of confidence. I keep emphasising that once your financial system loses its confidence in any area, whether you're talking pork or whether you're talking US home loans, et cetera - once the spiral starts, it feeds on itself.

MR BANKS: Yes.

MR PARISH: Finance is confidence. Finance is optimism. It doesn't work on pessimism or no assets.

MR BANKS: No. You talked about a number of things that happened, including, I suppose, the Danish IR issue, et cetera. To what extent are some of those things one-off that you might expect looking forward, because after all safeguard action is intended to be temporary - - -

MR PARISH: Sure.

MR BANKS: - - - and if things are permanent, in a sense there's less of a case longer term. But to what extent are some of those things, do you think, of a more cyclical or temporary nature, like one-off shocks that may have coincided in that period?

MR PARISH: Certainly that was a one-off shock. It made the impact significantly quicker and deeper than it would have. The ongoing arrangement is going to be related to the dollar and related to our competitiveness in the short term. As we know, dollars aren't the basis of any business operation because they cycle, et cetera, but I see it ongoing in the short term, significantly. Long term, who knows? If I knew that, I mightn't be in the pork industry.

MR BANKS: Yes.

MR PARISH: If I could understand the finance industry better and the exchange rates and - - -

MR BANKS: Yes. If you look at what's happened to imports, they did rise pretty quickly in that period where there was the build-up that you talked about, but since then imports have dropped quite significantly. So that's a positive thing, I think, in the period looking forward.

MR PARISH: It's a tradition.

MR BANKS: Some have argued the grain prices seem to have topped or come off a bit, and I was reading something recently where developments in the US and elsewhere have given some reassurance to the market there, but you're a bit more pessimistic than that.

MR PARISH: Yes. I paid $455 for barley in October to get me through to the next harvest and, yes, it's come down from $450, which was just unsustainable for all end users of any description, to a level in the 300s, but all budgets prior to this have been based around - barley fluctuates from $100 to $220 in the tougher times and wheat fluctuates between 120 at the extreme lows, which are long gone, and $250. So, yes, they've levelled from what you'd call extreme craziness that no end user could use in any circumstance to an area where they're costing us 20 to 30 to 50 dollars per pig, depending on your personal circumstances.

MR BANKS: Yes.

MR PARISH: But, as you know, they're not much different to exchange rates in finance. If there's a blip in the perception of the US crop or a blip in the perception of our crop, et cetera, which was what happened in July - you've been given plenty of comments that: why didn't we buy wheat and barley at $230 in August last year? Well, we'd had the greatest opening rains and the greatest start, and the world agreed with us and futures were all there and it was all rosy. Some of us pay significant funds to those that are grain traders and advisers - like financial advisers, grain advisers - and none of them picked it. Not one of them gave advice to any client or customer to lock in. It's very hard, when you're standing in a crop that's six inches tall and it's raining, to convince yourself that you need to say that this is going to be another disaster.

MR BANKS: Yes.

MR PARISH: And then the world turned and it turned, as you know - there's no graph in history that's like that. That was a Mount Everest climb and, yes, it's levelled but it's levelled out on a plateau that's still far above end user - I think the beef industry will confirm to you that it's above their end use.

MR BANKS: As you say, the low prices - 120, 130 - are probably gone forever, and there are various other cyclical things coming in too, with competition for grain as a feedstock - - -

MR PARISH: Sure.

MR BANKS: - - - but what would be a grain price that you think would be one consistent with profitability, given everything else that's happening in the market?

MR PARISH: I would have thought if grains averaged in the low 200s, that we would be fine. I mean, I think that's the reality we're going to have to face.

MR BANKS: Looking forward, is that an unreasonable expectation?

MR PARISH: No. No, not at all.

MR BANKS: Even with some of the pressures that we're seeing through the ethanol issues and so on?

MR PARISH: The July-August $230 price was there, having just gone through a drought and only halfway through the consumption of that drought, and the ethanol was in full flight and everything was there.

MR BANKS: Yes.

MR PARISH: I think the $US100 freight - I mean, if somebody had written a script five years ago and told me that the US dollar was going to go to 90 cents and the freight rate was going to go to $US100 per tonne to take the grain out and I was going to pay the highest price I'd ever paid in my life, I'd say, "You're crazy." You know, "Where's your economic background?" All those have occurred. It's unlikely the freight rates - I don't think there's any economist that would suggest the Chinese demand for freight and the resources demand is going to slow in the near future. So we've got to get some advantage in the end out of our isolation from that point of view: freight rates and production.

If production goes back to the norm, then I think those figures are very feasible and highly expected. If I went out and offered future contracts in the 200s to grain producers, I think they'd respond.

MR BANKS: You talked about the question of overshooting. As you know, we've talked about that with others as well. To some extent, a certain amount of adjustment has already occurred.

MR PARISH: Yes.

MR BANKS: Your overshooting hypothesis is based on the notion that some are holding back watching which way it will go - - -

MR PARISH: Absolutely.

MR BANKS: - - - and what percentage of capacity - - -

MR PARISH: The announcement of QAF to reducing their thing significantly certainly stopped a significant percentage from saying, "Well, heavens, if that happened" - they have created the belief that that will suddenly cause a change in our supply, and imports will comfortably cover that because we're - I think you've been shown that we're up 70 per cent of manufacturing. It's capable of going to 85 per cent, et cetera. So that will get absorbed.

The one I keep emphasising to you is finance. The law in this land of - if you're trading as a director in - operating a company which is not able to meet its obligations, you're personally liable. So we have to extend our decision out a lot further than you normally would in a partnership or other risk taking, and so we have to make that decision and continually forecast out there, "Can I feed these animals? Am I viable? At which point am I not viable?"

I'm sure Rod put in his submission that the commitments you make long term for agistment facilities and the change to grow-out, all of a sudden - they're not normally balance sheet items. You don't normally put on a balance sheet that you've got a five-year commitment to rent a facility at $1 per pig per week, but you've committed to actually do it. So if you're considering stopping, it crystallises in the case of one of our corporates to $1 million. That's suddenly a $1 million liability that hits the balance sheet that's not there before. And as you know, the economists and the banker would tell me that I wasn't viable at that point. I keep emphasising that it's the financial: everyone is going to run out of cash and once you run out of cash, you're gone no matter what the future is, no matter what the wheat price is going to be next year or the dollar or what. That's the issue of the short-term tariffing position, cash viability.

MR BANKS: I've detained you long enough but I'll just check to see whether I had any other questions. You're lucky that so many other people have appeared that many of the questions have been discussed ad nauseam.

MR PARISH: I bet I've got my fingers in a few too many pies.

MR BANKS: Just one thing I'd be interested in your comment on, because you have got your fingers in a number of pies. Some have argued or implied that some of the generic marketing that's occurred through APL et cetera which has actually helped grow the industry, or grown the market, perversely may have also worked against the interests of the local industry by benefiting imports and that it would be better not to have generic but rather more targeted marketing focusing on domestic producers.

MR PARISH: My understanding and my participation is - our emphasis has been 100 per cent on fresh meat and fresh meat consumption. I'm not aware of any generic marketing where - in fact, that's a debate in APL and the board at various times.

MR BANKS: Is it? Right.

MR PARISH: Why don't we select out those two or three things that they have to use. There are two or three items in the smallgoods area that they have to use our products.

MR BANKS: Yes, and that's prosciutto. What else?

MR PARISH: Prosciutto and the bone-in ham market.

MR BANKS: Bone-in ham, yes.

MR PARISH: I've gone blank this morning on the third one.

MR BANKS: Okay. There is a third one?

MR PARISH: There is a third one and I'll email you the third one.

MR BANKS: When you say imports could go to 85 per cent of manufacturing, the residual are the categories that you're talking about?

MR PARISH: Correct. And the relationship they have with the supermarket is, the supermarket doesn't want to be one of those supermarkets that doesn't have bone-in leg ham, which is one of our traditions. Therefore, once he has to create a bone-in leg ham, he has the rest of the pig. The rest of the pig then has to be utilised, so he puts that into smallgoods. So it's the bone-in leg ham market that will hold that percentage, plus the prosciutto, plus when I tell you - there's a couple of other - oh, it's the uncooked salamis.

MR BANKS: That's right.
MR PARISH: Uncooked salamis, sorry - I'm with it now - and like product, metwurst and all those.

MR BANKS: Thank you again for participating. I know you're a very busy man and I appreciate the time that you've already to the inquiry.

MR PARISH: I'll have a lot of free time if it doesn't work out.

MR BANKS: Thank you. I'll just break now for a moment before our next participants, thanks.

MR BANKS: Our next participant this morning is Australian Pork Farms Group. Welcome to the hearings. Could I ask you please to give your name and your position.

