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TRANSCRIPT
OF PROCEEDINGS

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PRODUCTIVITY COMMISSION

SAFEGUARDS INQUIRY INTO THE IMPORT OF PIGMEAT

MR G.R. BANKS, Chairman

TRANSCRIPT OF PROCEEDINGS

AT SYDNEY ON MONDAY, 26 NOVEMBER 2007, AT 9.37 AM

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

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

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

> Firstly, whether conditions are such that safeguard measures would be justified under the WTO agreement; secondly, if so, what measures would be necessary to prevent or remedy serious injury and to facilitate adjustment; and thirdly, whether, having regard to the government's requirements for assessing the impact of regulation which affects business, those measures should be implemented.

The inquiry is to be completed by the end of March 2008 but, as you know, the commission has also been asked to provide an accelerated report by 14 December as to whether provisional safeguard measures should be put in place for up to 200 days. The focus of the accelerated report and its findings is whether -

> critical circumstances exist where delay in applying measures would cause damage which it would be difficult to repair.

We've already talked to a range of organisations and individuals within industry and government, both from Australia and overseas, although we met them in Australia not overseas, and we've done that on an informal basis. The purpose of these hearings is to provide an opportunity for interested parties to discuss their submissions and to put their views on the public record, including their response to the submissions of others. Following this hearing in Sydney, hearings will also be held in Canberra, Brisbane, Adelaide and Melbourne and we'll then finalise the accelerated report by 14 December.

The commission will then work towards completion by end March 2008 of the safeguards inquiry final report as well as dealing, in addition, with the second part of the terms of reference which relates to structural adjustment and feed cost issues. While we don't propose holding another round of public hearings, further submissions will be welcome. The terms of reference note that the reports will be published as soon as practicable.

We like to conduct our hearings in a reasonably informal manner, but I do remind participants that a full transcript is being taken and, while participants are not required to take an oath, they are required under the Productivity Commission Act to be truthful in their remarks. The transcripts will be made available to participants and will be available from the commission's web site following the hearings, which usually occurs within three days. Copies may also be purchased using an order form available from staff here today. All the submissions to the inquiry, as you know, are also available on the commission's web site.

To comply with the requirements of the Commonwealth occupational health and safety legislation, you are advised in the unlikely event of an emergency requiring evacuation of this building, that exits are located in that direction and staff will assist you in that respect. So I've now discharged my responsibility. But if you require any assistance at all, please speak to one of our inquiry team members here today.

MR BANKS: I'd now like to call our first participant for today Cando Livestocks. Welcome to the hearings. Could I ask you please to give your name and the capacity in which you're here today.

MR SHEN: My name is Victor Shen and I'm the managing director for Cando Livestocks.

MR BANKS: Thank you very much for attending and being number one on the list today. I'll give you the opportunity to make whatever points you want to make and then we can have some discussion about that.

MR SHEN: Cando Livestocks is a new entity in the piggery industry. We previously exported and imported cattle, sheep and goats and thought that we could expand our operations into the piggeries industry. Our markets include Asia and the Middle East. Obviously the Middle East is not a very good market for piggeries because of their belief. It's not a good market for us.

MR BANKS: No, that's true.

MR SHEN: But Asia is quite good for our piggery interests, so therefore that's why we're looking at expanding our operations into the piggery industry.

MR BANKS: You're looking at expanding via exports to Asia?

MR SHEN: Imports and exports; both.

MR BANKS: Both.

MR SHEN: Both ways.

MR BANKS: Yes.

MR SHEN: At present, what we can't export live, we export dead - as in, mutton and other cuts as well.

MR BANKS: What proportion of your exports would involve pigmeat?

MR SHEN: About 30 per cent. 70 per cent will remain the major things. The biggest concern that we have is the feedlots, setting up of feedlots. Apart from council issues, the time it takes from the beginning to the set-up is about two to three years, so it's quite long. We're trying to see whether there is a way that's shorter - not shorter, but at present we're consigning our feedlot requirements to other piggeries to assist us in our feedlot. Basically it's for quarantine, for a quarantine period for export. We have to change their feed consumption from wheat and barley to feed pellets because it's more cost-effective and easier to feed pellets to them.

MR BANKS: Are we still talking pigmeat or not?

MR SHEN: Yes.

MR BANKS: Okay, so explain what happens next.

MR SHEN: What we try and do is to get an understanding how we could compete with the world market and to bring in the pigmeat from overseas, from Asia for the domestic market here.

MR BANKS: In other words, are you primarily a trader?

MR SHEN: Yes, we're a trader.

MR BANKS: You're not in the business of your own piggery or your own production facilities?

MR SHEN: We have our own cattle feedlots and we are going to expand that into piggeries, yes; so more than a trader.

MR BANKS: When you say you have your own feedlots, you'd be acquiring animals - whether pigs or other animals - from other farms?

MR SHEN: We have a buyer who goes out to the saleyards to buy the stock and from that acquisition, then we put them in the feedlot and then we - if there are not enough, then we would get from overseas, import them from overseas to sustain our requirements.

MR BANKS: What proportion of your pigmeat would go overseas as opposed to domestic processors?

MR SHEN: Only 30 per cent.

MR BANKS: 30 per cent?

MR SHEN: Yes, would be going out. 70 per cent would be coming in.

MR BANKS: Sorry, so of the amount you sell on, 70 per cent is coming from imports?

MR SHEN: It's for the domestic market here in Australia.

MR BANKS: Okay.

MR SHEN: And 30 per cent is for export.

MR BANKS: Where are you sourcing your imports from, mainly?

MR SHEN: From Indonesia, from Asia.

MR BANKS: Your imports?

