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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 BRISBANE ON THURSDAY, 29 NOVEMBER 2007, AT 9.30 AM

Continued from 27/11/07 in Canberra

MR BANKS: Good morning, ladies and gentlemen. Welcome to the public hearings for the Productivity Commission's Inquiry into Safeguard Action Against Imports of Frozen Pigmeat. My name is Gary Banks. I'm the chairman of the Productivity 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. Those rules have been laid out for interested parties in the inquiry issues paper, which was distributed on 23 October and which can be downloaded from the commission's web site. Specifically, the Productivity Commission, as Australia's designated competent authority under the WTO 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".

The inquiry is to be completed by the end of March 2008. But the commission has also been asked to provide what is called an accelerated report by 14 December 2007, about two weeks away, or a bit over, as to whether provisional safeguard measures should be put in place for up to 200 days. We are asked in that respect to report on whether "critical circumstances exist where delay in applying measures would cause damage which it would be difficult to repair".

We have already talked to a range of organisations and individuals, from industry and from government, both in Australia and representatives of overseas firms and governments 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. We have already conducted public hearings in Sydney and in Canberra. And after this hearing in Brisbane we will be in Adelaide on Monday and finally in Melbourne on Tuesday. We will then finalise the accelerated report by 14 December. After that, we will work towards completing by end of March next year the safeguards inquiry, and in which we will also address the second part of the terms of reference, which refers to structural adjustment. While we don't propose to hold another round of hearings, further submissions would be very welcome. I would also note that the terms of reference indicate that the reports, plural, will be published as soon as practicable.

We like to conduct all the hearings in a reasonably informal manner, but I remind participants that a full transcript is being taken. 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 also available from the commission's web site following the hearings, usually within about three days. Copies can also be purchased and there is an order form available from staff here for that purpose. All of the submissions that we receive are also made available on the web site as soon as we can do that and usually within a day.

Just for the record, and to comply with the requirements of the Commonwealth occupational health and safety legislation, I should advise that in the unlikely event of an emergency requiring evacuation, there are two exits from this building at opposite ends, but staff could help you with that. With those formalities out of the way, I would now like to welcome the first participants for these hearings, Mondoro Pty Ltd. Welcome to the hearings. Could I ask you, please, to both give your names and the capacities in which you are here today.

MR MOORE: My name is Denis Moore. I operate a family trust company. I have been in the pig industry for approximately 50 years and I operate my business at Casino in northern New South Wales. My wife, Janice, is with me.

MR BANKS: Thank you very much for providing a submission to us, which I have read. As discussed, I will give you the opportunity to address the main points in that submission and then we can perhaps have some discussion.

MR MOORE: The importation of pigmeat into Australia from overseas has had a detrimental effect to our company. Approximately seven years ago I strode out - I used to run approximately 700 sows or 7000 pigs. On advice from the consultant, he advised me to improve my housing and be more efficient, which I did, or I tried to do. In the process at that time I borrowed approximately $2.5 million, plus my own money besides. I invested around the $3 million into expanding the piggery, in housing, more environmentally friendly housing, atmospheric control, thermostatic control, farrowing sheds and weaner sheds, to improve my carcass performance and be up with the top. I have had a fair bit of experience travelling overseas and looking at what they have done over there. I knew to be competitive, which I believe today I am, and in feedback from wholesalers in Sydney and wherever I'm up around the top in Australia in production carcasses. But, anyhow, apart from that, I strode out and the way things have gone today with importation of pigmeat, I can't compete. I forward buy grain 12 months ahead, and if I had never done that, I must say I would be gone by now.

The expansion process took approximately three years or so to complete. In that period of time, too, I built a thousand tonnes' grain storage. But as it goes along, the last two years, more pigmeat has come into the country, and that has put pressure on our domestic markets. It has formed a base, and in turn this has forced us on to the domestic market to produce. Approximately 18 months ago I was sending a small container with another chap to Singapore. But because of the dollar - and they were getting cheaper meat from subsidised countries - well, they let us go by. But the drought has also had an impact with the high grain prices. In the last 18 months, grain has gone probably from $175 to $380, $400. In some areas it has gone higher. But that's on my figures, that's what it has cost me.

MR BANKS: You were saying that you have been able to forward buy grain for a

12-month period. That was leading up to - what was the end of that 12-month period and have you been able to renew a contract on- - -

MR MOORE: I only renewed a contract recently for enough cereal grains till next year. I took a punt. That's my last straw; if I can't survive and things don't improve, I will be gone by June next year. In the process, in the last two years I have had to sell one outdoor pig farm at Tenterfield, at which I had 450 sows or 4500 pigs. It was - the banks made me sell that. I also sold another half share in another property I had at Tenterfield. It's gone also.

MR BANKS: Were these exclusively pig farms?

MR MOORE: The first one was. I used to run a few sheep. It was commercial - with a sheep and a few cattle, but mainly sheep - but pigs, it was predominantly pigs.

MR BANKS: Has that been sold to someone else who is going to maintain pig farming?

MR MOORE: Yes. At the moment I am sending weaner pigs up there, 10 to 12 weeks of age. And they go directly to market at 26 weeks. But I'm using it as a grow-out. I don't own anything.

MR BANKS: Right. When you say they go to market at 26 weeks, what happens to them then?

MR MOORE: They go to the processors, Booyong. Like, in our area there is a processor, Booyong meatworks.

MR BANKS: Do you know from Booyong what proportion are going to fresh versus further manufactured- - -

MR MOORE: What I believe, it's nearly all fresh pork market now. Besides having to sell those places, since then I have been forced to sell a commercial property which I years ago used to have in nut processing. It has gone, plus two houses. One has already gone today; it will be settled. And another one - these are investment properties I had built up over the years for retirement. But all up, I have gone through nearly $1.6 million. The banks have more or less told me to keep reducing me debt, to reduce me debt from $2.5 million back. But it's all relating to the pig crisis, of the importation. It's brought me unstuck because I can't match subsidised countries.

MR BANKS: What is the sort of economics of destocking and then repopping rather than trying to hang in, and so on?

MR MOORE: To destock - if I keep going at the high grain prices here a few weeks ago, that's around the $400 to $450 in my area, if I keep going and sustain the losses we are doing per week now, I will lose in the vicinity of $800,000 in the next 12 months. To answer your question, if I destocked, stop mating sows today, you can't dispose of all the little pigs, it takes six months, seven months. But to wind down it will take eight or nine months. As I said, I will lose $800,000 to keep going. To destock and start up again, going by APL figures, it will cost me about $1.8 million to start up again. At my age, there's no way in the world I could afford it; the banks wouldn't let me.

MR BANKS: You mentioned earlier on that you had had some exports going to I think you said Singapore.

MR MOORE: Yes.

MR BANKS: Would you see that as, looking down the track, if things got better that there are still some viability markets for Australian pork or for your own business in places like Singapore?

MR MOORE: There are niche markets over there. But at the moment, especially West Australia, because it's closer to Singapore with freight and that. But we find it very difficult with the way the dollar is. Another problem we have got now with Asia - a lot of those markets in Asia, like in Vietnam, in Thailand they are setting up new pig enterprises with all the modern technologies, and their wages, the best I can get it they are about $500 Australian a year. The average Asian pig farmer, where you know what I mean, ours is that $600 or $700 a week. And we can't - but that's the problem again we face into Asia and the Americans pouring meat in, their subsidised meat again; the same with the Danes. That's a problem.

MR BANKS: You said how wheat prices had gone up a lot. They seem to be as high for you as anywhere in Australia. They seem to be quite high prices that you have been quoting there, up to $450.

MR MOORE: Yes. Again, on APL figures, I think in South Australia at one stage they were higher. They got up to around $500. But I have never faced that. Only by - I was using grain around $250 up to - which I bought 18 months ago. I think on figures here last February, 12 months ago, grain was $175. Within the last October, 12 months, it went up a good $150 to $170 increase, in a short period of time.

MR BANKS: You mentioned $250. If grain hadn't gone any higher than that, how much help would that have been?

MR MOORE: It would have helped, right, but as I said we are still behind the eight ball. The last 18 months I have still been losing, on my figures you will see there, financial figures you have got, I have been losing money for three years, because it's still- - -

MR BANKS: Even with grain at $175, though?

MR MOORE: Probably wouldn't make a lot out of it; with the investment-wise, you would be behind the eight ball.

MR BANKS: But if you look forward and thought about, I suppose, a dream scenario for grain prices, would you expect them ever to be much lower than $175?

MR MOORE: I don't think you will ever see that again. I don't think. Because those farmers - you mentioned they are going to get back to $175 a tonne. They would be in trouble. I used to grow grain south of Goondiwindi years ago in the North Star area. I got out of that in the 80s. I could see grain prices - cost of production was beating us then. The poor old grain farmer, he can't - he will be battling on $200, I'm sure.

MR BANKS: So what would you think looking forward for grain farmers? You would sort of expect as a kind of an average price going forward that would keep them in business?

MR MOORE: I'm out of the grain; I'm not going to speak for the grain farmers. I still grow a little bit of grain, but it's astronomical. Just at a wild guess, I reckon they would be looking for $250 a tonne to be viable. But I'm not going to- - -

MR BANKS: No, I'm just interested in your point of view.

MR MOORE: But I don't think you are ever going to see grain prices right back to the $170 and $160. I believe that would be impossible.

MR BANKS: I suppose where that is leading me in a sense is that you are sort of indicating that there is a long-term problem here, not just a short term. What the safeguard action is all about is providing short-term relief to allow breathing space to get higher prices, to be able to do some investments that might be needed or get yourself on a better footing going forward. The next question is: if safeguard action was put on imported pigmeat, what opportunities would that provide you in terms of putting yourself on a more sustainable basis going forward?

MR MOORE: I was at an AGM meeting in Melbourne last week. APL, the marketing side of it, are concerned - if I remember right in the domestic market, we consume around 400,000 tonnes of pork a year, and they believe with the fall of the pig numbers - and I believe it's less than 1500 now, it might be down to 1400, last figures, I think from APL; we are a bit of a dying race. The problem is having enough - if we keep sliding on this scale, we are not going to have enough meat, domestic, for the fresh pork market, and that's one problem. APL is looking in the crystal ball.

MR BANKS: But I was thinking more from the point of view of your operations, whether there are things that you can't do now because you are obviously not profitable but if you became profitable over a period in which the safeguard measures were on, which potentially can be as long as four years, what scope there is in that period of time to get to a position where you could - you could be sort of profitable going forward without such protection?

MR MOORE: If they reduce the imports of imported meat coming in to a certain extent, you know what I mean?

MR BANKS: Yes.

MR MOORE: But they are flooding it in here now. It took 75 per cent of our markets. If we could get back and match fifty-fifty or less than that, it would help. Everything would help. But it's like going to fight somebody with one arm tied behind your back. The heavily subsidised countries, we can't compete. This has forced us, too, to change our weights of our pigs, too. One time two years or so ago when we were exporting, they would take pigs up to 95 to 100 kilos. Now, through the domestic market we have got to reduce our pigs back to 75 to 80. That's the market, fresh pork market. That's inefficient. That's inefficient because once your pig gets past pork, if you can take him on better feed conversion, you know what I'm trying to say- - -

MR BANKS: Yes.

MR MOORE: That's belting us around the ears, too, trying to produce these lightweight pigs for the fresh pork market.

MR BANKS: To what extent is that just sort of a matter of consumer preferences that could change over time? Or is it just inherent to the fresh market that they only require smaller pigs?

MR MOORE: They do. The fresh pork market also - for years and years and, as I said, I have been in it for 50 years. Going back 30 years ago, there was companies in Sydney, Meat Pro. Woolworths are still there, but Meat Pro has gone now. But they always wanted the lighter-type pig.

MR BANKS: So it's a longstanding preference?

MR MOORE: Yes, it is, and I believe it always will be. But it would be nice to talk them into, which we have tried, to lift the weights of our pigs because there is more feed conversion efficiency. I would love to sell them at 95 to 100 kilos, every pig. But we have been forced to produce these lighter-weight pigs, and they are inefficient.

MR BANKS: Just to help me understand the reason for that, does the larger pig also have more fat on it?

MR MOORE: Not so much fat. He is a better feed converter. Why don't they want the big pigs? I think the market demands it. Like, they don't want a pork chop six or eight inches big.

MR BANKS: I quite like them that big.

MR MOORE: It's what the market demands.

MR BANKS: So it is to some extent a matter of market preference.

MR MOORE: They are the denominator.

MR BANKS: Yes, there's some marketing efforts, I think, directed at trying to get people to move over time. But obviously that's something that would take some time to get a change in those preferences if they are so longstanding in the market.

MR MOORE: Yes.

MR BANKS: You talked about forward contracts, et cetera, for wheat. What about for your own product? What sort of contractual arrangements do you have for that, for your pigs?

MR MOORE: For the pigs - I haven't ventured into it. I was sort of never a believer in it. I might be one person, different to other people. Especially at the market now I'm grasping for every straw. If somebody came and offered me, say, $2.70, I wouldn't be game, or $2.80. That would be only the cost of production, $2.70. But, no, I haven't done anything in that field, only on grain.