MR HAMANN: Rod Hamann. I'm the CEO of the Australian Pork Farms Group.

MR BANKS: Thank you for taking the time to attend today and also for making yourself available previously for some conversations we've had. I'll give you the opportunity to go through the main points of your submission.

MR HAMANN: Thank you very much. I appreciate the opportunity to do that. As I said, I'm the CEO of the Australian Pork Farms Group and there are a number of things that I will not talk about because I've been preceded by my chairman on a number of things. We are an integrated group and, as Ian talked about, are also involved in Auspork the marketing company and Big River Pork. As such, I'm also a director of Auspork, a director of Big River Pork and the representative director on the Pork CRC for the Australian Pork Farms Group, which is a core member of that organisation.

Just as a slight background, I'm originally from South Australia but left after only working in the Australian pork industry for a few years. I was given the opportunity to go to Europe with another company, an international based company, and I spent two or three years in Europe and then 15 or 16 years in the United States. There I was involved in marketing initially and then spent 10 years, basically, in integrated production operations, both on the east coast and also in the mid-west. So my background is that I do have a reasonably good understanding of what has been happening over there and how they operate and what occurred through the - really the fundamental change that occurred in the US industry and to a lesser extent the Canadian industry, following that. I will refer to a couple of those things with my comments later on as well.

MR BANKS: Good, thank you.

MR HAMANN: The APFG group, as we've said, is integrated. It's about 16,000 sows in this state but our shareholder group is based both in South Australia and Victoria. The original farmers came together because they did want to be integrated further up the chain and so have asset ownership and knowledge and understanding as well as sharing profits and/or losses further up the chain, hence our major ownership base in Auspork and also in Big River Pork. Ian didn't say it, but he was the person who had the forethought to start pushing that project in the mid to late 90s and then push it on through and go through all the grief to get it into the position it is today. Obviously this industry would have been in big trouble if it hadn't been for that plant being in operation and built the way it was built.

As Ian has gone through a number of things, I'm not going to re-emphasise that unless there's something you want to know about the background to APFG in this state. Where I put down some of the farm profitability and economics, as we've talked about, some of those are confidential and I will highlight and resubmit a non-confidential version; but there were a couple of things there to re-emphasis from my perspective.

The capital investment, if it was anybody in this industry across Australia, is probably in the order of $4500 to $5000 a sow, productive sow, to get into business. You could probably have looked back before we got into the last three or four months and you would have said there would have been people buying and selling piggeries in the order of half of that - $2000 to $2500 a sow. I don't know what you would buy into it for now, but obviously there's a severe discount to what it would cost you to build it from new. That, I think, has implications when we come to talk about what damage is being caused now and how hard it would be for people to get back into the industry, because there is just no alternative use.

So we've got a very high capital investment to get into the industry and summarising some of the points that I did that are probably not confidential, the recent returns, probably in the last five to seven years have been probably average to below average compared to those people who have been in the industry prior to that. They've probably made better money prior to that in terms of real dollars. We do have a depreciating asset that is a single-use function. If a piggery is vacated, it will sit empty. There are no other uses for it and no other employer will employ the workforce, either, from that standpoint.

The losses we are currently projected to make over the next 12 months, we estimate in a typical year we'll probably take three to four years of average returns just to recoup where we sit today, which is obviously significant for us. In our business and the way it's structured today, probably a 10 to 15 cent movement in price is going to be worth about $2 million, so it swings both ways; so it is significant to what we are and who we are.

I then put in a number of things that we've done that we believe improve our competitive position. I sat here or hereabouts three or four years ago and I think the industry as well as ourselves have done a number of things to try and make steps to make sure that we are competitive, number one, and that we're focused on the right parts of the market.

So we have done a number of things that have cost us significantly, both in short-term profits and also in capital invested into our business, as well as we've gone through, as Ian has, a depopulation of at least a part of our herd to again try and improve its competitive position. And we've obviously made the investment into the CRC, which is a seven-year commitment to that.

MR BANKS: Yes. That depop that you did was on health - - -

MR HAMANN: It was on those grounds, yes, that's right, and it took about 20 to 25 per cent of our production. So it was something that we could do and we had the opportunity to do and felt we could at that particular time of that segment of our production.

MR BANKS: Yes, and the pay-off from that has been what in terms of - - -

MR HAMANN: It certainly improved our production. We've lowered the cost of medication, as well as improved the performance of the herd and at the same time, as soon as you do that, you have the opportunity to do some things in terms of remodelling and investing in the infrastructure - - -

MR BANKS: Right.

MR HAMANN: - - - that is harder to do when you've got animals all around you. We've done those things, so that was worthwhile, but you have this very significant hole in returns and costs to go down and to go back up again. In our case - and this might be different in the next 12 months if we were to think about doing it again, but previously we actually had to - you have to get rid of the animals that are around you, from health grounds, to somewhere else, and the only place we could do our volume of animals was actually go to Victoria. So we actually rented empty old facilities in Victoria; had to find a workforce to go in there at a premium and then ship animals across and then ship them all the way back again. So it was a - because of our size, which has some advantages but it also has some disadvantages too, in that that was - there were limited places that you could do that in.

MR BANKS: Yes.

MR HAMANN: So that was a fairly big investment for us, which we were happy to do given the way we viewed the industry at the time.

MR BANKS: Right.

MR HAMANN: We certainly wouldn't contemplate it today. It wouldn't be worthwhile in the uncertain times we're in.

MR BANKS: Was it, I suppose, a bit of an advantage and someone else's bad luck that those facilities were available at the time in Victoria?

MR HAMANN: Certainly the people who we had to rent them from - that was luck, because those people had - I think it was almost just after the last one, and so the people that we'd gone into had essentially said, "Hang on, I'm not going through this again." So they essentially said, "We're going out," and so those facilities had been down somewhere like six to 12 - no, some of them were only two or three months - - -

MR BANKS: Yes.

MR HAMANN: - - - they'd been depopulated and were gone, and so we could get into them.

MR BANKS: Okay. There were no problems across jurisdictions in doing that?

MR HAMANN: No.

MR BANKS: That's one good news area in our federation - - -

MR HAMANN: Yes, that is true.

MR BANKS: You faced no regulatory problems of any kind?

MR HAMANN: No. There are slightly different transportation rules that you've just got to be aware of that have minor efficiency things for you, that are slightly different between the states, but by and large I can't think of any more.

MR BANKS: Okay. No, that's good.

MR HAMANN: I'm not getting a nod from the Victorian in the group that knows about it. No, I can't think of any.

MR BANKS: All right, thank you.

MR HAMANN: Yes, and there were a number of other things that are written there that you can look at in terms of our investments over the last few years to get us into a better position.

We've also done, as we said, diversified markets. We've done a number of things to try and diversify ourselves both as much as possible into fresh meat but then also into the processes we serve, making sure we've got links and ties into the major processes, just as a diversification strategy. Part of that, I guess, knowledge in selling to those different people - I'll refer to in a little while when we get into another section - we're not a hundred per cent domestic fresh. Part of that was, it's been very difficult to get that because everybody is trying to do it, but I think also part of it is the reality of the marketplace that Australia has that I think is fairly unique in the size of the carcasses and the demands of the two large supermarkets here and what they do.

I emphasise in here that this - as Ian has talked about - creates a situation where we've got to sell all of one-size pig because there are parts of it that must go into that market and are demanded by the supermarkets, but then we have to compete with a much larger pig with a much lower cost of production, where the eye teeth can be picked out of it because of the situation those other countries are in, where they're exporting a proportion of their pigs, number 1, in the case of the US and Canada - 15 to 25 per cent - whereas Denmark is all that way, and what they can do is they can go into their products, which are lesser value products for them, and sell them into our country, which are generally higher priced ones.

Now, I don't know how that can fit into the arguments we've got here, but it certainly makes our life as pig producers very difficult and puts challenges on what sort of financial returns we can get for our pigs.

MR BANKS: Yes.

MR HAMANN: Are imports impacting our industry? Yes, very much so, and you've heard that from a number of different people. The one thing that I'd probably add to that, from my contacts with my friends in the Americas, is that we're shaping up for a situation that's going to get worse before it gets better in terms of the situation that's evolving in the United States and Canada. It isn't just that they've got increasing grain prices but they've got a situation where they're actually going back to where they were in 98 and 99, and what occurs then is they have limited killing capacity for all of their pigs.

What that does is: suddenly they say, "We want two million pigs a week," and suddenly the farmers say, "Well, hang on, I want to give you 2.1 or 2.2," and they say, "Well, hang on, we only want two." The farmers say, "We've got to sell you 2.1 or 2.2." So they say, "Well, I'll give you $5 less a hundred for those pigs," and they say, "Fine." "Next week I'll give you $10," and so on. It's a spiralling thing.

So you have a situation there where the packers, who are over there - they are the owners of the abattoir there. They kill, they bone the pig and then they sell the meat. Most of them actually own - they will own the brand at the other end, so they're selling all the way through the chain. So they are fundamentally different. So you've got a situation where the US is set up for 2.1 million slaughtered pigs and it's now up to 2.3. You've also got at the same time the Canadians shifting more and more of their pork over the border. There are a number of larger players that are as big as this state is in production, who send 90 per cent of their pigs across the border as little pigs because it's far more economic to do it in the United States. They've got major closed abattoirs; like both Primo and Big River sized abattoirs, that are less than 50 per cent of their production, have just closed overnight. So suddenly you've got nowhere to kill the pigs, and that puts huge pressure on what they're doing.

So my belief is that in the next 12 to 18 months you're going to have very, very cheap pork overseas, which is going to make Australia even more susceptible, if you like, to those pork cuts being pushed in as hard and as fast as they're able to.

MR BANKS: So you're seeing a rising share of output in the US is going to enter the export market and - - -

MR HAMANN: There's absolutely no doubt that - the major player there is Smithfield, who kill 30 plus per cent of the industry, and they own productionwise 1.2 million of six million sows - owned in their own right. Their stated objective, I know, is to - the more they push off, the less that's on the US market, so they can afford to lower the price of the 10 per cent that goes offshore, or the 15 per cent that goes offshore, because the 85 per cent more than makes up - holding that price up more than makes up for it. That's what they did in Poland, Romania. They did a lot of exporting to the Eastern Bloc countries. It's just part of their overall strategy, and they are the Goliath, if you like, who sort of tend to push the trends.

The buying marketplace for pork today: as Ian said, and I just re-emphasise, I think there are three types of players in there. There's the people who are involved in 100 per cent Australian pork, there's probably the major smallgoods manufacturers who buy both and then there's this third group that is getting larger and larger, certainly as a group, that are 100 per cent imports. They've set their businesses up that way, and so they tend to always be the pulling-down, depressing effect on the marketplace, because that's what the competition is.

They are holding, in my view, the rest of the industry back because the George Weston Foods, the Primos, et cetera, have to compete against those people. And therefore that's always what is said: "I must be able to compete." As much as they would like to put their prices up or even, to a certain extent, as much as Coles and Woolworths would say, "We'd like to respond, keep the industry here and pay more for fresh meat," we can't pay too much more for fresh meat because we've still got to compete against the people that come around the edges - the IGAs and the ALDIs and all of those guys - who are buying fresh meat, but they're buying fresh meat from people where the marketplace in Australia is influenced by people who are buying a combination of processed product and fresh product.

So if you've got this group that are buying processed product and holding the market down, it tends to drag the whole - even the fresh meat down and we've got a number of people who are local fresh meat buyers here and so they can come down and they're making good margins, but even there, they're making margins so much that they tend to drag it down as well because they don't need to and they want to buy a little bit more market share.

So Coles and Woolworths say, "Hang on, I can't be right up here when everybody else is down here," and so it tends to go to the lowest common denominator, and we always talk about the fact that it's the last 5 per cent of the meat in the marketplace which tends to set the - not necessarily set the price but certainly drags the price down and influences that price.

MR BANKS: Yes.

MR HAMANN: So certainly from our perspective, as a seller into it, and integrated perspective as well, there is no doubt that that drags. It's like an anchor and it's hard to move the boat and everything else forward when you've got that anchor there.

MR BANKS: Okay.

MR HAMANN: Hopefully we've talked to you enough about the way we believe we set ourselves up, how Ausp ork works, how the integration works, that we are an integrated player; it is that cuts of meat that tend to end up impacting what we do and how we do it and the price that we end up paying and certainly that's the way our integrated business has been set up to be competing as far down the chain as we can and therefore that does influence the price. I've put in there some of the differences between our prices today versus 12 months ago, before the real flood came in. I think they just support what other people have seen but give you at least our influence on it.

MR BANKS: Yes.

MR HAMANN: Certainly the comment that I put there that - I won't go into the actual numbers, but comparing fresh meat buyers today versus process buyer range - if you can get to that higher end for the same sort of thing you can see the huge differences that potentially can be there, and I think that's very important in the overall context of where we sit.

MR BANKS: How is that differential been affected by imports over time, given that there are interlinkages, as you said?

MR HAMANN: Yes.

MR BANKS: And of course the imports are going into the process sector.

MR HAMANN: I've never seen them that large and I think it's probably because the fresh meat buyers do understand the situation with what's happening to their suppliers out there and they, to a degree, say they have to have - I've got to have some people here in the future and so they've tried to at least be aware of that and in certain circumstances they can add some more dollars to the kitty to make that happen. I think that's the answer. I think they've just been aware of it. It's never been as great as that before. So I'd like to think that that's an example of the situation where, yes, the imports are all the way around us, right now, and the volume there is just dragging - it's this depressing anchor effect on the whole of where the prices might otherwise go.

Certainly I would - whether you believe them or not, but the larger players would say, "Look, I'm happy if we all go up. I just want to be competitive with everybody around. I don't mind it being higher," and they all accept that the 20 or 30 or 40 cents a kilogram for a carcass pig, which is what that translates through to what's on the shelf, to the housewife or houseman, is not that huge, you mean. I've got to be politically correct. It is maybe a dollar a kilo. It doesn't have to be any more than that and that won't make a significant difference in the overall meat case and where pork is competing with lamb and beef.

MR BANKS: Yes, that's what I was going to get on to, because clearly that's always constraining and very relevant to what you can do in the - - -

MR HAMANN: But having done the shopping on the weekend and looking at it, I think we've still got a significant gap to be - until we become non-competitive with those meats. I think we are seen today as the cheapest meat in the meat case, probably except chicken, so excluding chicken from that.

MR BANKS: Then as I think we've heard elsewhere, the marketing of pork has also perhaps helped, so you've got a price differential and you've got a more positive sense of a product.

MR HAMANN: Certainly, yes, the industry has done a huge job in terms of trying to change the position of pork and put a lot of money and effort into trying to do that, and being certainly on the surface with the numbers, very successful at doing that.

MR BANKS: Yes.

MR HAMANN: But then good clients - - -

MR BANKS: It's true also that the quality of the fresh product in Australia has improved over time as well.

MR HAMANN: Yes, there's no doubt it has. It has and it's had to, again because it's something we can't get out of - and I'm not sure whether it's us as a country, what we're used to with crackling on pork and those sorts of things, versus what the supermarkets want or don't want, but we have this situation where we've had to force ourselves into a lighter pig and a very lean pig, and so that quality has improved. But that also, as I said somewhere else in there, it means that we haven't got - pigs are biological beasts, they're not 100 per cent peas in a pod and so you're always going to get some that fall outside that spec and what they compete with is the process, where as the Yanks and the Canadians, they are trying to get their pig in certain blocks. They take the skin and the fat off no matter what the quality is with those back strap levels and they are just selling off a lump of meat, and they do that both from the fresh point of view as well as their processed point of view.

MR BANKS: Yes.

MR HAMANN: And we haven't been allowed to get to that as much as we would like to as an industry.

MR BANKS: Okay.

MR HAMANN: What will our business do if there is no relief to the present crisis? Well, we've already started to do a number of things, and as we said we're a little bit different to a farming or a diversified farming business as opposed to a pig business. We're a company, a corporation and we have to abide by the rules, regulations, et cetera, that govern us, and because of the way piggeries work and the lead time with these, we've got this situation where the directors are obviously always asking me about what the prediction is and what's going to be going out in the next 12 to 15 months which would be the lead time if we took decisions to move and get out, or have to move and get out.

So we've got to be able to pay our bills 12 to 15 months out, so I'm constantly doing projections. I won't tell you how many budgets I've done in the last three months, but they are significant and they change dramatically as things have changed in this industry, and I crystal ball gaze all the time as to what will the price do; what will happen, depending on your outcome, what happens after Christmas. Christmas - I mean, I projected Christmas would be a little bit better than this, the November-December period is traditionally the best one. It hasn't gone anywhere near the last couple of years, and probably I would say - if you look back in the last five to 10, it might even be in the low two or three years as far as the peak that we've been able to achieve.

MR BANKS: The price at the moment?

MR HAMANN: Yes, the price at the moment. Yes, the price at the moment isn't at the peak that you would normally expect it to be, certainly in the last three or four years. But we've had to do a number of things that I've listed there, and obviously the biggest one is making sure we've got sufficient financing arrangements to get us through and that's the major one that we've had to do to make sure that we can stay viable looking out in that 12 to 15-month window.