MR BANKS: Almost a technical question: when you are selling your pigs, at what point do you sell them? They go into the abattoir and they are deboned et cetera or whatever happens to them next. But when does your ownership of the actual carcass end?

MR MOORE: At the end of the point of the weighing on the scales.

MR BANKS: So when the carcass is on the hook?

MR MOORE: Yes. If he is condemned before he gets to the weighing station, my loss. But once he is weighed, he belongs to the operator.

MR BANKS: So the logic of that is that you bear the risk of what? When you say "condemned", what do you mean?

MR MOORE: Till he is weighed - before the inspectors inspect him, the meat inspectors and AQIS and whatever inspect them, especially for export, before they get to the weighing scale. Once it passes that and he is approved, he belongs to the operator. That's the way I read it anyhow.

MR BANKS: Are you selling to the primary processor or the wholesaler? Who actually buys your pigs?

MR MOORE: Mainly wholesalers. Some of those wholesalers process them too in their own ways.

MR BANKS: They would commission the abattoir?

MR MOORE: Yes, they do the speaking to them, yes. How they want them cut up or whatever.

MR BANKS: I'm not sure that I had many more questions. By the way, it was a very good submission and you have - there is lots of information in it. Thank you for that. I think some of your information is commercial-in-confidence but that's also helpful to us to have that. The comment you made in your submission, you talked about the APL having commissioned Tony Fahey on the viability of destocking and re-entering the industry. So the points you have just made before are based on his word?

MR MOORE: Yes.

MR BANKS: Okay.

MR MOORE: My wife has been trying to get me to cut the numbers of the sows back to try and save loss. But as I explained to her, the time we did it and to service my debt, if I cut my sow - like, I originally programmed it and spent all this money - and pig buildings today cost a lot of money, could be between 4000 and 5000 per sow, to take per progeny through to bacon. For me to cut my sow numbers now in the deep water I'm in, if it ever turns a little bit, I will never service me debt; it's a one-way ticket. As it's gone now, with importation of this meat just - it's unbelievable. It's not competitive, in my book. It's not a fair playing field, definitely not.

MR BANKS: That might be a reasonable note to end on. I don't have any more questions, unless you have any further comments to make?

MR MOORE: No.

MR BANKS: Thank you again for attending today. And for the submission.

MR MOORE: Thank you.

MR BANKS: Our next participant this morning is the Northern Cooperative Meat Co Ltd. Welcome to the hearings. Could I ask you please to give your name and position.

MR BURRIDGE: My name is Gary Burridge. I'm the CEO of the Northern Cooperative Meat Co.

MR BANKS: Thank you very much for taking the time and trouble to attend today and also for the submission, which we have just received. As indicated, I will give you the opportunity to outline the main points in the submission.

MR BURRIDGE: I do apologise for the lateness of the submission. It wasn't intentional. I have been tied up on some other industry matters. The Northern Cooperative Meat Co is a cooperative. It's owned by approximately 1500 primary producers. The cooperative operates four distinct business ventures. One is a large bovine processing plant in Casino, in northern New South Wales. The other operation is a wet blue tannery supplying blue hides to the most exclusive markets in the world. The third operation is a pig processing facility called Booyong Pty Ltd, based at Booyong, between Bangalow and Lismore. The fourth operation is a large cattle herd, breeding herd, that we operate as an adjunct to the beef processing facility. As I said, the cooperative is owned by 1500 primary producers, a number of whom are pig producers. Today I will limit my comments purely to the pigmeat industry, if I may, and describe the Booyong business to start with.

The Booyong processing facility is a service processing facility. That is, we receive livestock from primary producers, we process it on either their behalf or on behalf of the operator clientele, who use our service, which our pig producers may sell their pigs to. We receive the animal, we process it and we deliver it to the specification required by the operator. I will read briefly some dot points out of my submission, if I may. We employ approximately 80 people. We spent some $5 million refurbishing and rebuilding the facility back in 1997. It's one of the most modern facilities in Australia. We have the good fortune of being one of the preferred suppliers to Singapore of pigmeat. But unfortunately that represents less than 10 per cent of our production. The remaining 90 per cent goes into the Australian domestic market.

In 2002 the board of the Northern Cooperative Meat Company decided to invest into building a dedicated export pig boning room. At that point in time there was opportunity for supplying pigmeat to Japan, boned pigmeat to Taiwan and other Asian markets. We employed additional employees to run that boning operation.

MR BANKS: Do you have other boning operations?

MR BURRIDGE: Yes, I have separate facilities. I have a separate pig processing facility and boning room. And a separate beef boning operation. They are completely independent of one another.

MR BANKS: But this one was just for export?

MR BURRIDGE: Solely for export of pigs or domestic use of pigmeat. It can bone for either domestic or export. But it's actually built and designed to supply an export market. Unfortunately, in May 2004 Biosecurity made a determination under the IRA to allow the importation of pigmeat from a number of other countries. That pigmeat was frozen pigmeat to come into Australia, with bone and glands removed. The government's decision to open up these markets was ultimately challenged in both the Federal Court and the High Court. And whilst that determination was taking place, pigmeat imports escalated out of control. That was the first peak that we actually saw as companies positioned themselves with enough imported product in inventory to carry themselves through for a period, should a court decision go against them.

MR BANKS: I will have to check, but I thought the uncertainty at that time had suppressed- - -

MR BURRIDGE: No, it suppressed the domestic market, but it actually increased the demand because people put containers onshore at that time; container loads of meat peaked in Australia during those court determinations. Since May 2004 pigmeats have grown significantly at the expense, in our opinion, of the Australian industry. We are of the opinion that the Australian Government's request to have the Productivity Commission conduct a safeguards inquiry into the import of pigmeat is at a pivotal point in the future of the Australian pigmeat industry. We welcome the opportunity to respond to the points for consideration that you put into your issues paper. I would like to start on that basis, answering each question, if I may.

MR BANKS: Yes, please.

MR BURRIDGE: Question 1: have imports increased? Well, it's obvious they have increased, simply by the data that the commission itself supplied. They have increased from approximately 4000 tonnes per month in 2003 to over 12,000 tonnes per month mid-2007. This significant increase represents a 300 per cent growth in imported pigmeat coming into our shores. This growth has obviously come at the expense of the Australian pig grower, the processing industry, the fabrication industry. It hasn't affected the smallgoods industry because they are the predominant users of this product. As the Australian pig herd contracts, it is reasonable to predict that imports will only increase further as pig producers and processors drop out of the industry. The issue Australia will face is no longer will there be a pork chop. Because the constraint forbids bone-in product coming in from external markets, if there is a demise completely of the Australian pigmeat industry, the Australian public will only ever have available to them boneless pork.

MR BANKS: What would lead to a situation where a market that is reserved for Australian producers is not supplied by Australian producers?

MR BURRIDGE: As I go through answering the questions, there are a number of quite fluid situations today that may ultimately change the direction of this industry forever or put it back on the course it was on before. There are measures that other countries use to balance imports into the country, and limit them exceeding given points of or critical control points, shall we say. I think the issues that will create the collapse is going to be - on my personal view - critical mass. Critical mass will affect multiple processors, multiple producers. I think that's essentially what Mr Moore was saying at that point in time. When I had a look at some of the questions, I thought they were very, very open and transparent and very open to people to build their discussion on.

The question in point 2 was: was the increase in imports the result of unseen developments and the results of WTO obligations incurred? Two significant events in our opinion that have affected the industry since 2004. One relates to Australia's worst drought in 100 years and the other one being the huge appreciation in the Australian dollar against the US. As the commissioner was aware, one of the greatest input costs to the pig industry is feed ingredients. In June 2004 the price of wheat, sorghum and barley in Australia were respectively $191, $142 and $174. I have included the actual prices in the back of my submission. On 1 November 2007 the same price for the same grain was $377, $305 and $340. They are not the escalated feed costs that people are talking about; they are pure raw grain prices. This represents an average increase in input costs of approximately 102 per cent.

Running tangentially with the increased feed costs was the appreciation of the Australian dollar against the US dollar. The appreciation of the Australian dollar affords pigmeat importers a more attractive opportunity to import pigmeat from the US, as in Australian dollar terms the imported pigmeat gets cheaper. Since May 2004 the Australian dollar has appreciated 37 per cent. That is up until 1 November 2007. I have included the exact dates for the commission's reference.

This increase has obviously made pigmeat more attractive for importers. If the Australian industry was to collapse, which is in our view imminent, and the market conditions were to ever revert to what they were pre-2004, it would take some considerable time for the industry to re-establish itself. I noticed the commissioner asked some questions earlier - the loss of skilled staff and skilled employees in the processing establishment are one of the greatest concerns to our business moving forward. If we were to lose our skilled slaughter persons, our skilled management team, our skilled boners, we wouldn't have a business and the facilities would need to be scrapped and sold for residual value. No business can hold them on their books moving forward. They would have to be liquidated. In essence, if there is a collapse, those industries will be sold off, there will be unemployment. Those people will have to find employment opportunities outside, I would suggest, the pig processing sector.

The third question the commission asked was defining the industry and who are the producers of like or directly competitive goods. In our opinion, the industry comprises pig producers, pig processors, boning and fabrication facilities, and small goods manufacturers. Each of these sectors is interlinked extremely closely. A collapse in demand or supply at any point within what we define as the industry will have repercussions on the total supply chain and ultimately the Australian consumer.

The commissioner has asked for a definition of competitive goods. It is our opinion that the pig producer, processor and fabricator need an outlet for every possible finished product from a pig or pick carcass. The commercial reality is that for any business to survive in primary production, processing or boning of pigs, is its ability to sell to the market every part of the carcass at the highest possible price. This is in fact even more pronounced on high valued cuts such as loin meat and leg meat, which opens over 60 per cent of the carcass weight and more than 60 per cent of the carcass value. Unfortunately, this relatively large proportion of the pig, that being the loin and leg, is what is directly affected by import of pigmeat, and obviously that imported pigmeat goes into products such as bacon, boneless hams and smallgoods, which directly competes against our products. Importing these high-value cuts at significantly lower prices places huge downward pressure on the Australian pigmeat industry and prices which it generally cannot sustain.

Question 4, the industry is asked: has the industry suffered or was likely to suffer serious injury? Our cooperative has repeatedly written to respective federal government ministers of agriculture clearly warning them of the impending danger to the Australian pigmeat industry. We have already made submissions to earlier Productivity Commissions on imported pigmeat, and our concerns have been both on a biosecurity basis and on the premise that a number of our Australian global competitors have more favourable conditions of operation than we do. The significant increase in imported pigmeat since September 2004 has had a devastating effect on our operation, with pig numbers for processing falling by up to 30 per cent.

MR BANKS: Falling by 30 per cent?

MR BURRIDGE: Falling by 30 per cent. The primary reason for this decline is pig producer numbers, that is, pig producers are leaving the industry, and there was always going to be rationalisation. But it has been a significant rationalisation. The concern we have today is a number of our more substantial pig growers today are seriously talking about exiting the industry. In fact, one of our producers is about to liquidate completely his last animal I think next week. So the last animal from his facility will be killed next week, which will be the end of a supplier who supplied up to 200 pigs per week.

MR BANKS: What does that do to the unit cost of production?

MR BURRIDGE: It pushes up the cost of production and obviously we downsize our staffing requirements. At a point we get to, it ends at a critical mass and we can no longer survive either.

I have put in here, with the commission's permission, the exact pig numbers that we have actually processed. They are available via other sources. But the reduction in pig numbers, the number of pig producers in our geographical area has been significant and it is predicted to accelerate further. The pig numbers available for processing is placed at risk not only our business but also ultimately the employment of the people in our area, which is geographically sensitive. It has had an adverse effect on our clientele, a number of whom have openly spoken that they will have to downsize or scale back or stop their operations. We have had all bar one of our pig boning operators pull out of pig boning so that we no longer bone pigs at all. We have scaled back our boning room and that will be closed by the end of this week. We have suspended it once before and we will suspend it again now.

MR BANKS: What is happening to the- - -

MR BURRIDGE: They are no longer boning pigs.

MR BANKS: So what is happening?

MR BURRIDGE: The pigs are leaving our plant as carcasses now.

MR BANKS: For where?

MR BURRIDGE: They are going to the domestic butcher market. It's going to companies like BE Campbell, who are also having significant difficulties in these times. There isn't one person that you can speak to in this industry today that is having a profitable period. Everyone is sustaining losses and significant losses and it's about minimising those losses and hoping to hang in there long enough to get through.

MR BANKS: That meat that is pretty much all going to the fresh market?

MR BURRIDGE: It's all going to the chilled market, bar for leg sets, which go into obviously hams.

MR BANKS: Yes.

MR BURRIDGE: Loins, which have to come back to bacon. The commission asked questions about pig sizes and pig weights before. The reality is the Australian consumer does not want a large pork chop any more than it wants a huge T-bone steak. They do not buy a T-bone steak off a 450-kilo bovine animal. They will not buy a pork chop off a 100-kilo porcine animal. The reality is consumers buy what is fit for a family meal. Hence, the animal is grown to fit a consumer that is extremely health minded today, and very concerned that their dietary habits have a certain amount of meat products, but they are not excessive. APL or anyone else's efforts to try to reposition Australian consumers will be a lost cause; we have drummed into them too much the healthy outlook.