MR BANKS: If you looked out at that list it is interesting how sometimes - I know even in my own organisation you're faced to do certain things through budgetary measures or whatever, and you discover some things that perhaps you'd want to reverse when things get better, but some things that you'd probably continue doing, and when I look at that list there, there seem to be some of those things you'd want to continue doing and I suppose my question is why didn't you decide to do them earlier?

MR HAMANN: The first one, those feeding nutrition practices - no, you wouldn't do those. The alternative feedstuffs, they become viable in the current situation a little bit more than they would have, and you take more risk.

MR BANKS: Right.

MR HAMANN: I think part of them, for a lot of those ones that you're talking about there, they are taking more risks, and I guess my attitude and I think I force it through other people, is you change the hurdle rate on capital items and things like that.

MR BANKS: Yes.

MR HAMANN: We've got a hurdle rate that we've got to have 100 per cent return at least, otherwise don't even think about it, whereas your hurdle rate might normally be 25 per cent or 30 per cent return you'd want on those sort of things, and you're willing to make some more risks with certain things.

MR BANKS: Yes, okay.

MR HAMANN: Certain things that are recurring, so it's risk, I think, that is the main thing that influences.

MR BANKS: Okay.

MR HAMANN: Post-Christmas, I guess, we won't be in any different circumstances to other people; we will continue to do our budgets and continue to look at them, but if the price depresses dramatically and we don't see any price changes then we will have to look at depopulating a part of our system.

Unfortunately, that will only free up some working capital because it's not like we'll depopulate and be able to sell off the asset. We won't be able to do that. It will sit idle. And where our piggeries are, we don't have land assets that would have significant value, so we'll have to look at that as time goes by and determine whether we can or can't do it. The other thing that it does, though, is that - there are other things that we would do to continue down our own path of improving our competitiveness as well as animal welfare things that we would do - that we were going to do - that will now obviously be put on hold.

The animal welfare things - we'd like to keep getting in front of the curve, so to speak. We've got 10 years to do a number of things but the things that we were already planning to do, that have now been put on hold, we won't do because of the current situation. Certainly there are other things, strategic things, in our business that we would have liked to have thought about doing but we just can't do because the return is not quick enough. That's probably fair.

And as I said there, returning to production after exiting I think as an industry comment to a certain extent ourselves but certainly across the industry, I just think that it's such a huge decision when people get out and the consequences of getting back in are so large that once people go out they're unlikely to get back in, certainly not get back in. There'll be a very small proportion that may consider doing that, but I think they'll be the minority rather than the majority. And it's for all those different reasons that I've put down there, I think not least of which is the risk and the uncertainty that made them get out in the first place.

I think the workforce one is huge in rural communities. It is tremendous, particularly in this state and also Western Australia. I'm not sure about the other ones, but we're unique because we've got the mining industry and it's not necessarily that these people will go to the mining industry but as people get dragged up to the mining industry, there's sort of a knock-on effect. These people can look: "I only have to go another 40 or 50 K's and I can get another job that might be different, better," or whatever else, and they get set up. We have a very tough time keeping a rural workforce now. It will only get worse if we pull the trigger on that.

Certainly one of the first things I've had to do is go around when this really blew up - I had to go round and make presentations to every employee about who we were, what we were, what we were going to do, how we were going to still be here because otherwise we would have had people leaving anyway.

MR BANKS: You made a comment there in relation to overshooting and it's come up a few times, actually. Obviously one of the concerns that lies behind that is, that inability for the local industries to supply the fresh market would put pressure on relaxing the quarantine. I mean, I can see why that would be so but it doesn't necessarily follow to me that quarantine would be relaxed, given that it's supposed to be a risk based, scientifically based assessment. I just ask whether you'd like to make a comment on that.

MR HAMANN: I think at the end of the day our perspective would be, looking back on history, that if we really severely overshot the mark and we had significantly less supply of pork and it was needed and demanded, particularly perhaps in a situation where we're going through - the drought does break in 12 or 18 months' time and you suddenly start to have less sheep and beef on the marketplace, that there would be pressure to bring some in, and I think that there's a fair chance that that pressure would be - that quarantine restrictions would be relaxed to allow that, because you would have Coles and - you'd have supermarkets saying, "We've got to supply this meat. We've got a demand for it."

MR BANKS: That implies that the grounds for stopping it now are relatively tenuous.

MR HAMANN: Or it could imply that there are other people on the other side of the fence, if you like, who would push it hard to say, "It ought to be stopped for other reasons" - that we don't necessarily agree with. We've gone through it before as far as what we think playing footloose and fancy free with the quarantine restrictions is, and the equine influenza is to us a classic example of something that supports our case, or the industry's case, that we will get something in here which will take away the image Australia currently enjoys and it will be a huge cost disadvantage to us.

If some of the diseases that I've experienced in the United States and in Europe come into this country, it will be a huge cost disadvantage to us and it will make it even more difficult for us as an industry. They've been horrendous, some of the diseases overseas that we don't have here.

MR BANKS: Okay.

MR HAMANN: My comment on the request to the Productivity Commission is, as I said to you in one of our earlier meetings, certainly we understand that we're not going to get anything that lasts for a very long time. As I said to you, my experience and exposure has been to the Japanese and their gate price system which - and I don't know the intricate details of it, but to me seems a situation where you get a degree of pressure relief valve that allows, over a period of time, people to see that, no, we are going to be opened up completely, but there's a degree of buffering that occurs as you wind down and get a higher and higher proportion.

That wasn't here in the last six to 12 months that would have perhaps not had us sitting around this table if that had been the case; but it seems like that country anyway has been able to use it. I don't know what other countries have, but it does seem to me that that's the sort of approach that we would like to see and it would have the same sort of buffering effect so that people could restructure in a logical and sequential way and I think there are enough things that people have to do in the next 12 to 24 months in our industry that are needing to come - welfare changes and other things - that I think will make people seriously say, "Hang on. No, I'm going to be one of those people that divest now. I'm of an age, my farms are of a size or have got enough in them - or not enough in them - that I'm going to have to invest in them" - that they will drop out of the industry, so we can have this more structured or more stable restructuring occurring. I do think that could occur if we had something like that in place.

I made my other comment there that I know you - this is to deal immediate harm by imports, but I made those other half a dozen points in there about my belief about a non-level playing field, but we can discuss those another time. We don't need to do that now.

MR BANKS: No. Well, I have some sympathy about that but, as I said, in the context of this particular one - and it's more possibly prospective, given what's happening just now in the European Union, but we'll be looking at any changes in policy that could have exacerbated things in terms of the trade situation.

MR HAMANN: Sure. I tried to get a bit more information. I put that one comment in there about the US Farm Bill, but then I know that there's word going round now that the Canadians are actually after $Can1 billion - $600 million of it to direct farm subsidies and $400 million to some other things as well - because of where their situation is. That, I'm told, is being looked at favourably but I haven't got any more details at this point in time.

I don't think I would add any more to what I've already got there except probably the only other comment is that I think the flow-on effects to rural communities that we've talked about if we do get into this situation and continue to lose production, is going to be huge. I do worry about Big River Pork. I worry about our agistors. I didn't mention those, but we have agistors who are people who are generally farmers. Generally they're diversified farmers and they're trying to get some more consistent month-to-month on-farm income. We've got a dozen, 15 of them and varying degrees of contractual commitments with them, but most of them have made sizeable investments. But they're generally using their own family labour or, to a degree, other farm labour, because ours is 12 months of the year. But certainly, yes, if we have to depopulate, some of those agistors that we can get rid of will be the first to go, so that will have impact on those and I think ultimately then we go into other communities - again, Ridley is our feed supplier.

I think we're a significant part of their feed volume and if that starts to go down then there's workforce that leaves rural communities; very difficult to get back. So the knock-on effect from a smaller industry in this state and across Australia will be significant, in rural communities in particular, I think.

MR BANKS: Good. Thank you very much. I've got you to answer the questions I had along the way. As I said to Ian, we've probably covered a number of the issues that otherwise I would have detained you on, and I appreciate the time you've put into the hearings today and making a submission. Thank you very much for that.

MR HAMANN: Thank you.

MR BANKS: We'll break now for morning tea, please. We'll have 10 to 15 minutes.

MR BANKS: Ladies and gentlemen, we'll recommence. Our next participant - and I should have checked the pronunciation - is Ludvigsen Family Farms. Welcome to the hearings. I'll ask you please to give your name and your position.

MR LUDVIGSEN: Greg Ludvigsen, CEO of Ludvigsen Family Farms.

MR BANKS: Thank you very much for the submission and for taking the time to appear here today. I know that you've assisted the commission in the past in other inquiries that it's conducted, and we're grateful for that. I'll give you the opportunity to make the main points you want to make.

MR LUDVIGSEN: Right. I'd like to take you back to February 2007 and where our business was at the start of that. We were seeing very high prices. We sell pork in that 60-kilogram dress weight - 55-kilogram dress weight - and we'd faced a period of fairly high prices and we'd had our - we sell at the Primo abattoir, and we'd been called in, as I think most of the suppliers had been, and we'd been set up with contracts going forward which were very, very positive for this 12 months.

MR BANKS: When was that, sorry?

MR LUDVIGSEN: We were called in about November, December.

MR BANKS: Yes.

MR LUDVIGSEN: It wasn't something we'd particularly asked for. They'd just said, "We want to come in and we want to talk. We know that the year is going to be tough in terms of feed prices." We had contracts set up which for us meant we had a base price for pork of about 2.85 a kilo. That was the lowest we could come to, and the price we were receiving in February, before the fire and through that Christmas period, was around about 3.25 to 3.26. We believe that to be ongoing. We didn't believe our abattoirs was going to call us in and set up an ongoing contract of that nature unless they saw it as being very good.

We'd been in a growth process since we began 13 years ago. We'd just been in the process of a doubling, you know, so we'd gone - getting to 1400 sows - not quite a doubling, but getting to 1400 sows. So we were going through the long lead time of this J-curve that Paul Keating talked about where you invest, and we'd just got to - in February we had two months before we started to sell that increased production. We were looking in February of saying, "Gee, everything is lining up for us now. We've got an extra 100 or so pigs a week coming through - 100, 150 pigs a week coming through - and they're all going to be at much better prices. We're going to be able to share our fixed costs over a larger number of kilograms of meat. We've got good contracts set up for this period," and then the events all started to crumble in front of us; the domino started to go down in front of us.

So what we saw on 26 February was the fire in Primo and we saw then a crash within two weeks to the base price of our agreement, which we'd sat on virtually right through till the period we just - probably 10 or 15 cents would be the absolute tops we'd been above that in that time, and that's only very recent. We faced, as probably all the people who sold to Primo, tremendous losses that came from that fire, which were an extenuating circumstance. For instance, we were unable to sell for a period of time, and we had the sort losses that go with that. In other words, "You can't sell your pigs today because they're right in the slot for marketing," and we've spent a lot of money so we can do that, and I'll explain that a bit later. But if they hold your pigs and say they can't take them for even one day or two days, a lot of them fall out of the payment grid and they drop like a stone. I mean, 100 grams over and you lose $20 in the pig.

What we found was tremendous sort loss occurring, because we were continually then trying to catch up. We couldn't ever get our pigs out in the weight range, so all our pigs virtually were going in penalty. The second thing that was happening was we were having to feed them a dollar a day to make them lose money. We had significant losses come from that. The other component we had was that we had to transport one heck of a lot further, at about three times the cost. We market twice a week.

So we had those implications coming for us. But the point I'm really trying to get back to is: we had a situation in February where we believe that, prior to this surge in imports coming, we were in a pretty sound position to deal with the drought. It might have been not a great year to make money but it would not have been a disaster; it would not have been an industry-crippling event.

This surge in imports - and I don't need to explain that too much - was huge. It's the biggest thing we've ever had and it's coming exactly at the wrong time. The thing I'd say: what are the triggers that have set that? In my belief, there was a look at those prices in November, December, January, February and a decision was made independently by a number of people - I'm only guessing this, because I can only surmise; there are no figures; I can't find out who's done the importing or at what degree, but I'm assuming that it was independent companies made the same decision - to go and take extremely large amounts, far greater than they ever have before, without any thoughts about the impact, and there don't seem to be any checks and balances to stop this happening again and again. That's the thing that's concerning to me.

That's a little bit of background as to where we're going from, so I prepared this to talk to. I believe the Australian pig industry is in dire straits, and I'm sure your investigations already substantiate that. I think the reason is oversupply and that that oversupply has come from this increased level of imports. What we've seen over the last five years is our industry transfer from around about 30 per cent imports in processed pigmeat to closer to 70, 75 per cent. That rate of structural change has happened far too rapidly, and our industry hasn't had time to make the necessary adjustments. This latest surge between March and June - and I realise you noticed this has fallen since that period, and I believe the reason it's fallen is because they have got every freezer in the country still chock-a-block full of pigmeat and they've got no room to put any more.

It seems to come in surges. They get themselves into difficulty, don't need to have as much come in and then run down those stocks again. The problem is it's coincided with the highest feed prices ever due to the world supply of grain and the Australian drought in combination with it. A lot of people in Australia talk about the effects of the drought, but the real problem is not the drought, it's the world supply of grain that's driving the other side.
MR BANKS: Just your comment there where you said the imports had fallen because in a sense there's nowhere left to put them, I mean there's another way of interpreting that than what we've observed with that surge, has really been a sort of pull forward of supply.

MR LUDVIGSEN: Yes. I believe what happens is they went out and independently imported 130 per cent in total of their requirements for that period of time. They push out then any Australian products that's going into processed meat - gets pushed back into the Australian domestic market.

MR BANKS: The fresh market.

MR LUDVIGSEN: Into the fresh meat market, right. The other thing that happened with the fire and a few other things - and the rising of the dollar - is a whole lot of Australian pigmeat, for instance, the Primo's exports 2000 pigs a week; they came straight back onto the Australian domestic market. So we've got a whole lot of factors and the increasing dollar is also reducing exports, and again that extra meat is also coming onto our market.

MR BANKS: Yes. Thank you.

MR LUDVIGSEN: You are no doubt aware that all of our businesses are losing money and unsustainable amounts of money. As Ian made very clear, it isn't a matter of whether, it's a matter of when - if this doesn't change, every single one of us has got a point where we would have to stop. One of the interesting things about it is that we have to lose a significant number of Australian domestic pigs in order for the rest of us to survive, and that's a cold hard fact of where our industry is in and we all have to feel this torch at the moment. I want to sort of explain to you - - -

MR BANKS: I'm sorry. Just on that point, I mean, where do you see - I mean, this is a safeguard action about transition, about breathing space, et cetera, but if you're looking forward where do you see the sustainable herd numbers being going forward?

MR LUDVIGSEN: I'm probably not in as good as a position to see that, as some of the people at Ian's end, and when I listen to the people who are probably in a much more knowledgeable position about this than what I am - they're saying we need a certain number to do domestic fresh pork; we need a certain number to do the Singapore market, presuming that we don't lose that, and a certain amount to do the bone-in ham and the salamis and so on.

MR BANKS: Yes.

MR LUDVIGSEN: And that wouldn't be a very difficult number to work out.

MR BANKS: No, that's fine. We have had information on that, but I just thought you might have had a view.

MR LUDVIGSEN: So what I'd say as to summary: clearly our industry has suffered and is still suffering serious injury, and that injury will continue to grow over the next six months - at least the next six months. You're probably also aware that as a consequence of these difficult times a significant number of sows have been removed from the national herd, and I'm not in a position to know exactly how many have been removed, but the number is significant and it may be as high as 20 per cent, but I don't think anyone really knows that number at the moment. In the medium term that contraction of sow numbers will reduce supply, that's in the medium term, but in the short term it will not, and one of the things that we need to understand is the people who have made the decision to close a herd, the number of pigs they supply don't remove until 40 weeks or 10 months after they remove those sows.

I'm probably telling you what you already know now, but that's when the progeny of the last pigs mated gets sold. So if we made a decision today to stop production, what we would do is we'd go out and we'd say to our staff, we're weaning those sows, they're going on the truck to market. We won't be remating them. But you've got 16 weeks of pregnancy sitting in front of that, so the ones that were mated last week will all - so that's 16 more weeks of farrowing and then you've got 25 or so weeks of pigs growing to get to the marketplace. So you're talking about that 40-odd weeks and those pigs - people have made the position to leave but there is no effect of that on supply for some while.

That's where the damage is going to be continuing and when we talk on this business of people - we may have already lost sufficient numbers but we will lose more on the way as people meet that problem that Ian was talking about of finance running out before supply has diminished. That's the dilemma we face. So we're facing low prices until May or June. I believe the necessary adjustment has probably been made. The fact that the reduction in domestic supply is so lagged means that potentially we will lose far more sows than we need to and we will face shortage of fresh pork and consequent high retail prices down the track, and we will get back into the boom-bust yoyo where the price becomes so high that people will come back into those disused piggeries and in 40 weeks we'll get another market crash and then another crisis.

One of the things I think all pig producers want is not so much a record price; what we want is a manageable price going onwards. You know, I certainly for one don't want to see pigs going $5 or $6 a kilo because we're trapped into those empty facilities that are the cause of the next set of problems.