MR BANKS: I would be interested in your observations because you have got operations in beef as well as pork. How competitive are those two meats for the consumer dollar?

MR BURRIDGE: All proteins are based on a dollar value, commissioner. Whether it be pork, beef, lamb, mutton, veal, it's dollar driven and it's all protein, and consumers base their buying habits on obviously preference of choice on a given evening, but it's a dollar value. If beef goes through the roof, consumers switch choice to poultry, lamb, pork. That movement occurs very rapidly. We have seen it in the past where beef prices have escalated during a drought period. Where good livestock was not available, prices increased or global demand pushed prices up in Australia, and consumers immediately swung to other protein sources.

MR BANKS: So on those grounds, what has been happening most recently over the six-month period, have beef prices come down? Is that putting pressure your on - - -

MR BURRIDGE: No, I think you will find that prices have remained within reason relatively stable. I think that the demand in Australia for Australian-grown pork has predominantly been affected solely by imported pork prices. I will give you an idea on our boning operation. I have attached some graphs for the commission's benefit. From commencement in 2003 until 2004 the boning operation had production levels spanning between 400 and 1,200 pigs per week. The plant would kill on average 5,000 pigs per week. Now it's down to about 3,500. In late July 2005 the boning room numbers fell away significantly due to the volume of imported pigmeat. It tied up exactly with it. If you notice the graphs, the graphs clearly indicate a peak in imported pigmeat; boning numbers fell away because people couldn't compete, we suspended boning operations from I think August 2005. And I don't think we started it up again until early January 2006, it might have been March 2006. It is our opinion that the graphs clearly demonstrated the impact imported pigmeat was having on our business.

On the week ending 18 November 2007 we reduced - that's just recently - we reduced our work force by another 10 per cent. So we have taken our work force today down below 60 people and we are cognisant that given the trend continues with imported pork, we will have no option other than to enforce further cutbacks. As I said to the commission, we will get to a point where it is no longer viable or cost-effective to maintain the facilities because the losses will be too high.

Question 5: the commission asks some very pointed questions about increased imports causing serious injury. I have put some figures in there that I publicly would not like to record, because they do clearly define the losses that we have sustained. But I would like to say our losses sustained over the last four years are significant. These losses are based on two aspects. That's the direct loss in actually processing the pigs, and then there is a requirement under the international financial reporting standards that if you are sustaining losses you must write your assets back to reflect those losses. You cannot hold an asset on your books for X dollars if it's sustaining a loss. You have to write it back to a commercial value. We have sustained those losses in our books and we have had to write the facility back on our books. It's a double loss. It's not just the physical loss of cash. It's then a writedown in your asset value of your business. I don't think most primary producers, pig producers today, have had to face that fact.

MR BANKS: Though they have the same reality in a sense- - -

MR BURRIDGE: They have the same reality.

MR BANKS: If they wanted to sell their- - -

MR BURRIDGE: At the end of the day, they can't realise their asset.

MR BANKS: We have heard that story from quite a number of producers.

MR BURRIDGE: Question 6, the commission asks what safeguard measures would remedy serious injury. I think it would be a challenging issue for the commission. I have put forward some suggestions. I'm not suggesting they are the correct way or anything. I'm just saying I would note that many of our Australian trading partners today still invoke tariffs or quota constraints. The US today has a quota constraint on Australian beef entering its borders. If the quota is breached, a tariff of 26.5 per cent is applied to the FOB price of all imported beef products crossing its border. So there is automatically a tariff applying. Japan has a little bit more intriguing system in that it has a snapback provision for beef. That is where if imports increase by more than 17 per cent in a 12-month period a snapback provision is imposed and a tariff of 50 per cent is applied on all FOB beef - sorry, 50 per cent tariff is applied on beef products crossing its border.

MR BANKS: In both the US and the Japanese cases, are those penalty tariffs applying to all product coming in or just the product above those thresholds?

MR BURRIDGE: No. If it's beef, it's beef above it. As soon as you hit the snapback, the 17 per cent- - -

MR BANKS: It's like a tariff quota?

MR BURRIDGE: Yes. As soon as you hit the 17 per cent, it's on.

MR BANKS: In Japan?

MR BURRIDGE: In Japan. If you get a peak where it has peaked above 17 per cent, for the next period till the year ends, everything cops 50 per cent. The above provisions provide both domestic opportunities and an opportunity to adjust to the vagaries of global trading conditions, and they are vagaries of global trading conditions. We believe it would be completely reasonable for Australia to adopt similar positions to allow an industry to adjust.

The commission spoke about grain prices and what will affect grain prices. I think globally grain prices are going to be significantly affected by ethanol. The explosion of ethanol production in the US will ultimately drive up grain prices in the US, which will ultimately impact on pig producers in the US as well. They are already starting to make significant noise about it. Given Australia's new government's position on ethanol that they enunciated during the election, it is reasonable to presume that ethanol will demand an amount of Australian grain going forward. Therefore, the price on grain is not going to come back, in my opinion. It will stay at elevated levels. The unfortunate position that we will face is that ethanol will not pay the fuel excise tax that petrol does at this point in time, which will make ethanol production a viable option in Australia, in my personal belief.

MR BANKS: That subsidy for ethanol production is a tax on your business?

MR BURRIDGE: Yes, it will be a tax on the pig producers of Australia. The commission asked questions about Singapore. I was recently in Singapore. The Singaporean market is extremely concerned about the direction of the Australian industry, and they are already starting to consider repositioning themselves. They are concerned at the public hype in Australia about the viability of pig producers in this country and they are now starting to read between the lines and say there will be a significant shortfall of pig producers. Therefore, pigs from Australia, we need to look at buying pigs from either China, pigmeat from the Philippines, Malaysia again. So I can say to the commission that movement in Singapore is already happening and it will be to the detriment again of the Australian pigmeat industry. Commissioner, I would like to formally thank you and hope our submission answers a number of the questions you may have.

MR BANKS: Thank you. You have certainly been systematic in addressing the questions and we appreciate that, because as you would well appreciate, we are very much constrained in what we can do by the requirements in the WTO, and you have made reference to the subsidies and restrictive policies of other countries, which is not actually something we can look at primarily in this, because that would be a countervailing or anti-dumping type investigation.

MR BURRIDGE: That's right.

MR BANKS: But it does come in however in the sense that if there are any changes in policies in other countries - and there have been in Europe with the storage subsidy, et cetera, in recent times - if they could be shown to have aggravated the situation in terms of the import surge into Australia, then that would be relevant. Thank you for that. There might have been one or two other things I wanted to clarify. I think you have actually answered the questions that I was going to ask along the way. In a sense, what you are saying is that it's the boning operation of your wider processing that has borne the main brunt of this import surge of deboned product?

MR BURRIDGE: On our operation there are twofold; one is the demise of pig producers. The demise of pig producers affects the unit costs going through the business. As your pig numbers reduce, your unit costs and overhead costs go up so you become less efficient. On your pig boning operation, it is our clientele, our operators' ability to sell those leg cuts and loin cuts at commercial rates that ultimately affect the viability of their business, our business and the primary producer. If you have got a 30 per cent escalation in the dollar, which effectively allows you to buy 30 per cent more, you can afford to buy 20 per cent more and discount 17 per cent and bring the Australian industry to its knees. That's the reality. The reality is you can buy 20 per cent more pork and put another 17 per cent into bringing the price back in Australia. At the end of the day, the only people that suffer are the pig producers.

I can say this, commissioner: the bovine industry and the ovine industry in Australia, that being beef and mutton, would not survive under the same import structure that exists today for the pigmeat industry. If Australia was flooded by Brazilian or Argentinean beef, we wouldn't have a business. We wouldn't have a beef industry and we wouldn't have a - potentially an ovine industry. That might survive a little bit better but the bovine industry wouldn't and the only reason they aren't in here is the phytosanitary issues associated with those particular countries.

MR BANKS: Why are we such a successful exporter then?

MR BURRIDGE: We are a successful exporter because at the moment on those particular - our greatest competitor on those particular items would be Brazil, Argentina and the US, all of whom have some form of exotic disease. The US has mad cow disease, so they can't export to Australia. Brazil, Argentina have had foot-and-mouth disease, so they are excluded from sending product into Australia.

I'm not sure if the commissioner is aware that there was quite an outburst three years ago when product from Brazil was found dumped on a rubbish dump in Wagga. That had been brought into the country and was just openly - instead of being deep-buried on the site it was just dumped. It was never supposed to be brought into the country given the FMD situation in Brazil, but it did get in here. It came in under a loophole within the regulation as a sample, but instead of being incinerated or disposed of appropriately, it was just dumped on an open landfill, so there are risks.

MR BANKS: That's been very helpful. As I said, when we look through your submission, there may be a bit more detail. We might get back to you for some clarification, but that's been a very helpful discussion.

MR BURRIDGE: Thank you very much.

MR BANKS: Ladies and gentlemen, our next participant is Alister Piggeries. Welcome to the hearings. Could I ask you to give your names and your positions.

MR BAILEY: My name is Greg Bailey, and I have my wife, Margaret, with me. We operate a piggery in the Dalby district. I think to give you a little bit of insight into what we do - with our family we run a large grain producing operation. We also have a small feed mill. Mr Commissioner, I think you would realise that we see all sides of the problem. We have been in the pig industry for approximately 42 years.

I would say the last six years the problems up - up until the last six years there was a reasonably good living in the pig industry. When the pigmeat first started coming in from Denmark and Canada, we did have a bad lull there, but I think the Australian dollar was a bit weak at the time and all of a sudden there was a market opened up in Singapore and Asia, but mainly Singapore, because they got a bad wog in Malaysia and this gave us a bit of breathing space. But then when the government decided to give the Americans a free go, it was - well, I think I put it in my submission - the straw that broke the camel's back.

With our grain growing, I think the first speaker covered a lot of the problems that we have. I would like one of my sons to take over the piggery operation. I think he is having second thoughts. We put a lot of money into it. Unless something is done about the importation of pigmeat, I think we might have to bite the bullet and close down the operation, although we have spent millions of dollars on it. I think a bit of the problem has been aggravated by the high costs of grain lately. But I think we have all got to realise that grain prices will never get back to what they were because grain got just too cheap. I know in our own operation that we would look at the thing and would we grow wheat - we have got quite a lot of irrigated country. We would save it and grow cotton because there is more money in cotton.

With my wife, we have travelled a lot around the world. One of the recent places we have been to has been India and we go on the cotton/grain tours and we talk to government officials, and I asked one of the chaps over there, "Why don't you grow more wheat?" "There is more money in cotton. We'll grow cotton." "We can import wheat cheaper than we can grow it." All of a sudden there is a catastrophe around the world and Kansas had a bad frost. We had floods in Europe and England, and all of a sudden wheat prices go sky high and this is reflected back on the Australian market. Wheat is the yardstick of all grain prices.

I think this has shot the grain price up here in Australia and it caused the - you know, further to what the industry's problems are. I just pulled something off the Net there this morning, that they are expecting a 47 per cent increase in sorghum plantings this year because of the good rain around the Downs and northern New South Wales. We will see grain prices not go back to what they were, but back to cheaper than what we are paying for them at present. But that is not going to solve our problems. I don't think it's going to get back to where we can make money if pigmeat gets back to where it was in the last three or four months or six months. As I said, I think the problem has been building up for several years, not allowing people in the industry to build up any reserves. As the first speaker was saying, if you built up a few reserves over the better years in the industry, you would have to call on them.

In our feed milling operation we have seen it decreasing. We had one particular chap rang up from New South Wales the other day and he owed us a lot of money. He offered us 10 cents in the dollar. This is the problem in the feed milling industry. I think that the message has got to be got to politicians and government officials that - I wrote it down here - when producers are down to their last, they come out with their broad-brimmed hats and tell you, "We'll give you a few dollars to leave the industry with dignity." I think this is absolutely disgraceful. You have got people that have put their life's work into building up their operations. I think it's terrible. A lot of the thinking - I don't know whether it's government officials or politicians - I will never forget the time that I listened to an ABC program where there was a big lot of businesspeople and farmers and so forth gathering on I think it was a Four Corners program. They were interviewing Bob Hawke. One chap got up and he said, "What do you think of farmers?" He said, "I've only got one interest in farmers: they produce cheap food for the people."

I think this is a lot of our problems. I don't know, Mr Commissioner, whether in the circles that you move in whether this is the thoughts. But I do not think that farmers should be reduced to peasant levels. As I say, we produce grain, we know what it costs to produce that grain. We are in the feed milling operation. We know what it costs to produce a certain product. We try to put it out at not a lot more than what cost of production is and we've still got people that can't pay their debts. I think that sums up the industry.

MR BANKS: You were indicating that you were wondering how long you could hang in with these operations or whether you would just have to walk away. Would a reduction in the grain price significantly change that equation for you?