MR BANKS: Can I just ask you to comment though, I mean this industry has been characterised forever by boom-bust cycles.

MR LUDVIGSEN: Yes.

MR BANKS: As an economist you know about the hog cycle.

MR LUDVIGSEN: Yes.

MR BANKS: And there has been some discussion about that and how it might have changed over time. So are you essentially saying you want a government to sort of eliminate the cycle, sort of take action that would eliminate the cyclical movement in price?

MR LUDVIGSEN: No. I think we will still face that, but what we need is probably a stability in the amount - or some sanity in how imports come in; that you don't want to have a situation where - I guess one of the things that's happened is that the number of people importing has been reduced as the number of processes has diminished; part of our structural change, structural adjustment. We've gone down to fewer people. They're making decisions that are affecting outside their own little area. There doesn't seem to be - I don't think our laws allow us to - APL or people on our behalf - sit down with those people and discuss about what our requirements and needs are as an industry and a country.

It just seems like we've got an uncoordinated group of people making independent decisions which can be catastrophe both ways, and one of the interesting things - I talk about the length of the lead time to build a herd, but they can detect a shortfall in November and have those pigs on the floor - you know, the imported - here in the first day of March. So for imports there's no lead time. It's virtually instantaneous. As long as the time it takes to float a boat out here, is how long it takes to change to supply, and to crash a market.

What our industry needs in the short run is a sharp reduction in imports to allow the remaining producers to survive, and I've said this could come from a voluntary reduction of imports by processes, but I've also added that I think that's unlikely. It could come from a decision by the two major retailers to link the amount of imported ham and bacon they are prepared to sell, but this is also unlikely. I know that going to one of those supermarkets, I can't find anything that's not made in Australia from local and imported products in the ham and bacon range except for the bone-in leg, and I've been to a number of their supermarkets and I just cannot find any. I go to the other one and it says - in the delicatessen case says their's is Australian product, product of Australia.

But we're not seeing a voluntary restraint from them either, and the other one is it could come from a reduction in imports as a result of the decision of this safeguards inquiry, that's the third alternative. In answer to the question what safeguard measures would remedy the serious injury, if you agree that increased imports have caused and threatened to cause serious injury to our local industry, I believe that the appropriate safeguard action would be to apply a quantity of restriction and quota. I may be coming out of less information than other people about how I see things, but I believe if we were to restrict imports to the average of their level over the past three years, enough relief would be present to prevent the immediate loss of too many producers beyond their desired level.

I worry about a tariff because the gap between how much the tariff would have to be in the case of the leg meat would be very high. What I see in almost every other agricultural country that we see around the world, they all seem to have protective quotas, they limit the amount of - I think our beef going into US has a quota, I think our lamb has a quota. When we go to Japan with pigmeat we have a quota. We can't get anything into the EC at all, and yet they can put in our market. It seems to me a quota would give us - if we had 60 per cent of our process was going to come from imported, we'd at least have a - that would balance out over the year and we'd have some sanity in how much came in and it could be - if they knew how much they were going to be able to bring in, it would come in and with a lot less of these surges. If you look at when we've been in trouble it's been when surges have occurred.

MR BANKS: Could I just comment though there, that one of the challenges that has been party successful through the WTO is to remove quotas, with tariffs, for the reasons you'd be probably aware of, that for every quota there's a tariff equivalent.

MR LUDVIGSEN: Yes.

MR BANKS: So when you say the tariff would need to be high what you're saying is the quota would need to be quite restrictive but the effect on the price of the quota or the tariff would be exactly the same.

MR LUDVIGSEN: Yes.

MR BANKS: I guess what the quota brings is a greater certainty about the actual volume of product coming into the market.

MR LUDVIGSEN: That's what I'm concerned about; it's the volume. I think if you look at what's happening to us, that's historically - it's the surges and the crashing of the market that occurs from it.

MR BANKS: Do you think future surges are likely? I mean, what we're hearing is imports are starting to get up near the feasible maximum under current quarantine arrangements and so on in relation to the processing side. We've also heard that the last surge had some one-off features to it which, if you were here earlier, you would have heard.

MR LUDVIGSEN: Yes.

MR BANKS: So how likely then in that context - I mean, has a lot of the damage been done in the sense of the ramping up of imports?

MR LUDVIGSEN: I think I said in the submission to the previous inquiry that we are going to find ourselves at a level where eventually that is all - a large proportion of that is going to be imported and we're going to struggle to prevent that from happening. But at the moment that change has come too fast. We haven't had the time to - because of these lead times, I mean, the fact that we've been in this expansion and we're just coming - I mean, we've done all we can to try and lower our cost of production through the use of technology and systems that we can, but we haven't had a time to recover that. Change is not a problem if it doesn't come too rapidly; if people have time to adjust to it.

Where these surges get us into strife is that they just are very destructive, and what we could see is our industry fall over in large part here now that it won't recover from, and I look at the way we're seeing other pig farmers; we're seeing ourselves increasingly isolated, increasingly depressed if you like. It's just very hard to remain optimistic about the future of the industry while you've got all these levels of uncertainty, and it's the speed of these things happening. I mean, to change from 30 per cent to 70 per cent, 75 per cent, in a period of three years is a rate of change that's destructive. It doesn't give you time.

I think I said in the last Productivity Commission that we needed to be developing exports for fresh markets in Australia and that Australia has a unique position in that we are in the same time zone as these countries. We can fly fresh meat to Asian. We can do that in seven hours and we can do it cheaply because we go as a backload and we've proved with Airpork that we can do it to Singapore and I really can't see why that model couldn't be given time, extended to some of the wealthy people in Asia. We see on the emails we get that China has real trouble with children's toys, it has real trouble with pigs. They've got a problem with selling at the moment spoiled pigmeat. There has got to be a lot of people that are becoming increasingly wealthy in China who are prepared to pay for a quality product, that's guaranteed fresh, killed in pristine abattoirs like the Primo or the Murray Bridge abattoir.

I believe there's a market demand out there for it, and that we need to make the adjustment in that area. We've got to face the fact that we're not going to be able to sell processed ham and bacon more cheaply than USA, Canada and Denmark. We've got to accept that, but they can't - by the same token, they cannot get fresh meat to those markets; physically and financially, and cartage costs, it's just not practical. Every plane that comes out of Australia virtually goes back with an empty cargo hold and they're desperate to get product in there and that allows us to be in a unique position. We can pack those containers with dried ice and by the time the dried ice has gone we're in the markets where we want to be, whereas they're halfway across the Atlantic or the Pacific. So Australia is in the unique position and we've just got to put our best head on and to get - we didn't have the facilities to do that earlier.

These boning rooms we've got are very new. We've got a bit of catching up to get to that potential. The market - how we're selling pigs at the moment overseas - a lot of it's just being whole bodies cut in half because we don't have the boning and packing facilities, and we don't have the volume in some of our abattoirs - well, by shrinking the number of abattoirs, as we're doing, we're getting now the numbers to be able to send some product to this country, some product to this country, which is one of the things that's been dogging us.

As an industry we've been unable to send the middles to Japan and different parts to - because we can't fill a container, because we've had 126 little abattoirs spread around the country, which eight years ago didn't even have an expert licence. Now they've all got export licences and their boning facilities are only large enough really to handle domestic, so they can't - I mean, I might be out of line with what I'm saying there because I'm not in that section of the economy, but it looks to me like we don't have the facilities, so we see our pigs go to Singapore and being cut up in Singapore in boning rooms that aren't of the quality of Australia, so we send a product that would have the potential, great value, go to a third world boning room in Singapore and then be distributed, whereas if that could be done in Australia, under our conditions, it would create a whole lot more value.

So I think we've got great potential in our industry and one of the things I wanted to impress on you really is that when we talk about Productivity Commissions, we really do have to have a way of us being a viable industry, and I believe there is a window there for us.

We've got to do things that allow us to take advantage of our geographic and our food safety in Australia that much of Asia doesn't have. If China tips to become a major importer of pigmeat in the future, which it looks like it's moving to, there will be a lot of vacancy created. If Smithfield starts to send a lot more pigmeat to China, it will take a lot of pressure off what they're trying to send to us. There's going to be great opportunities for selling perhaps restaurant-level pork from Australia to the rest of Asia.

I believe we probably need to have those quotas in place for about four years, to have time for us to find those alternative markets for fresh pork in the developing economies of Asia. I think if we don't take this action, we're going to lose a lot more of our industry than we should lose. I think there's the potential that we could be well under 200,000 sows when we've finished and have trouble recovering from there.