MR BAILEY: Grain prices will never get back to - I follow the futures market all the time. You have to in the feed milling industry. Wheat went up in the futures price last night. Soya beans on Friday night went to the highest price in 34 years. This is world grain prices. It's reflected back here in Australia. We have got to face that. I read a big article this morning about - there is a little bit of discussion in America that the ethanol industry is interfering with food prices. But farmers over there that were getting $2 a bushel for corn are now getting $4 a bushel for corn. So they can afford a few things. Before they were a hand-to-mouth operation. This was happening in the grain industry, you know, five years ago.

I remember going to a Rugby thing one night. I was talking to the manager of one of the big local feedlots. I said to him, "How much are you going to pay for sorghum?" because we grow a lot of sorghum. "Cheap as I can get it." I said, "That's a bit rough." I said, "How much are you getting for your cattle?" He says, "Getting that much money it's embarrassing." This is the grain farmers' problem. You can't expect him to produce cheap grain for the cattle industry and the pig industry. The pig industry has got to be prepared to pay a reasonable price that the grain farmer can produce grain. Even so, they cannot compete with imported pigmeats; impossible.

MR BANKS: I don't have any further questions. As you indicated, I think some of the points that we might have discussed we have already talked about with earlier participants. I wanted to thank you for making those comments and for appearing this morning. Thank you very much. We will close it there.

MR BANKS: Our next participants are Dalby Producers. I welcome you to the hearings. Could you give your names and the capacity in which you are here today?

MR FULLAGAR: My name is Mark FULLAGAR. I have a certificate in animal husbandry from Gatton Agricultural College. I have 25 years' experience in the industry. I operate a piggery with my wife, Kerry, at Bell.

MR SHAW: My name is Richard Shaw. My wife, Kate, is beside me. We are pig producers in the Bell area with 13 years' experience. We are here to present a submission for our case.

MR BANKS: As I said, I will leave it to you to make whatever remarks you want to make in support of your submission. I might have a few questions along the way or at the end.

MR FULLAGAR: Firstly, I thank the commission for the opportunity to present our submission in a public hearing in our home state. I am presenting the submission on behalf of 10 businesses, which represent 4700 sows. These businesses marketed approximately 93,000 pigs in the last financial year. The businesses range in size from 65 sows to 1,200 sow units. These businesses contribute financial data through a focus group using a business monitor program, which is run by IAS Management Services. The business monitor program enables us to benchmark our performance against the average of the group, against the state and national average, and also against other pig producing nations.

I draw attention on page 3 to the calibre of the members of our group. Deeply involved in the industry and committed to our industry. Three of them are elected delegates to the industry body APL Ltd. One of them is a leading swine veterinarian. This day, two of them are hosting international delegates to the Australian Pig Science Conference on their unit at the Glasshouse Mountains.

I refer you to table 1, which is the performance of the Australian herd benchmarked against our competitors Denmark, Canada and the United States. This table contains a report by the Danish pig industry in 2005, where they compared Denmark, Canada and the United States. We have benchmarked the Australian production using data from the APL Pig Annual 2005 Report. I think it's fairly clear that we compare very well with our competing nations. Our feed conversion is in fact lower than the other nations. Our growth rates are comparable. The breeder herd is comparable with Canada and the United States. However, it is evident that Denmark has a superior breeding genotype to ours.

MR BANKS: We had the Danish Pork Council representative fly to Canberra from Copenhagen. He was making the opposite point, that he thought the Australian production was less efficient than Denmark. But what is confusing me a little bit is the different numbers in terms of the feed conversion ratios. You have a different number on your table 3?

MR FULLAGAR: Table 1 is the grower feed conversion, which is just the feed consumed by a pig from 30 kilograms to dressed weight, say 80 kilograms. The figures on the other tables are the herd feed conversion, which also counts - what the sow consumes, the other pigs in the herd.

MR BANKS: That's the one that is more normally cited, is it not, the latter one?

MR FULLAGAR: It is, yes, the herd feed conversion is what is normally used.

MR BANKS: Table 1 comes from, you say, a Danish pig production report. Is that report publicly available, do you know?

MR FULLAGAR: I would have to ask the author of this document, who is in the room, if you wouldn't mind if I could refer that question to John Riley?

MR BANKS: You could always get back to me on that.

MR RILEY: It is published. You can download it from the web site or get it out of their annual reports.

MR BANKS: Just for the record, it is public and we could download it from their web site. Thank you for that. I will let you go on. Sorry I interrupted you.

MR FULLAGAR: That's fine. One point that we were looking at was the greater performance from Denmark in terms of their breeding herd. The point I was going to make was that we certainly could benefit from better genes in our breeder herd, but that's not going to occur because of biosecurity issues.

MR BANKS: Could we just explore that. Others have said to me that it's not clear that that couldn't become an option in the future depending on how that genetic material is brought in and so on. There could be an option to do that in the future. In speaking to the Danish representative, he seemed pretty clear that that had helped them considerably, including with their feed conversion efficiency and also I think even the number of pigs produced per sow over a 12-month period.

MR FULLAGAR: Yes, you can see here on the table that they are almost four pigs per sow sold greater than ours.

MR BANKS: Yes.

MR FULLAGAR: So there is room for improvement. I certainly couldn't comment on the biosecurity risks. I know they are there. In fact, the reason pigmeat that's imported into this country has to be cooked is because of biosecurity issues.

MR BANKS: Thank you. I will let you go on.

MR FULLAGAR: We do make a point on page 4 of the report that in fact the Canadian government is presently giving their producers $25 million to control porcine circovirus, which is a disease which attacks the immune system of the pig, causing wastage and death. But we do not have that disease in this country, thankfully.

Next I would like to look at the performance of this focus group for the last financial year, 30 June 2007. We had a total income of $18.5 million. Feed costs were $10.9 million. Total non-feed costs, $8.6. We produced 92,819 pigs for an operating loss of $1.1 million. Table 3 - if I could - covers our key performance indicators for the group for the same financial year, bearing in mind that in my 25 years in the industry the producers that make up this group would be counted amongst the best businesses this industry has to offer. The table is fairly self-explanatory. Our annual return is 15 cents below our cost of production. The dressed weight of the pigs was 79 kilos, which equates to 7350 tonnes of pigmeat, and with the herd feed conversion, which was the figure you referred to earlier, it equates to 29,000 tonnes of pig feed used by the group in the last 12 months.

The table continues on page 5 with the pigmeat to feed price ratio. It's a basic rule of thumb for the viability of the job of feeding pigs - if this measure or ratio is not at least seven, which it has - the average of the last 20 years has been above seven. If it's not above seven, basically it's indicating that it's not a viable operation. I point out to the commissioner that since June of this year the Queensland Department of Primary Industries and Fisheries figures show that that - the pig price ratio has been below five and in October it was 4.6 to one, indicating that this is just not a viable business at this point in time.

I refer you to table 4, which looks at the focus group compared to the Queensland average. I think it's fairly clear that this group is very competitive. Our cost of feed is $8 cheaper per tonne. Our market return is 22 cents higher than the average, and our pigmeat to feed ratio is 0.7 higher. The reasons for that are that we use forward contracts for purchasing grain, and sourcing grain on farm, bypassing middle men. We have higher market returns for our pigs, again by the use of forward contracts, better carcass quality, paying more attention to detail in terms of targeting the sale matrix, and in some cases some of our businesses do sell directly to butchers.

MR BANKS: Why aren't forward contracts used more in the industry in terms of selling product?

MR FULLAGAR: Why aren't they used more?

MR BANKS: Yes.

MR FULLAGAR: It is my impression that the processing industry is not keen on locking too much of their supply into forward contracts. I guess they fear- - -

MR BANKS: Has it ever been a feature of the industry though, even pre-imports?

MR FULLAGAR: Yes, it has been, but more - we supplied Darling Downs bacon for some years and they had more supply contracts rather than price contracts. But certainly there are cap and collar contracts now available. But, again, it's just a limited amount.

MR BANKS: You imply that the forward contracts that you have had recently have been of some benefit in terms of moderating the price effects?

MR FULLAGAR: Yes. Referring back to table 3, the point is on our 12 months operations we made a loss of $12 per pig for those entire 93,000 pigs. The reason for that, commissioner, as I'm sure you are well aware - the graph on figure 1 is a graphic illustration of the dramatic increase in imports. That is the problem that we face. To just give that graph some perspective, the total weekly production of Queensland is 24,000 pigs. The weekly imports into this country are 60,000 pigs. That is 2.5 times the entire production of this state coming into this country each week.

I would refer the commissioner to table 5, which is basically just a break-up of the graph showing the dramatic increases in imports. Commissioner, given that on table 1 on page 3 we have demonstrated that the Australian producers are comparative on a productive efficiency basis - and if we accept that world grain is in short supply and is priced accordingly across the world, not just in this country, then this focus group believe that our competitors must be receiving support to enable them to land product in this country below our cost of production, bearing in mind that this group are above the average in terms of our competitiveness. The result of this - the wholesale price of pigmeat has been capped. This group believes that this has undermining the industry's ability to absorb the increased costs of production. It has undermined the industry's confidence to invest in new technology and undermined the industry's ability to expand.

Commissioner, I would now move on to the group's response to this unsustainable situation. We have cut sow numbers by 31 per cent. The group has cut staff numbers by 44 per cent. We have cut grow-out contractor rates by 20 per cent. Four of the members of this group have a total of 11 contract growers. Contract growers are people that provide housing for grow-out pigs. In this case, 11 of these contractors had an average of 3000 pig units per site. The 20 per cent cut equates to a $30,000 loss of revenue for each of those contractors. We have also reduced the purchase of genetically superior replacement stock and in almost all cases have sought extra carry-on finance.

I refer the commissioner to table 6, which is the performance of our group in the September quarter of this year. Our average return has been $2.27 and our cost of production $2.24. So we have actually had a positive margin of 3 cents per kilogram of pigmeat sold. The reason for that is fairly clear. You can see, bearing in mind table 3 on page 4, our non-feed costs have dropped by 34 cents. The average dressed weight has risen by eight kilograms, and the herd dressed weight feed conversion has also improved.

Commissioner, on page 8, the reasons for this become quite clear. Because this is an unsustainable situation, this positive return is simply a dead-cat bounce. This industry is in turmoil. The culling of healthy productive sows has caused the dressed weight to go up, it has caused the feed conversion to go down because there are less animals to support, and it has caused our average return down because the price of sows has collapsed, bringing our return per kilogram dressed down.

The reduction in the number of employees, the termination of alliances with contractors, the reduction in the investment in genetic improvement plus the moratorium on repairs and renewals has brought about a 34 cent reduction in our non-feed costs.

The equity in our businesses have been reduced, because our debt has had to increase to carry on. Finally, to add insult to injury, this group has paid $234,000 in levies, $150,000 of which has been used by the national body for pigmeat and pigmeat product promotion. This group feels that because of the misleading labelling laws that this country has, essentially all we are doing is promoting Canadian, Danish and American pigmeat, given that 67 per cent of all processed pigmeat in this country comes from those three countries.

Before I hand over to my colleague Richard Shaw, I would like to acknowledge that this submission would not have been possible if it wasn't for the efforts of three people: John Riley, who is in the room, who is an internationally recognised business consultant to the Australian pig industry and a director of IAS Management; Sara Willis, a leading pig nutritionist and senior extension officer with the Department of Primary Industries and Fisheries in Toowoomba, and Mark Bow, the pig unit manager of the Queensland University of Gatton College campus.

MR BANKS: Thank you for that. I should also commend you and them on this submission, which has a lot of good data in it. The way have you broken it up over those periods is actually very helpful. I thank you for that. It may be that as we are working on this and using it we may want to come back to you at some point if we need further clarification but it's an excellent submission for that reason.

MR SHAW: I would like to present a submission that is more on our farm sort of thing, so that you get a view of how the crisis is affecting us. We have been pig farming at Bell for 13 years. We first started as a contract breeder/grower for Kewpie Enterprises, and in 2001 bought the herd and became pig producers in our own right. It is now an owner operated enterprise of 320 sows that turns off an average 120 pigs per week to the fresh food market, selling to a local butcher/abattoir and through an alliance group to a wholesaler in the Sydney area.

We source locally 1500 tonnes of grain annually from Australian farmers. We employ two full-time staff. We have a grow-out contract for some of our growers. In 1994, when we first started with a desire to become primary producers, we purchased an empty piggery between Bell and Jimbour. At the time we only had the finance to cover the cost of the piggery so, like I said, we entered into a contract breeding and growing agreement with Kewpie Stockfeeds. This enabled us to have a good basic background in the production of pigmeat, mainly from the animal husbandry side of the industry.

It became apparent to us, after six years as a contractor, that we would be financially better off if we acquired the stock. So we purchased the 200 breeding sows and their progeny up to 18 weeks of age. Since that time, we have extended and upgraded the piggery to a stage now where, in our mind, we have improved our genetics, purchased another piggery which is leased to a contract grower, set up a feed mill, built two more grow-out sheds and improved the facilities in our piggeries. We have replaced all feeders, farrowing crates and refurbished the weaner shed with insulation panel and expanded the amount of grain storage. Our business plan was to expand to 350 sows so that, as we approached old age, 50 years old, we would have the extra income to employ staff so that we could wind back the hours that we work.

We have always been able to ride out the highs and lows of the profitability cycle of the pig industry before but we have taken steps to make our enterprise as profitable as possible. We use computer programs to herd-record and monitor the cost of production and feed conversion. We have always been keen attendees at DPI and other seminars and at the Dalby Pig Improvement Group meetings to find out the latest innovations to improve performance and keep up with best practice. We instituted a quality assurance program through APL and we monitor herd health through veterinary checks done at the abattoir regularly. We have changed genetics to produce a pig that reaches slaughter weight at a younger age, has a better meat yield and lower P2, saving on feed costs and giving a lower cost of production, and market return. We have since built a feed mill, because we wanted some more control over our ingredients, and can see that there are great savings to be made through mixing our own feed.

We have increased the grain storage on our farm and developed a network of grain farmers and grain traders from whom we can source grain at competitive prices. We are able to store six months of grain on farm and therefore able to purchase grain at a reasonable price, trying to avoid market volatility.

We use Sara Willis, the leading nutritionist with the Queensland DPI and F, who ensures the nutrients and ingredients in our diets are utilised efficiently. We have two markets for our pigs, like I said. We supply 40 per cent of our production to a local butcher. This means we reduce transport costs for some of our pigs. The second market is Sydney based and is supplied through a producer alliance. The Sydney market demands a heavier pig. Marketing as a member of an alliance enables us to secure a market where quality and consistency are rewarded. Three years ago we exported some of our pigs to Singapore, but because of a few issues with presentation over there these contracts became unviable for us.

If we were to exit the industry, there would be flow-on effects to our local community. We are at the moment cutting back sow numbers to do away with the contract grower situation. As I said, we purchase 1500 tonnes of grain mostly from local farmers, which in view of this year's wheat crop would probably come from a reasonable farm of 1500 acres. So a 1500-acre farm would have supplied us with that amount of wheat this year.

We employ two staff at the moment, like I said, who would be out of a job, or one of those would be out of a job if we had to decrease in size. We spend $5000 to $8000 per month on pig requirements and feed ingredients from a local stockfeed company. We spend between $900 and $1600 a month on veterinary goods. As I say, we supply the local butcher, who has cranked up his kill, and any reduction in those numbers would obviously mean he would have to lose some staff. And the other things that we buy, the goods that we use, various businesses in town, the plumbing shop, the fellas that repair pumps, feed mills, motors, tractors, all those sorts of things.

In some respects, the drought has been a catalyst that has brought the importation of domestic production plight of the industry to a head. If we didn't have this drought, in my view importers would have kept on importing at record volumes and the domestic industry would have bled to death slowly rather than the dramatic exiting from the industry that we have seen in the last six months and will probably see in the six months ahead. The situation we now face is that the pig industry may contract in size to just having enough meat to supply the domestic market. If this occurs, it would mean the amount of meat imported should have no bearing on the domestic price and the status quo will be reached between domestic production and the importation of pigmeat. This status quo would seem to be the solution but not an ideal one. If for any reason the supply of imported pigmeat was disrupted, the tonnages produced domestically would not cope with the demand, resulting in an increase in price to the consumer. The industry has spent a lot of money promoting the consumption of fresh pork, and an increase in price would be detrimental to our market share.

In this whole scenario of importation and domestic production of pigmeat the only people that have lost money are the Australian pig farmers. Danish, Canadian, USA pig farmers have made money, importers of pigmeat have profited, every link in the domestic supply chain has profited except the initial link, the provider of the resource, Australian farmers. How is it possible that a product from overseas produced in climates that require so much costly heating for long periods of winter can be shipped over under refrigeration to Australia and arrive here so much cheaper than the same product produced in Australia by some of the best, most efficient farmers in the world? If a tenable situation is not achieved, the Australian industry will contract further, and the future could be that we import fresh processed meat into a country which is perfectly capable of producing its own pigmeat, as good or better than imported product, cheaper than subsidised imported product, and cleaner than imported product. If the bottom line is competition in the marketplace so that consumers get the best choice of quality and price of product, then we need a vibrant and healthy domestic industry to provide competition against imports.

MR BANKS: Thank you for that. Part of what clearly has happened is the dramatic rise in the value of the dollar, which has been one of the explanations for why - when you say how can they be operating in their circumstances and climate, et cetera, and sending the product all around the world to Australia. When the dollar was lower and wheat prices were more moderate were your operations quite profitable? When was the last time your operations were sailing along okay?

MR SHAW: When we were really doing all right was before imports started coming in, and grain was at a reasonable price, yes.

MR BANKS: Imports have been coming in since 1992. You are not going back that far? You are not saying you have been unprofitable since 92.

MR SHAW: No.

MR BANKS: 2004, when the US came into the market- - -

MR SHAW: Yes. They used to sit about 4000 a month and I suppose we could handle that sort of volume. But when it increased to 12,000 to 13,000 tonnes a month. Yes, we can't handle that.

MR BANKS: So what increase in - this is a question for both of you, I suppose - price or average returns would you be looking at to say that that would be a sustainable situation? It is relevant to what sort of safeguard action might be appropriate.

MR FULLAGAR: Our business situation is that we need at least \$2.70 to break even, on the current situation. The value of the dollar may be relevant to America and Canada but it's not relevant to Denmark. The euro has been appreciating against the US dollar. You will note in table 5 the amount of meat coming in from Denmark has increased at the same rate; the strength of their currency has not dampened the influx of pigmeat from Denmark. I don't know that the currency explains the whole deal.

MR BANKS: We have heard - and it may be in this submission - a story about a sense of crisis being sold to the local processors here; that they would have difficulty getting Danish product and they seem to anticipate that by buying up big, but they would still have to feel that they were doing that at the right price. Do you have any comment on the other point that has been made, that the Danish product has other quality advantages as well in terms of its consistency, which may well reduce costs for processors?

MR FULLAGAR: I'm aware that they have a great reputation for a very consistent product. I'm also aware that our product is very competitive. I'm not a processor. I couldn't really answer it thoroughly.

MR SHAW: That product that comes out here, whoever is importing that is asking for a certain size of pig, and that pigmeat that we see here is derived from a bigger tonnage than those actual pigs represent. What is turning up here is like peas in a pod; that's what the importers are demanding.

MR BANKS: You were saying that there have always been cyclical ups and downs and you have been able to ride them out in the past. What has changed? We have all heard about the hog cycle. Apparently in America they still talk about the hog cycle. These days they talk about it being about five years or whatever. It is an industry that has historically been characterised by quite pronounced cyclical variations, which means it's an industry where the people in it have to be able to adjust to that and make good use of the good times and manage the bad. What has changed then, in terms of that?

MR SHAW: This year it's been brought to a head with the amount of pigmeat that's in the country that has depressed the price that we are going to get. Our prices started to shift in the last month. That would normally happen from July and August. That coupled with the fact of the price of grain, we are losing on both sides here. Our costs of production have skyrocketed. We used to have a reasonable price to April, after Christmas, but this year it dropped - come the first or second week in January we had a 20 cent drop straightaway. The time that we do get a better price, that time is constricted now. That's what you do; you might make money the last three or four months of the year and the first two months of the following year and not do so well during the middle part of the year when the price comes back. But we haven't been able to build up any fat to get us through the next down time.

MR FULLAGAR: Another point is that we live side by side with beef producers and grain producers, living in the same economy under the same constraints, and yet we seem to be the one that can't compete. Why is that? The beef producer that lives beside me, I don't see him operating in any different manner to what I am. And the same with the grain producers. They are both very competitive in the world market and yet it seems - the story that we are given is that we are just not competitive. This group contends that that is not the case. We are competitive, as the initial table shows.

MR BANKS: You have made reference to subsidies and so on overseas. There is no doubt some of that going on. The commission in the past, in 2005, had a look at that. I guess relevant to what we are looking at now is what might have driven the upsurge in imports over the most recent period. It's not clear to us that subsidisation has actually increased in that period or whatever, so there are other factors that come into play. I just mentioned one of them in relation to that, the reaction against shortages that occurred in Christmas 2006, reflected in buying that I think occurred in the earlier part of this year. The other one that I guess is being talked about is what has happened with the cost structure of the industry itself. If grain prices had not risen as substantially as they had, would you be in the situation you are in now?

MR FULLAGAR: I guess the answer would have to be no to that. But the reason we can't tolerate the present grain price is because we can't reflect our cost of production. We are basically snookered.

MR BANKS: Imports are essentially capping the upside that you can have on your prices to reflect rising costs?

MR FULLAGAR: Exactly.

MS SHAW: You have got a double thing happening there. You can't control drought, and we can't control the importers, and that's what has happened. For whatever reason - you have only got to look back at that graph to see that they have nearly doubled their import in those last few months, and that's what really decimated the price. When we first started, I can remember Kewpie saying that they were getting the prices that people were getting now. We went so far down in the trough. You feel like you can't control that, and it's the importers, therefore, who are controlling what happens to our base price. We would have been able to handle the higher grain prices, but to have those two things coming at once just really makes you feel as though you are totally not in control of what is going on.

MR SHAW: Imports are manipulating the market to a certain degree, and there is nothing you can do about that - the tonnage that is coming in, I mean.

MR BANKS: Looking forward at the viability of the operations - and the members of this group - how vulnerable are they in terms of if conditions stayed like this going through next year, what would be the scenario that you would think would be reasonable?

MR FULLAGAR: In our case, my wife and I have taken the decision that if this situation presents itself by September of next year we will exit the industry, because it's just not - it's a silly financial decision to make to keep putting money into an industry that is just not returning anything. Our personal situation is that we will pull out. I don't think that's going to happen. I certainly hope it doesn't, because I think this group, as I said earlier, is a group of the best producers or counted amongst the best producers this country has. Certainly there is a fresh market there. I guess that is at this point in time the fall-back position. I guess at some point the demand for fresh pork is going to force the price up; there will be a lot of blood on the walls before that happens.

MS SHAW: Can I draw your attention to - because you are in the area of looking at productivity. Table 7 on page 8 shows what would happen, what the estimated financial loss to rural communities just from our group from the reduction that they have made already. Table 8, on page 9, shows the opportunities lost for Australians if 120,000 sows were to go out. The suppliers of feed ingredients would be back $288 million, and haulage industry $60 million. They are not negligible amounts. That's just from a small amount.

MR BANKS: I will just check to see if I had any other questions on your submission, which as I have said is very helpful. If safeguard action was placed on imports of pigmeat which would allow the average returns to come up to something that would be allowing at least the more efficient operators to be making a reasonable profit, and so on, this would be a temporary action, what would that temporary action buy in a sense for those efficient producers? What could you expect to see that would perhaps put them on a better footing for the longer term? Clearly, your group is probably at the forefront in terms of being innovative and using research and finding ways of reducing your input costs and you have described a whole lot of those things. Is there much more that could be done?

MR FULLAGAR: The Pork CRC is basically investigating a phased feeding mechanism to improve feed efficiency. That present technology would take a fairly large investment by producers. There are things there. As I said, the Pork CRC is working very hard to come up with new technology for us to adopt. I guess the answer is that that gives us some time to adopt that new technology. It's fairly clear that imports are not going to go away. But it's unclear to me why they don't reflect their costs of production.

MS SHAW: It would also give us time, and also the importers time, to think about - surely the importers need a viable domestic industry. They wouldn't want to be at the behest of overseas people setting their price for them, would they? Surely they would desire some domestic industry to be left after all of this, so they would nearly have to rethink their strategy as well. And what has gone on can't possibly have been healthy for them as well.

MR BANKS: That is a question, I guess. They have demonstrated by their actions that they need the domestic industry much less than they did. The question is what would be a minimum, whether it's a security margin or whatever that they would use. For whatever processing they did, they could use imported frozen boneless pork. The other thing that has happened in recent times is that the import market has broadened. The US coming into it has broadened or deepened that source of supply. How would you react to that? Have import supplies become a lot more viable for processors now than they were before because of the breadth of the sources of supply?

MS SHAW: This is an anecdotal comment, but when they first came in there was an article sent around from the American Hog Producers Association; I don't have the reference for it. But I think the president's comment was, "We have made it into Australia. We are about to make that market ours," or "their industry ours". The American intent is to take over pretty much.

MR BANKS: Earlier I think you were saying that you could imagine that ultimately if trends went on like this what would be reserved for the domestic industry would be essentially the fresh market. I suppose leg hams, bone leg hams, a proportion where imports cannot compete in terms of the quarantine provisions. How far do you think we are off that situation now in terms of the size of the industry and what it's producing?

MR SHAW: That's what APL sort of predicts. I think there are 320,000 sows now in Australia. They think we are going to go back to 260,000 sows, which is all you need for a domestic fresh market, from the figures I have seen. It's what I said in there. If for some reason product can't come in, foot and mouth or the dollar or whatever reason, then what we produce here in Australia is only enough for a domestic fresh market. There will be a shortfall of a lot of pigmeat for processing. All that will do is - the price is going to increase. Like I said, we will alienate consumers. We have spent a lot of money over the years getting this market share that we have at the moment, and we will lose that overnight. So there has to be some sort of balance. I know these fellas need to import the stuff. You may know; I don't know for what reason they imported so much this year. They didn't know how much they needed or they didn't know how much was in Australia, or they have imported so much that they could manipulate the price and keep the price down for lengthy periods. I don't know what is going on there.