In answer to whether we have like products between the imports and the exports and our local production, I have heard people talk about: the product that comes out of Denmark is more consistent than ours. I believe that's a furphy. I don't believe it's a genuine story. I don't see any change in the bacon that we see on our plate to when I was a kid, to be honest. I don't believe it's of a higher quality. I just believe it's being sourced from a different place. The leg meat that we get from the US and Canada is, as they say, of a much larger animal, which places us at a big disadvantage, and they put it here because it's dumping. I mean, it's a market that they've got nowhere - those legs don't carry any value in the world; they only carry value here. So we end up carrying them because there's no real suitable place for them anywhere else. That fits my definition of "dumping".

MR BANKS: I mean, the other interpretation is that the Chinese don't want legs. They've got to send the legs somewhere, and they're coming to Australia.

MR LUDVIGSEN: Yes.

MR BANKS: How the price relates to the so-called normal value I suppose is something fortunately I don't have to look at.

MR LUDVIGSEN: Yes. I've always talked about this mismatch between what we produce and the rest of the world produces, and if we were growing a 130-kilogram pig with a view of sending bits to all over the world, we'd also have these legs that we couldn't get rid of and we'd be looking for a place to dump them as well, because if you can sell the good parts for enough to cover the carcass of the pig, it doesn't matter what you get for that other bit. I guess that's basically where they sit.

MR BANKS: Yes. Some call that marginal cost pricing, but I think Australia has been - - -

MR LUDVIGSEN: Well, it depends on which side of the fence you sit on.

MR BANKS: That's right.

MR LUDVIGSEN: But whatever side we sit on, Australia - and we've talked about the implications for local - I mean, the region that we're in around Port Wakefield, the impact of that abattoir being built there has revolutionised our area. You could have bought a block of land with a house on it at Port Wakefield for $40,000. You couldn't buy a block of land there for 100 plus. The amount of housing that's being built in the area is phenomenal. It's dragging every industry along with it. There's housing, there are electricians. The place is booming. When that's been shifted down to Port Wakefield, you'll see it drop like a stone. There are just so many places for sale and still houses being built at a rapid rate. There are huge regional implications of a collapse in our industry, and I presume all over the country.

MR BANKS: Good. Thank you very much. I think we've discussed the points that I was going to raise along the way. Again, thank you for taking the trouble to make yet another submission or appearance before us.

MR LUDVIGSEN: It's been very hard to put it together, you can just imagine, with the time frame but also with the additional loads that we have.

MR BANKS: No, I'm very grateful for it. Thank you. We'll proceed to our next participants. We'll perhaps just break for one minute while they get in place, thanks.

MR BANKS: Our final participants this morning are the South Australian Farmers Federation. Welcome to the hearings. Could I ask you to give your names, please, and the capacity in which you're here today.

MR MOSES: My name is Butch Moses, and I'm the chairman of the South Australian Farmers pork committee.

MR BANKS: Good, thank you.

MR PRATT: Graham Pratt. I'm the executive officer for the livestock and intensive industries section at SAFF.

MR BANKS: Good, thank you. Thanks very much for attending today and for the submission and also for the time you spent with us when we came to Adelaide previously. As we discussed, I'll give you the opportunity to raise the many points you make in your submission, and we can perhaps explore some of the issues after that.

MR PRATT: Just by way of introduction, SAFF is the principal farmer organisation representing the interests of South Australian primary producers. We're a member of the National Farmers Federation and work with Australian Pork Ltd. SAFF is organised around commodity sections. One of those commodity sections is the commercial pork section. Our membership includes both specialised pork producers as well as mixed farming operations. Within the commercial pork section, there's an executive committee that works on behalf of the SA pork industry. Currently there are 11 local producers who are working on that committee, and Butch Moses is the chair of the committee. Butch will be talking substantially to our submission.

MR BANKS: Good, thank you. Over to you.

MR MOSES: Basically I represent quite a few pork producers. Obviously, imports have sort of impacted on their livelihood. I guess our systems for these producers are used - some of them integrated; some are just freelance pork producers and bacon producers; some sell in the local market; some sell to either of the two abattoirs; some of them have contracts; some don't.

I continually get phone calls from them asking me questions dealing with what's happening with pork and the price and so on and what's causing it, and obviously part of it is the increased imports, which have dramatically increased. There's been a big increase since 2002 right through to 2007. In 2007 the amount that's come in has just made it pretty untenable as far as what people can get per kilo. A lot of these producers have over the years spent a great deal of time, money and effort. Over time I've heard that, you know, we've got to upgrade and do this, do that. A lot of these people do a lot of risk management. They try and work ahead as to what their incomes would be, and maybe in this case not going to be.

They really do, you know, try and keep up with modern methods. A lot of the people I deal with are into batch farrowing and on straw based systems. They have off-site units. So I don't believe that we're totally lagging behind in some of the things we do. Most of the people that sell are trying to aim for a carcass dressed at around 75 kilos maximum, which is what the Australian fresh pork market is aimed at. Obviously over time the smallgoods or the processing side of the industry is taking less and less - they still take, but you get a lot less price for their product.

I guess the thing that some of the producers are most concerned about is how long this downturn is going to last. We've had downturns before and there's usually been a bit of a light at the end of the tunnel. In this case, the time factor is a real concern. I guess what I'm hearing from within industry and people that I deal with is, there have already been some people that have gone to the wall and are leaving, or not planning to stay. The fear is the second wave, as such. I believe that is the real fear because of where the price will stay and for how long.

I've been doing a fair bit of reading and asking around and obviously there's the fresh pork market, then there are the processors and the people that use Australian product and the imported product but there does seem to be a looming of a fifth block - there are four main processors but there's a fifth block coming along that have been granted import licences and that block seems to have got quite large. I'm told - I personally don't know for sure - that that block is bigger than the other four blocks together. So you have a section of people who can bring this material in and they don't need the normal channels to process and so on. That is, I believe, one of the leading causes of where we're at.

I've heard people state that the drought is a problem. The drought is a problem now but back here in June and July when we would have been looking at a slight gradual increase for our product, that didn't really happen. And it didn't happen for some time. Myself, being a producer and mixed up in cereal grain side of things - back in June and July we were out in the paddocks looking and thinking to ourselves, "Yeah, it mightn't be too bad a season." But that wasn't - we couldn't really blame the drought at that point for where we're at, so the import thing has - and back in those months, huge amounts were coming in. That's the main thing that I really do feel has kept our price down low. As time has gone by, it's stayed down low and because there are sows being slaughtered in big numbers, that's keeping the price down as well.

In answer to a question I heard earlier - you were a bit curious to know where the levelling-out of our sow herd might be. I guess from industry projections and so on it would seem that people are talking that around 250,000 sows is where we're heading to be. I hope that it doesn't drop any lower than that, because we do need a certain amount of critical mass to stay viable as an industry. I guess one of the things that I've sort of thought about that I like - and we hear about the quality of product that does come in and supposedly it is a very good quality. I guess if you look at the Australian sow herd and then you look at a country like Denmark that has such a large number of sows, it's very easy to pick out the actual selected best to send off to a country, which gives that country importing the material exactly what they want. Unfortunately, it's landing here at a pretty good price for them. They don't have to worry about boning things out. It's ready to use.

That's how I see things and these are some of the things I have to explain to many of the members of the pork federation. They ring up and ask you this, that and the other. That's some of the line I tell them. When they ask you, "How long is it going to last?", well, "How good is the crystal ball?" That's it, as far as how I see it and some of the people in our federation see it much the same. What the solutions are? I guess I too have felt that maybe some sort of limiting, a quota, for a while to allow the industry some sort of breathing space. That's what I would like to see. Whether that happens or not I guess is not in my power.

Whether there's some other way around it, I don't know and I guess our industry would be only too glad to be given some direction, but I guess we're all hoping to stay in business. I know quite a few - unfortunately in today's pig-farming life, you've got more incorporated pig farms but you still have a large number of guys who are family owned farms and when you look at the cross-section of that demographic, most of them are 45, 50 or above, so if they decide to get out, they're not going to come back. I would have to say I'd be one of those. I don't see any point in coming back to something that's going to look a bit limited.

But there is a portion of young fellows out there that still want to go on and they've got plans to either upgrade their farms or to go into some sort of expansion mode; but those sorts of things are put on hold. Most people I know don't intend to do any more maintenance than they have to. They've stopped all sorts of projects, from farrowing houses to eco-shelters. They don't see any point in going ahead, plus it just comes down to the financial viability. I have been to a workshop recently where we had 65 producers in a room at a crisis meeting. That was something fairly unique because most pig producers tend to be fairly busy and really can't afford a lot of time away from farms, because they are at times just about a 24-hour job, when you're dealing with live animals in intensive set-ups. But it was very pleasing to have had 65-odd people in a room to talk about and discuss risk management from grain growing or whatever to where we may be, where we're going and how long this pain could last.