MR BANKS: The submission from the Danish Pork Council, which will be on our web site - there was a major surge. When they look at average exports to Australia over time, it looks a lot flatter. I suppose they are saying there are swings and roundabouts in what they have been exporting. It looks like there might have been some pull forward of orders to Denmark, which sort of flooded the market in that first part of the year. Each market has its own story, I suppose, but that's the story they are telling from the Danish side.

MR SHAW: I don't know for sure, but from what I can understand, the importers didn't think there was going to be enough pigmeat around for the last six months of this year. I don't know where they got their information from for that, but they went ahead and imported a whole stack of pigmeat.

MR BANKS: Your point about the price rising and in a sense setting the market back - how would you react to the proposition - any safeguard action we put on, particularly at the margins that APL is talking about, like a 60 per cent tariff, for example, is also potentially going to harm the market. That will flow through to higher prices for consumers as well. I just make that as an observation, if you like.

MS SHAW: Bit easier to wear, I suppose, if we are getting some benefit from it, rather than the importers getting benefit from it.

MR SHAW: If they put a 60 per cent increase on the tariff - because of the state of the industry at the moment and the people exiting the industry, it's going make it - we can't produce the shortfall, can we, so what does happen then? Like you say, the price is going to go up, and we are going to be faced with the same scenario.

MR BANKS: Would that sort of increase in price actually delay or defer some of the adjustment that might need to happen in the longer term in the industry? Safeguards action is intended to buy breathing space to allow some more orderly restructuring, if you like. Others would argue that such action might just delay it; it may give false hope to some of the less efficient producers and so on and keep them in the industry.

MR FULLAGAR: If we had a situation where the industry is pulled right back to just purely supplying the domestic market, then again we would have a situation where we become lazy because we don't have any pressure; we have that argument.

MR BANKS: But you have already demonstrated that you vigorously compete among yourselves, you benchmark yourselves against others and so on. You would imagine there would be quite vibrant competition even for that domestic market.

MS SHAW: If we go back to that domestic market we are going to have to drop our average carcass size, and that will have an impact on our cost of production. So I think Mr Moore this morning said that because you get your better feed conversion in your last - so your less efficient farmers are going to find it hard to survive in that climate, anyway.

MR BANKS: All right. I didn't have any further questions. Thank you for spending such a lot of time talking to your submission and on the submission itself. We appreciate that.

MR SHAW: What is the time frame of this, commissioner?

MR BANKS: It's explained in the issues paper, which I don't know whether you have a copy of that. There are copies that you can download from our web site. We are working towards producing what is called an accelerated report by 14 December, and a final report by the end of March. The first report is focused on whether delaying action until the end of March would cause damage to the industry that would be difficult to repair. I might give the opportunity now, if you like, to comment on what a delay of that kind might do from the perspective of your members, getting some relief on prices in December relative to the end of March. Do you want to comment on that?

MR FULLAGAR: The sooner the better is the short answer. This is the period where we are purchasing grain and contracts are being entered into, harvest time. So certainly the sooner the better.

MS SHAW: When you asked Mark before about the AI, artificial insemination, and the semen coming in from overseas, some of the diseases out there - I think, I'm not really sure, but I think it's multi-systemic wasting disease that was the main issue when they first started to introduce the pork from the USA. Our vet, who as Mark mentioned, is one of the top swine vets in Australia, Greg Marr, he is talking this afternoon, he said to us that they don't even know what the organism is that produces this disease. If you can't see that organism when you are testing the protocols for how the AI or whatever should be treated, you can't see whether you have killed the organism or not because they don't know what the organism is. They can't see it under a microscope. So it would be quite a while. If that was one of the issues, they don't know if that would come in in the semen or not but he could clarify that further for you.

MR BANKS: I seem to recall that that was one of the areas that the CRC was working on. Is that right? That seems to me like a potentially important area. If that could be resolved so that you could get the access to the genetic material without the risks of the disease, et cetera, looking forward that could be a very important thing for the industry in the longer term.

MR SHAW: It is probably one of the most beneficial things. If you could improve litter size and maintain the quality of pig, yes, that would help the industry.

MR BANKS: Thank you very much.

MR BANKS: Our next participant is Pork Queensland Inc. Welcome to the hearings. Could I ask you to give your names and the capacity in which you are here today.

MR RILEY: My name is John Riley, and I am here as a director of Pork Queensland.

MR REED: Terry Reed, producer, family operation at the Darling Downs, reasonable size piggery, past President of Queensland Pork, past member of the Pork Council, past board member of the Pork Council of Australia.

MR BANKS: We have a bit of experience at the table. I appreciate that. Thank you for taking the time to come in, and thank you also for the submission, which I have read. I have a couple of questions, but I will give you the chance firstly to make a couple of points.

MR RILEY: Thank you for the opportunity to attend. The chairman of Pork Queensland, Mr John Coward, apologises for the fact that he is unable to be here due to a prior commitment so he has asked me to stand in and present the organisation's presentation. Pork Queensland represents the entire supply chain in Queensland. We lobby state governments on issues affecting the supply chain in Queensland. We influence government and the industry by being members of several bodies, including the Queensland government's Intensive Livestock Advisory Committee, and we work with feed suppliers, processors, key influences such as veterinarian industry and consultants, and last of course, and by no means least, producers. That is the basic change from the new organisation Pork Queensland compared with the organisation that Terry was president of, which had developed from the organisation that Terry was president of, is the supply chain representation, not just a producer representation.

Three of the directors of Pork Queensland are elected delegates to APL. So we do have, as it were, a direct line to the thinking of APL. Whilst we have that direct line, we do operate independently of APL, but support their key strategies. Because we represent the whole feed chain and the directors are drawn from various sectors, we do not wear one specific hat. We believe that we are unbiased in the views that we have regarding the whole supply chain in Queensland.

In our paper we draw your attention, and I'm sure it will be drawn many, many times - the level of imports has increased in the last 12 months to 109,000 tonnes, and that imports represent 60 per cent of the total available domestic production, as illustrated in our paper. The main sources of course of imports are Denmark, Canada and USA. In your questioning of the previous group you made a point about the quality of the Danish product. As a regular visitor to Denmark - not just when I was in the UK, the 31 years I was in the industry there, but since I have been in Australia

I visit regularly - yes, they do have a quality product, but when you are 470 per cent self-sufficient you can provide from one shelf or another whatever the client wants. So if Russia wants pigs with 20 millimetres of back fat, they will have a stack of them somewhere, and if the English want pigs with eight millimetres' back fat and an average weight of 67 kilograms, then they can produce them. That is where the Danes score, on their level of production and their marketing and not necessarily on their performance in the piggery.

We are well aware of the problems of comparing industries internationally. In the last discussion you mentioned the fact that the Danish representative that you have probably seen and will be talking to, presented different figures to what the last group presented regarding the performance of the Australian herd against the herds in Denmark, Canada and USA. I would suggest to you that when you do look at data you make sure you are comparing apple was apples, and there is a danger that you do not do that, and you can be misled. The data that was presented in their paper is standardised to the Danish system of growing pigs from 30 kilograms to 105 kilograms. That's what Rasmussen's paper said, and the reference is given in their paper; that is how the Australian system or the results work. It is not just taken from an APL publication, it is put in the Danish format.

We believe that our performance is as good in Queensland and nationally as the Danes, the Canadians or the Americans. We are also aware, and you have mentioned it yourself, that the industries in those countries get fantastic assistance from government. $25 million for the control of porcine circovirus related diseases in this coming year in Canada, a program of $77 million over the next four years. In Denmark you made some comment about the private storage aids. Well, they have not been satisfied with that in the EU. They are now, in the last couple of days, introducing export refunds.

MR BANKS: They didn't volunteer that information to me when I spoke to the European Commission on Monday in Canberra.

MR RILEY: No, they tend to be fairly secretive about what they do, but it is on their web site. It is well worth bearing that in mind. Whilst we are not here to discuss subsidies, et cetera, it cannot be forgotten when you are looking at the whole picture. In Queensland, of course, the producers and the processing industry was stimulated back in 2001 by the Beattie government's Pig Industry Development Strategy. Processors expanded and improved their facilities and producers certainly expanded and changed their production system. They increased their slaughter weight and they switched to castration of male pigs to supply an export market. Unfortunately, since 2001 the Beattie government's strategy seems to be forgotten. The value of the dollar has increased, and that market has been reduced, particularly the market to Japan. Producers have felt the cost of that. They have had to reduce their slaughter weight, which you have referred to several times today and as a result their non-feed costs have increased per kilogram of pigmeat produced.

In our paper we identify five reasons why the level of imports, we believe, might have been increased. The first one is increased pressure by supermarkets on the price of processed meats. They are a powerful lobby, Woolworths and Coles. Another reason is that more processors have gained approval to process imported meats. The other one was the threat in mid-year of Danish strikes and Danish industrial action resulting in excessive purchases of raw materials by processors, which added to the normal levels of frozen pigmeat held by those processors and then we saw an increased domestic slaughter relative to demand, as some of the producers early in 2007 saw the need to cut their losses. Some of the more inefficient producers, the people who have been up against it from a capital point of view or finance point of view, have been culling sows and reducing slaughter weight for some months now; it is not just a sudden phenomenon.

MR BANKS: Coming on to the market, exacerbating the supply?

MR RILEY: Yes, it has been going on for some time. It's a question of supply and demand. The whole balance of supply and demand has been thrown out of balance by the level of imports, we would suggest. We believe that the industry needs, in Queensland in particular because that's the industry we represent, needs time to adjust to the current situation and that some control of imports should be made to allow that readjustment to take place. As I said right at the start, Queensland Pork represents not just the producer, we represent the processing sector, we represent feed manufacturers and we represent allied industry.

In Queensland we have two major abattoirs, one in Toowoomba and one in Kingaroy. The total capacity, I'm told, is 40,000 pigs per week. The production in Queensland currently is 23,000 a week in total. Further reductions in the number of pigs available will have a disastrous effect on Kingaroy and on Toowoomba, and a marked effect on Kingaroy where Swickers is the major employer.

Another member of Pork Queensland is DHA Rural, who supply raw materials, animal health products to the industry in Queensland. Over the last couple of years the company has experienced a 22 per cent decline in pig producer customer base, and has made a reduction of 20 per cent in staff numbers. Better Blend, who operate as a regional feed manufacturer out of Oakey, have seen their bagged sales reduced by 17 per cent, and their bulk tonnage reduced by even more. They have reduced staff and if their situation does not improve, they will reduce staff further. The small company organisation like the one I work for, IAS Management Services, we only have an income of about $3 million a year, but we have cut back. We have made one full-time representative redundant and we have made one of the part-time office staff redundant and we are downscaling our office facilities. So the effect on the other industries cannot be ignored.

When it comes to producers, you heard this morning that the very efficient group, the Dalby Focus Group, are losing just $12 a pig. It can't survive at that. That loss does not include depreciation and it does not include a figure for interest on capital. If you include that, the figure is much higher. That group have already cut their sow numbers by 30 per cent and their labour force by 44 per cent. That is typical of what is going on in the industry.

You referred and asked, Richard, when was the last sort of smiling time in the industry, the last happy time in the industry. The way you can assess that, I would suggest to you, is to look at the graph or the illustration produced by the Queensland DPI, which quotes the pigmeat price ratio/feed cost ratio. It tells you how many kilograms of feed you can buy by the sale of one kilogram of pigmeat. If you look at that, the last time it was over seven to one was in the period of around October '06. I think as Mark said, last month it was down to 4.6. A break-even point is around about 6.8, 7 to 1. I certainly draw your attention to that, because it does allow you to see the volatility of the industry. I will stop at that point and let Terry say a few words more about the plight of producers.

MR BANKS: Thank you very much for that. Just on that point about October 06. I don't have the chart in front of me, but prices did go up significantly in the latter part of 06, I think. I think they were relatively high, higher than they had been for some time. Is that right?

MR RILEY: There was a period between October 06 and April 06 when I think most of the people in the Dalby group would be reasonably happy.

MR BANKS: And April 07?

MR RILEY: And there was a very short period around again October 06 when they would be reasonably happy but it was a very short period. The peaks and troughs are getting closer together. You mentioned the five-year cycle in America. That cycle is getting shorter all the while. The peaks are getting less pronounced and the troughs are getting deeper and that's what is happening to this industry.

MR REED: If I might extend on that particular issue before I walk through part of our submission; while that peak was there back in late 06 and beginning of 07, that was, I believe, when the processors took the position to order stocks because they didn't want that to happen, end of 07-08. So they were going to cap the price by filling the freezers. Freezers are cheaper to run than paying producers a reasonable price, and extend it on. They have brought in huge amounts of product, as we all know, and capped the price severely and we can walk that right back through the time, essence of time.

Our family has been in pork production since 1970. We have two sons and their families with my wife and myself at this point in time, and we have over this period experienced a number of downturns in the industry. This is not just the first one, and it probably won't be the last one. The real problem is who is going to be left sow wise or people wise to experience any more downturns. Let's hope somehow or another we can work ourselves to weather it. These have usually been used by oversupply. This current situation, again, as we have said, is no exception; it has clearly been caused by oversupply. Since the beginning of the nineties, access was granted, and we talked about that earlier, to oversees countries: firstly, Canada; secondly, Denmark; and, thirdly, USA.

During this period there have been a number of inquiries into the disastrous financial state of the industry. This is our particular part of the Dalby focus group, a summary of our family feeling on this, the only restriction being quarantine to health. That's the only restriction that any of those countries had to get over. This then allowed the huge flood of imports into the country to take over the processed section of our market. Our country's processing market share was stolen by these countries. They did not and do not pay any promotional levy, as was mentioned by earlier submissions. We do, and have done and continue to pay a promotion levy to promote our product. We bought that share of the processed market; and it was granted through government policy - free ride - to overseas countries. They do not and will not pay at this point in time.

This was how our industry achieved our market share. Any government elect or adviser would be absolutely naive to think that this type of import policy would not quickly destroy the domestic industry. We are talking about reducing this herd to basically a fresh pork industry. That is a disaster to me and to most of the people that I talk to as far as producers go. If we keep winding down, we have just kept winding down, all we are doing is succumbing to any pressure of imports. There is a lot of work being done as to how that imported pork can get on to the fresh meat market as well. If that gets there, well, unless you are internationally competitive or through your creative arrangements through the commission you are able to come up with a mechanism to start to use some mechanism of slowing down these imports at high times of flood, you might say, of product, then I would suggest that we might as well all take a pay cut, whatever that be, and move on to another industry.

MR BANKS: A point I should make, which I have made previously, is that whatever we do is very much constrained by the WTO agreement that this inquiry is being conducted under. It sets some limits not only on when you can take action but the type of action you can take but also the duration of that action. It is intended to be inherently temporary. So there is a question of an initial 200 days of provisional action and then a question of up to four years of safeguard action that could be taken. But the logic and expectation of it is that, beyond that, the industry would need to be - or positioned itself such that it could be sustainable at some level.

But I guess a question, and either of you might want to comment on this, is what is the potential in the longer term for the industry to be sustainable at a level which includes some share of the manufactured market or the processed market in addition to the fresh pork market, if we look beyond a four-year period, for example? We have talked a little bit about possible developments in access to international genetic stock, if we could solve the quarantine issues. I know the CRC is working on a number of areas as well. Are there any other comments you would want to make on that?

MR RILEY: I believe imports are inevitable, but there has to be a balance. How does the industry respond to make sure it insures itself against imports in the future? There is plenty of scope for it to improve its infrastructure and its efficiency on farm. Let's not hide that fact at all, and there will be a rationalisation. There will be some people who go out. But I agree with Terry; what we don't want to see is it just coming back to supplying a fresh meat market. I think that would be a total disaster for the country and the industry; plenty of scope to improve. In that four years, people would get confidence to invest in new technology. That has been one of the biggest problems with this industry in the last five to 10 years; It has not had the confidence to invest. If you have got confidence to invest in new technology, you can then reap the benefits of that new technology.

MR REED: That's exactly right. We are in this business, our family is in this business, really to stay in this business. It's a great value-adding business. We have a grain growing business and we are, as a pork producing industry, a great client of the grain industry. Don't let us get focused on the high price of the grain at this point in time. Grain has been historically high, historically low. Freight is a big factor in our grain prices. We have to move grain - we, by product from Western Australia. And that's a fair way to ship commodity, and it costs money. We have diesel just today $1.40 a litre. That's pretty high stuff. I don't think we would have to pay $1.40 in America. But we have to have confidence. We haven't got confidence at the moment because we completely lose our market share. Every time we turn around and get a little bit of gain - we might gain by the millimetre and we lose by the metre, might be an analogy. It is horrendous and it just erodes our confidence to keep spending money.

Previous people have talked about the millions of dollars we have put into this industry. It is a high-cost industry. It is a high-maintenance industry. How have we survived? We have been in it for nearly 40 years, and we are not about to walk away from it. But then if we talk about contracts, contracts as far as market contracts, we were very close to signing a market contract here probably about three months ago, and we would have locked our price in somewhere towards $2.70 would have been the top of the price. We would have gone ahead for two years on that market. Fortunately we didn't sign, because that's not even cost of production, and we would have been locked in to supply at less than the cost of production.

MR BANKS: In your case, $2.70 wouldn't cover your costs?

MR REED: It would be very close to. It would be about line ball, as we said today. We are major suppliers to a company that have put a submission in, BE Campbell. We supplied them for some 30-odd years, word of mouth contract. And we have taken market forces. This is the first time we have really got close to looking at that contract and how dangerous it would have been to our family business. I think you asked someone earlier how long might you survive in this current situation. We have said if we are talking about this again in 12 months' time we will really reassess. If I can continue walking through our- - -

MR BANKS: Please.

MR REED: Import product trace-back is also a great concern. We personally were able to view our tattoo in Singapore. We have been involved in the export market. We have exported to Singapore and Japan, but we can't do it in the competitive world of today. That's the exchange rate, and that's as volatile as anything; we know that. Can we do this with the Canadian, the Danish or the US product? Can we trace that back in Australia? I doubt it. Drought is a part of the Australian landscape/agriculture. It always will be. It's something we have to manage. Grain has always been available, as I mentioned.

The freight factor: currently, grain is at record high prices in Australia and there can be a number of reasons. Ethanol is one of the reasons. Forward contracting that wasn't able to be supplied is another reason. People have had to wash out contracts grain contracts, I'm talking about now. That's the same sort of thing as what we were talking about with pigs a minute ago. If you sign up for $200 and you haven't got any grain and you have to buy it at $400 and supply it, that's pretty hard going.

Water is another issue for our industry. We use water, but it's becoming a costly product. These are all costs that are impacting on us. Oversees countries don't have those same problems that we do have, water wise; they have a more reliable supply of water but we have managed it and we will continue to.

Animal welfare: we have just taken on huge changes in animal welfare codes that aren't being adopted by some of these countries that we are competing with. Our skilled labour is a problem. We are competing against the mining industry, which is soaking up high-skill labour and has the ability to pay higher prices.

Australian finance: interest rates, a lot higher than overseas countries. The hot dry climate has a serious impact on our production as far as the pig industry goes, because we experience conception rate problems during the hotter times, and so therefore we have market supply issues. These are all things that we have to manage, and yet the Australian government keep telling us to be internationally competitive, to compete in an international market. We have been competitive but in these circumstances, like now, where we cannot compete without any form of limitations as we talked about, surely it is times like this when Australia must come first.

Commissioner, I would suggest to you and ask you to take on board very seriously that it is your body that this industry is in the hands of at the moment, because it's families out there, wives and children, that have got enormous pressures. They don't know where to turn. You have got people before me that mentioned about people just offering 10 cents in the dollar. They are probably lucky that they have 10 cents in the dollar to offer, some of them; because others probably haven't. They haven't got 10 cents to go to the supermarket. I would ask you to think about those sorts of things as far as the Australian families are concerned that have committed themselves to this industry.

MR BANKS: Thank you. I'm obviously very conscious of all of that. I have dual responsibilities on me, because I'm also obliged to follow the letter of the requirements under the WTO. It is an area that is quite complex, actually, and legalistic and there have been lots of challenges and so on, so I am having to tread that difficult path. Thank you for that submission.

MR RILEY: Thank you.

MR BANKS: I may have a couple of other questions. I didn't have time to consult with my colleagues on this, but there is a chart on page 7, DHA account customer numbers. Can you just explain- - -

MR RILEY: I thought you might ask that. Basically it's showing, going backwards, the way that the customer numbers have fallen. The graph is the wrong way around. Month 1 is last month, going backwards, DHA.

MR BANKS: I read it early in the morning and I was going forwards.

MR RILEY: No, they are going backwards.

MR BANKS: Thank you for that. The chart at the back is the one that we got from APL. Yes. Obviously, a number of issues come up again and again when talking about people in the same industry. But maybe just for the record I will get you to talk a little bit about - we have heard a number of times that one of the problems of maintaining critical mass and you talked about the disaster if it just came down to the fresh meat part of the market and so on. I guess maybe just to get you to comment from the point of view of being a producer what costs and difficulties would be involved in gearing up again; destocking and then coming back into the market later. That's obviously a strategy that a lot of other industries would follow. They would cut back their production, and when the times improve come back into it. Would you like to talk a bit about that? Clearly there is some excess capacity at the moment. There is scope presumably to gear up production again.

MR REED: "Destocking" is a word that's been talked about in our family business a number of times. We believe it's a very dangerous position to take on. Firstly, because we have done yearly budgets with our financial institutions. You go into a depop situation, you really take that cash flow out of the situation totally. It might be negative at times, but as I have mentioned since the 1970s we have had sometimes - we can look at tax returns and see our averages as they go up and down. The other part is that as we have all gone in and - I believe we are in a farrow to finish situation. The industry is a farrow to finish arrangement. Therefore, we have over the years built up genetics. While we talk about importing genetics, we have got good genetics in Australia. There are some very good genetics. Internationally we mightn't quite have that edge, but we are not bad. If we depop, chop the heads off the sows and do all of that sort of thing, all that genetics goes out the window.

In our family business we performance test. You might not be aware of that terminology. That means we evaluate by weight and backfat at sale age to select the best possible genetics in the female herd to replace the breeder sows. So we are continually improving our herd genetics-wise, both in lean meat, in reproduction to get that litter number, that pigs per sow per year up, to be nationally competitive - that buzzword all the time, we depop, we lose all those things and we have to wind back up again. The other part of a depop is that, unless you are going to do a fire sale and ring up the freight company or the trucking company and load them all up, it will take you 10 months to wind through the situation, because you have to farrow out all your sows. That's the most economical way of stopping production, is to take that time. That can be a long time just in a downturn in the industry. So you have lost so many things. Am I making myself clear at all?

MR BANKS: You are. Thank you for that.

MR RILEY: The depop/restock situation is being promoted, I would suggest to you, by breeding companies in a lot of instances because they want to sell breeder stock. Before you destock and then repopulate, you have to work out what disease is costing you, what is the cost of disease in your herd because that is the major advantage of a depop/restock; you will get rid of some of the diseases that pigs - all pigs have diseases, just some pigs have more than others. Now, the success of it will depend on how quickly you can run down and how quickly you can get back into production. To do that you will have to have some offline sites. Some people will tell you you can do it in three months, two months even, but at the end of the day that means you have to manage a few sites. If you are going to do it, run down your own unit, as Terry said, it takes a long while, around about 10 months, you then have to clean out and then build up again. At its longest it's about 20 months to two years. You can bring it right back down.

The other thing you have to consider is how long is the honeymoon period going to be. In other words, how long, having destocked, will it be before you break down? If you are lucky, it could be four or five years, it might even be longer. But there are instances, and there are instances in the Dalby area, where the unimproved period was very short, very short indeed, because they got in disease from an unknown source. That's what you have to be aware of. It's easy to bandy about the phrase "destock/repop"; easy words to spell even. But at the end of the day you have got to do your budgets very thoroughly and sort out what improvements in performance you are going to get. Quite often, those improvements are grossly exaggerated by the people who are selling the system.

MR REED: Another part that I would like to comment on as far as our particular herd is concerned, we closed our herd back in about the mid-80s. We stopped bringing in live animals into our own herd situation. Therefore, we have used AI, we bring in the artificial semen, and it's delivered three or four times a week to Dalby and we pick it up from there. We have taken the alternative way of improving our health status. We then use a pig health monitoring scheme at the abattoir. Every three months a vet has a check on our - and scores our carcasses and monitors our herd health from there. I don't say we are perfectly clean or whistle clean, if that be a word, but we don't have a bad health status.

MR RILEY: But you have also improved your genetics at the same time.

MR REED: Yes, because we are bringing in that AI all the time. We are bringing it in from the bone station in Brisbane. That is sourcing excellent genetics all the time.

MR BANKS: Is that becoming the way most producers are operating now?

MR REED: I would suggest it is. I'm not totally familiar with the cross-herd. It's some time since I have been involved in the political side of the industry but any discussions that I do have it's certainly a very strong part of the industry. I suppose another point on the depop/repop, when I did walk the corridors of the political game with the industry, anybody that ever talked about a downturn in supply of pigs were the people that had the most pressure put on them financially. Even in a nonprofit situation you still have to sell, and you sell and you're minimising your loss. That's again a danger of that buzzword "depop/repop". You don't have that cash flow for some time.

MR BANKS: All right. Thank you very much for that submission and taking the time to discuss it with me. I will break now for lunch.

(Luncheon adjournment)

MR BANKS: Our next participant today is Gjadick Pork Pty Ltd. Welcome to the hearings. I would ask you to give your name and your position with the company.

MR MARR: Greg Marr. I am a director of Gjadick Pork, based in South Burnett, Queensland.

MR BANKS: Thank you very much for attending today and also for the short submission you have provided. I will hand over to you to make the main points you want to make.

MR MARR: Gjadick Pork is a unique business in a way in that two outside investors, myself and the local feed miller, and two very successful piggery family farms, saw an opportunity to join forces to cement the structure of the business, to make it a much better business going forward and there were lifestyle decisions in that. There was also obviously opportunities for a good investment and, very importantly, there was the opportunity for us to capture efficiencies that could not be captured in the traditional family farms, the two farms that came into the business. Specifically, some of those were when we joined the two businesses together we made it a multi-site operation. So we had breeding herd located in one site, weaners in another site and growers on separate sites. So we had an opportunity to have specialised staff do a very good job in their specialty areas.