One of the speakers we had there was talking about buying of grain and risk management in that aspect of things. It was interesting. He was saying to us our greatest fear was supply of grain. I don't think it's supply of grain that was our greatest fear; it was what we would have to pay for it. I don't see any way that we can import grains or feedstuffs from overseas at the current rate of what those feed grains would be and then when you do get them here, you've got the problem of where they've got to be processed and the logistical freight cost of getting them out to on-farm situations. That's another thing that does pay a pretty dismal aspect of things, but the import side of things, yes, I guess it has hurt us a lot. That's where I'm at at the moment.

MR BANKS: Okay. Were there further comments that you wanted to make?

MR PRATT: Not at this stage, no.

MR BANKS: I only had a few questions. Clearly we've gone through a number of the issues by now in some detail with a range of participants. In relation to the submission I had a couple of questions. One was on page 9. In about the second paragraph there, you talk about the injury suffered by the South Australian pork industry. I just wanted to clarify what you're saying here. You say:

> Farmers are now abandoning their farms because the cheap imports have flooded the market and forced down prices.

When you say "abandoning their farms," I'll maybe just get you to elaborate that; and has that caused a second wave of supply problem domestically?

MR MOSES: At the moment, those people that are either leaving or about to leave at the moment, that will bring those pigs onto a depressed market. So there's going to be more pigs to deal with. As far as the guys that are actually leaving - the comment of them abandoning farms - yes, it's a bit like that because you can't resell your farm. It's a waste of time.

MR BANKS: That sort of leads to the point that you make on page 10, which is in relation to one of the case studies. By the way, thank you for these case studies. They're quite helpful, particularly, as you've confidentially indicated, as they're based on actual properties, of course. There was a comment there:

> If economic conditions forced a particular farm to cease pig production -

this is on page 10 -

> the land would revert to horticultural use because of the current zoning laws.

MR MOSES: Yes.

MR BANKS: I'll just ask a little bit about the zoning laws. This is a wider issue, and it's more something for the report we might do in March, but how constraining are zoning laws in terms of different agricultural uses for land?

MR MOSES: In the case of piggeries, it's extremely difficult, for a variety of reasons. The Environmental Protection Agency has a great deal of say over that matter. As far as councils, all councils have a different way of looking at it. There are some councils that are quite proactive for pig development and suchlike, because they're either further out in the bush or away or whatever, but in this particular case this farm was set up in what would have been considered rural once but now, with the encroachment of suburbia, it isn't considered as rural. In their case, the fact that there's been a piggery there, it is in a horticultural area at the moment and it could be switched over, but there would be a certain degree of cost into cleaning that site up as such, and that makes it difficult for them.

The zoning laws vary from council region to council region, but as far as piggeries go, you go beyond the council, because there's the EPA and then also state planning and development also comes in onto the issues. As far as piggeries go, we're usually battling things a bit that way. By the same token, there are a couple of councils that are quite proactive for intensive piggeries and suchlike.

MR BANKS: Okay.

MR PRATT: In addition to that, reverting to any sort of horticulture use for land is increasingly problematic at the moment, given the nation's water issues.

MR BANKS: Yes, okay. Another question that arises - and we discussed this a bit earlier as well, but I'm interested in your views in terms of what safeguard action would need to happen within the industry to put it on a stronger footing going forward. You talked about: there are still some relatively small operations. Any comment on whether you see some further rationalisation occurring there going forward, and then other questions about ways of reducing costs further in the longer term.

MR MOSES: As far as reducing costs down the track, I guess that becomes a hard one because either land prices continually go up or - I mean, you only need to look at the steel aspect of things these days. It's continually going through the roof because of the - worldwide. So anyone who wanted to build anything further, all those costs are just going to keep going up irrespective. The other aspect of it is finding people that will actually construct those sorts of things.

The smaller guys, having spoken to a lot of them, they don't really see a lot of hope ahead, because economies of scale do come into play a little bit. There seems to be this point where - let's face it, to have a small piggery you've got to turn over a number. As soon as you employ someone, you've got to have an extra number of sows, and along comes the cost. So the smaller guys are saying to themselves, "Unless we can run it ourselves" - and the only way of doing that is bringing in new technologies and more automation," and that is fairly cost prohibitive. It can be cost-effective over a long period of time, providing it all works, but setting up that initial capital cost is a huge outlay.

Under the present climate, not too many small guys are willing to look at the capital outlay it would take to start off or even to increase at this point in time. I guess a medium-sized producer like myself - we run 430-odd sows - we have to look at some changes ourselves due to the animal welfare code coming in, and it is going to be a considerable cost. I know what needs to be done. We can't use the old sheds. We can use those for group housing. However, when it comes to building a complete new dry sow shed, I've had some quotes and just at the moment I can tell you I won't be going ahead at this point in time. I would like to go ahead. I would like to think that there is an industry here. I would like to think in five or 10 years' time I'll have a manager in running it and maybe me take a bit less interest; just overview it as a business. However, under the present climate I couldn't see that happening at all.

MR BANKS: Okay. In terms of the provisional measures that we're mainly thinking about coming up to mid-December, I'll just give you the opportunity if you wanted to comment on why, in your view, action sooner rather than later - but in particular in December rather than in March - could make a big difference to the fortunes of the industry.

MR MOSES: I think if something was done, the sooner the better. I mean, if you're going to do something - because with pigs, with all your production and so on, everything you do is a lag time, from the time you mate them to the time you sell them. If anyone is going to downsize or anything, you'd really want to know sooner than later what you do. At least it would give you an idea to say, "Oh, well, we can take this course of action," whether you destock, get out or say, "Oh, well, we'll stay as we are; we'll just keep the show running as it is."

If some action was taken that saw a bit more of an increase or you knew that in the next six or eight months all those surplus stocks that they're supposed to have in the warehouses are going to be used up and you knew there would be a bit of a quota on what was coming in, then you may say, "Well, there is some future here." But if nothing happens, then I don't see - my answer is: I would be looking very favourably at saying it's maybe better to quit sooner than later. Your first loss is possibly your best bloody loss to take. That's how I see it.

How some other guys want to run and look at their businesses - I've spoken to quite a few guys, and I do know of some young fellows that do want to stay in it and go on. They are at a point where at the moment they just say, "Unless we know what's going to happen, if we can see a bit of a light at the end of the tunnel" - they are just sitting on their hands, I guess. I feel that's how it is. That's how I see it.

MR BANKS: We talked - and it's reflected in your submission - that there's been a combination of forces, but the grain prices certainly haven't helped.

MR MOSES: No.

MR BANKS: I don't know whether you'd like to comment on what sort of level of grain prices would allow you to sort of make a reasonable profit, even with current product prices.

MR MOSES: I guess different farms for different reasons usually have different - if you're buying all pelleted feed, you know that you don't want to be paying any more than about $440 a tonne. For those people who buy barley and store it on farm or whatever to put back through their pigs, at the present time if you can get - say, for wheat - over $300-odd a tonne, why would you put it back through pigs? I would definitely like to see it under $300 a tonne if possible. I wouldn't like to be paying any more than $300 a tonne. I have had to pay $300 a tonne, and I can guarantee you that I didn't like paying it, but it's where it's at.

MR BANKS: Yes.

MR MOSES: $300 a tonne is looking at a situation where you can break even. If you're looking to make a profit, well, I think you'd want it down to $250 a tonne maximum.

MR BANKS: Okay. I'll just check. I might have had one more. These case studies that you've provided, I assume that these are not confidential any more because they're anonymous - is that right? - and we can - - -

MR PRATT: Yes, the confidential section is - - -

MR BANKS: Yes, is at the back.

MR MOSES: Yes, that's at the back.

MR BANKS: Okay. That's all I had. Thank you very much for attending. Were there any further final comments you wanted to make?

MR MOSES: I think there's been a lot of other people say a lot more, and I think overall I'd like to thank you for at least listening to us. I guess my only comment comes back to that date in December, yes. One way or the other, give us an answer, because if you're sitting on the fence too long, nothing happens.

MR BANKS: Right.

MR MOSES: That's about all I can say.

MR BANKS: Good, okay. We'll conclude there. Thank you very much for that. If there's no-one else appearing here in Adelaide, I'd like to adjourn the hearings to Melbourne. They commence at about 11 o'clock tomorrow morning. After those hearings in Melbourne, of course, we'll be proceedings to produce the accelerated report, which is due to be completed by 14 December. Thank you very much.

AT 12.16 PM THE INQUIRY WAS ADJOURNED ACCORDINGLY

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