We utilised technologies that would improve the health of the pigs, and the production benefits that would arise from that are obvious. We were able to improve the efficiency by which we feed the pigs, by matching diet specifications to the age of the pigs. We change our diets fortnightly. There is no waste in the system by doing that. We were able to incorporate the use of artificial insemination into the system by being a batch system with fortnightly farrow. That has improved our rate of genetic gain. We are also able to put in place herd and business recording systems that allowed us to have timely information that certainly allowed us to make better business decisions, we believe.

Those reasons plus as I say some lifestyle issues, the partners, the piggery partners, were sick of working weekends, and this was an opportunity that they could still be involved in the business that they love but not have to have the drudgery of weekends. So there was that benefit as well. It was all looking quite good. Unfortunately, we started the business in April 2003 and since then we have traded in a very difficult environment. We have obviously had the drought, which has been basically ongoing, with record grain prices. Unfortunately, that has resulted in us turning a very meagre profit in the period April 2003 to October 2007 of only $130,000. And that's a very paltry return on investment indeed. But of particular concern to us has been our trading position in the last 16 months to October, where we have actually lost 171,000.

In terms of this submission, this is where we cut to the chase. If you look at the prices that we have received leading up to Christmas 2005 and Christmas this year, where you traditionally in the pig industry get a price rise because of increased demand, coming into the festive season we just haven't had those price rises. If you look at the comparison of the prices we received in those two years or those periods compared to years where it was more traditionally - the prices more traditionally rose, although they probably didn't rise as much as they would normally have risen, there was a difference of 20 cents a kilo in price received on our pigs. That equates, because we sell 80,000 kilos a year, that equates to an opportunity loss of $170,000, which means that would have negated the trading loss that we have had in the last 16 months up to October 2007.

I firmly believe that that's been driven by the record levels of imports. I haven't specifically stated what they are, but I am sure we all know what they are. We have all seen the graphs and understand that. That record level of imports has effectively capped the price we receive for our pigmeat, and it has cost our company, I believe, around $170,000, the difference between getting through these very tough times and losing a very significant amount of money. We are on track to lose another $100,000 this financial year, November 2007 to June 2008, if the current trading position continues.

That is of great concern to us obviously, and to the point, if that continues, if the current trading position continues, we will have traded for five years and not turned a cent profit. So why would you do it? That's the question we have to ask ourselves. That's a question we will be asking ourselves, I can assure you, at the end of this financial year if not before. That would have massive ramifications. Part of the lifestyle changes and changing the business around the way we did to make the structure we have was we saw an opportunity for the investors to exit when they needed to at a reasonable commercial rate. We don't think that would happen given the current environment. But, specifically, we have spent $420,000 of capital to gain those technologies that I talked about earlier. So that just goes up in blue smoke. Of course, then there is the flow-on effects of job losses. We employ four full-time equivalents and two contract growers, and of course all the service industries that service our company.

That basically sums up my submission. I think I have demonstrated quite clearly the impact to our business that the record levels of imports have had and I strongly would hope that you consider recommending some safeguard actions in the short to medium term, that will allow us to get a bit of breathing space, look at our business and then decide which way we are going to go.

MR BANKS: Thank you for that. What sort of average price would you see yourself being sufficiently profitable at to make a reasonable going concern?

MR MARR: The current trading conditions, with the drought and record grain prices, we would need close to $3. Our cost of production sits around $2.75.

MR BANKS: That's with grain at current prices around $400?

MR MARR: Yes.

MR BANKS: How much difference to your recent experience has the increase in grain prices made? If it had stayed around $250 or something like that- - -

MR MARR: We have lived with those things in rural Australia. You have to be able to live with drought and fluctuations in commodity prices. Obviously, if it was $250 we would be in a much better position.

MR BANKS: Would you be profitable?

MR MARR: Yes, at 250 we would be.

MR BANKS: As you know, and as you indicated yourself, this is in a sense emergency or breathing space protection, I suppose you could call it. What comment would you like to make about what that would allow you to do to ensure that you would be on a viable footing when that assistance stopped?

MR MARR: At the moment we have taken some decisions to change our pig flows around to save money, which is a step backwards to a point in efficiency. But that's just a short-term cash flow issue. We would obviously go back to the structure that we had employed previously, where we have captured all those efficiencies. We also are going to eliminate some diseases out of our operation. That is a reasonably expensive exercise in itself. In a unit our size it would be around about $60,000 or $70,000 to do that. We won't do a full depopulation, we will do what is called a Swiss depopulation, where we medicate sows and eliminate respiratory disease out of the unit.

MR BANKS: Do you take them offline for a period?

MR MARR: No, we don't take them offline. We make sure from the breeder side - it's quite easy for us to do it because we have breeders isolated on one site. We don't have anything there less than 10 months of age. We medicate heavily and then the pigs produced after that medication period are free of respiratory disease. We just have to find alternative accommodation for clean pigs while at the same time we are growing out other pigs that are in the system. By the time you add up medication costs, finding extra growers, it is probably going to be between $60,000 and $100,000. I haven't done the full costings on it. That would certainly see us in much better stead down the track. We are just in the process now of, in the light of the high grain prices, going to high energy diets in our finisher feeds to push out pigs a bit quicker. As I said, our genetic improvement through AI has been very good. We now market a very good carcass and we can push that pig harder, so we can get some efficiencies there. There are other things that we can certainly do. But in the current environment we just can't do them. In point of fact, we have gone backwards; we have taken a step backwards just for cash flow reasons.

MR BANKS: I think your name was mentioned earlier when I was having a discussion with one of the participants about what scope there might be for eventually importing genetic stock in one way or another without the risks of disease coming with that. I understood the CRC was doing some work in that area. I don't know whether you had any comments to make. It seemed to me particularly when we were talking to Danish representatives in Canberra the other day that some of the gains they have had in feed conversion rates and also the fertility rates were attributable to their access to genetic material that we don't have.

MR MARR: Yes, and that would be fair comment, absolutely, but there is a two-edged sword. We don't want to do anything to lower our health status in particular in relation to PRRS and PWMS.

MR BANKS: Do the Danes have those two diseases?

MR MARR: Yes. If we got either of those two diseases in Australia, two things would happen. It would decimate our production, which would drive our production costs up higher, because we would increase mortalities/medications. But it would also open the floodgates to import of fresh product, because there would be no barrier from the point of view of quarantine. So it would be the death knell of the industry. So any decision that's made in that respect has to be made very conservatively.

MR BANKS: Has production in Denmark suffered from these diseases? When you say it would decimate production, is that empirically based?

MR MARR: PMWS, for example, in batches of pigs, worst-case scenario, 30 per cent of them die. Now, that just wrecks everything, your efficiencies, your kilos of pigmeat produced. It makes a business not viable.

MR BANKS: Are the Danes spending more on drugs or whatever to deal with that? Is that what has happened?

MR MARR: A circovirus vaccine came on to the market in the last six months, which seems to have basically fixed the problem but at a cost, obviously.

MR BANKS: Your comments earlier that you are cutting back to some extent, how much upside have you got if you wanted to increase your production? How much capacity have you got to do that?

MR MARR: We have actually just increased 100 sows, so we haven't downsized the organisation. We have just changed our pig flows around. We lose some of the abilities that we had to go all in, all out - to change our diets every fortnight, we are going back to a more traditional-type system. We would be happy - and certainly we have the capacity on the breeder site - to go to 1000 sows. We have always had it in the back of our mind that we may well do that, but we wouldn't be doing it in the current environment.

The other thing I might say that we certainly will be working very hard on - we were one of the first pig producers to go down the line of contracting our pigs for sale, as a risk management tool. Being one of the first, we didn't necessarily get the best deal, but we don't regret that decision, and obviously the next thing we will be looking very closely at is hedging of our grain prices. We have the information to allow us to make those decisions in a very timely manner. So that's the other thing that we will be doing if we stay in the business, be concentrating much more on doing that.

MR BANKS: In your contracts with your purchasers, when did those contracts fall due?

MR MARR: They have just fallen due now. We have just signed a new contract and we have not contracted all the pigs this time. We have contracted 150 out of the 250 that we market just to see what the market is going to do. The contract prices offered were not very attractive to us and it took a lot of negotiations to get them to a point where we were comfortable to at least sign them. Initially - this is how ridiculous it is - after three years, the contract we were offered is exactly the same prices as they were three years ago. To me, and I have certainly said quite a bit at APL in our discussions that that needs to be fixed. We need to bring the processors into the business to understand what the hell is going on out there, because obviously they don't know. They don't understand.

MR BANKS: That contract price, implied by what you say in your submission, is barely covering your costs?

MR MARR: It's below the cost of production.

MR BANKS: Below?

MR MARR: Yes.

MR BANKS: For how long? You said you just renewed your contract - - -

MR MARR: Initially we signed a three-year contract. The cap of that three-year contract would just put us into profit.

MR BANKS: There is scope for variation.

MR MARR: It's a cap/collar deal. You have a price that it doesn't fall below and a price that it doesn't go above. So it's capped and collared.

MR BANKS: You are sitting on the collar now. Is that right?

MR MARR: Yes, we are at the collar. We were above the collar on the old contract, we are at the collar in the new contract; it's still well below the cost of production, but I couldn't get that good a contract.

MR BANKS: It's a tough time when you are renegotiating a contract, I guess.

MR MARR: Even though we weren't happy necessarily with the price that we got during the three years of the contract, we were able to sell our pigs. So the pigs were at least sold, whereas a lot of people that didn't have contracts couldn't sell pigs or if they did sell them they sold them at a terribly reduced rate, well below our collar. That once again is just due to the flood of imports on to the market; just no demand for pigmeat, pretty simple.

MR BANKS: Who is buying your pigs?

MR MARR: Campbell. He is one of the buyers.

MR BANKS: They are slaughtered where?

MR MARR: In Kingaroy.

MR BANKS: If you were the only producer talking to me today, I would have had another dozen questions. But I have rehearsed those with other participants. I did want to get your reaction to particularly the question about the gene pool and the import story on that. I thank you for your comments on that. I didn't have any other questions. Do you have any further comments?

MR MARR: I was interested on the issue of the industry and the definition of the industry that we talked at length about at the APL forum. Is there any clarity on where that might be heading?

MR BANKS: If you are up to reading transcripts of hearings in this process, we had another quite interesting discussion with APL at the hearings in Canberra on

Tuesday, where their legal representation was arguing that a broader definition was quite consistent with the WTO provisions. The signal I was giving to that group there, whenever that was, last week, was that they needed to be aware of the fact that some would be arguing, and indeed a number of submissions particularly from the supplying countries have been arguing, that a narrow definition is what is required. We are going to have to look at that again in the light of what APL is saying to us and further research that we do. But I guess we would be wanting to produce a report that was pretty robust and we won't be putting all of our eggs in one basket. We will be trying to do what we think is appropriate one way or the other. So, yes, I guess it is fair to say that we are probably not in a position now to make a definitive call on that, but it's clearly something that we have to do a bit more work on.

It does get back to the broader issue that I raised at that meeting, which is that unlike the amount of discretion we have in a normal review we might do, in this one we are to some extent in a bit of a straitjacket according to the WTO provisions that need to be followed. Again, as you would see if you had a look at the submissions and transcripts from the supplying countries, they are obviously appealing to their own interpretations of the law as to what can be done and so on. But, on the other hand, they have invoked those same clauses themselves in the past, and that gives us an opportunity - and you will see if you have a look at the discussion I had with the European Commission, I asked them some questions that they need to answer too in terms of how they have dealt with these matters on their home patch.

MR MARR: All of that is on the web site?

MR BANKS: That's all on the web site. All of the commission's inquiries are always very transparent. Every submission and all the transcripts are on the web site. It takes a few days for us to get the transcripts up there. It takes time for them to be produced. As soon as we get them, we do a quick check and put them up there. So by Tuesday when we will have the last day of hearings in Melbourne, most of the submissions should be up there and some of the transcripts from earlier this week will be there as well. You still have the opportunity if there is anything there that bothers you or you feel you want to comment on, putting in a quick letter and responding to that, as any other participant has the right to do.

MR MARR: Thank you for the opportunity, and I wish you well with your deliberations.

MR BANKS: Thank you very much and thank you for attending today. That concludes the scheduled part of our process. If there are no other participants who are wanting to appear today, I will adjourn the hearings. They will recommence, as I said, in Adelaide on Monday morning at 9 o'clock, and then we have our final day of hearings in Melbourne. Clearly, not everybody can attend the hearings when they are far apart like that. But as I said, the transcripts from those hearings will be on our web site. If anyone wishes to comment on anything that's said by others in those transcripts, you have the opportunity to do that through a brief submission or a letter. So with that I would adjourn the hearings now until Monday morning in Adelaide.

AT 2.10 PM THE INQUIRY WAS ADJOURNED UNTIL
MONDAY, 3 DECEMBER 2007

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