MR SHEN: Yes, imports from Asia.

MR BANKS: You're bringing product in?

MR SHEN: That's correct.

MR BANKS: Frozen product in from Asia?

MR SHEN: That's right, and then we're taking frozen product out: pigmeat, mutton, that kind of stuff.

MR BANKS: It's good that we've come here today. It's a part of the industry that I hadn't been fully aware of. In the context of this inquiry, which is about safeguard action on imports of frozen pigmeat, what's your position on that?

MR SHEN: Our position is the tariffs that we pay when we come in - it's a bit high, higher than the other countries that we deal with; the tax that we have to pay.

MR BANKS: Can you tell me what you're paying?

MR SHEN: It's roughly about 20 per cent.

MR BANKS: But that's not in the form of a tariff, though?

MR SHEN: No, not tariff; I mean tax, as in the sales tax - import tax.

MR BANKS: I'm not sure that that makes sense to me. The taxes you pay would be presumably payable on domestic product as well as imports, I would have thought.

MR SHEN: Okay.

MR BANKS: You'd be paying freight costs and insurance.

MR SHEN: I don't handle the financial side of things. We have a CFO who takes care of that.

MR BANKS: Okay. So I suppose, coming back to your actual business, what are the main obstacles to your business developing?

MR SHEN: I guess there's always setting up is - as I said before - - -

MR BANKS: Yes, so the feedlot, establishing the feedlots.

MR SHEN: Yes.

MR BANKS: What do you need? What are the regulatory requirements you have to go through to establish those?

MR SHEN: Environmental, council - and it takes a bit longer than what I expected.

MR BANKS: Right.

MR SHEN: For the other ones, the cattle ones, it took about three to five to set up that one.

MR BANKS: Do you export live product?

MR SHEN: Yes, both live and dead.

MR BANKS: But in relation to pigmeat, it's only frozen?

MR SHEN: Yes. We do also live ones as well, but we export them, not import them.

MR BANKS: Okay, so you export live - - -

MR SHEN: Pigs.

MR BANKS: Pigs, yes. Where are you exporting those to?

MR SHEN: To China, to the eastern side of China.

MR BANKS: Right. Is that a growing business?

MR SHEN: It's a big business, it's very big. One of our customers asks us for as much as we can get, as we can physically get. I say, "I don't know how much that is." So it's a big market.

MR BANKS: What size pigs are you exporting to that?

MR SHEN: They're looking for young, six to eight months.

MR BANKS: What would they weigh, about?

MR SHEN: 30 kilos, I presume.

MR BANKS: Yes.

MR SHEN: I mean, we're just new in the industry so therefore we've got - - -

MR BANKS: Currently where are you sourcing those young pigs that you're - - -

MR SHEN: All over Australia, mainly from Western Australia and Darwin because of the close vicinity to our markets.

MR BANKS: Yes, to Asia.

MR SHEN: Indonesia is just straight up.

MR BANKS: Yes. And what form of transport are these going on? On boats?

MR SHEN: They're going on boats. The live ones are going on the same as the cattle ones, but the other one - the frozen one - obviously would be a reefer container.

MR BANKS: Reefers, yes.

MR SHEN: And obviously we have arrangements with various shipping agents to facilitate that.

MR BANKS: By the way, how have shipping costs moved in recent times?

MR SHEN: It's reasonable but it's going up.

MR BANKS: Going up? Yes.

MR SHEN: But I think the more that you do, the less the cost, I guess.

MR BANKS: Yes. These young pigs that you're exporting live to China, could you describe what happens to them next? Where are they going in China?

MR SHEN: What they do is they go to a feedlot in China and they get fattened up to about, I think, a year old, year and a half old, depending on what quality of pork they require. They will kill them over there. Obviously we can't do that for the Middle East, because they've got restrictions on that.

MR BANKS: Yes.

MR SHEN: That's not a very good market for us. But we have halal and kosher certification, so we're certified.

MR BANKS: For your other meats?

MR SHEN: For our other meats. We are certified for our other meats - as halal and kosher certifications. Those certifications we have.

MR BANKS: Yes, okay.

MR SHEN: We do some for the haj. You know the haj?

MR BANKS: Yes.

MR SHEN: We export for the haj. That's one of our things that we do, for the haj.

MR BANKS: How long has this business been operating in Australia?

MR SHEN: For about 10 years.

MR BANKS: 10 years? Yes. And what's the ownership structure? It's a private company?

MR SHEN: No, it's a publicly listed Hong Kong company.

MR BANKS: Publicly listed Hong Kong company?

MR SHEN: Yes. Listed in Hong Kong, not here. But it's a private company here, which I head here, which is Cando Livestock, yes.

MR BANKS: Which you had previously?

MR SHEN: No, that's what we have here, not what we had previously.

MR BANKS: I see, yes.

MR SHEN: Sorry, my English is not very good.

MR BANKS: That's okay, it's fine. All right, that's been quite useful. Were you proposing to put any of this down on paper for us?

MR SHEN: Yes, of course.

MR BANKS: Okay, it would be good if we could get that submission by the end of the week.

MR SHEN: Sure. The reason why I haven't put down anything is because we're new to the industry. Therefore we're not sure what was suitable or what wasn't suitable.

MR BANKS: No, that's fine. Thank you for attending today.

MR SHEN: Thank you for having me.

MR BANKS: It's another useful perspective on an interesting industry, so thank you. We'll just close for a moment there and pause before our next participant.

MR BANKS: Our next participant this morning is Bimbi Bacon. Welcome to the hearings. Could I ask you please to give your name and your position with the company.

MR NOWLAN: My name is Gerald Nowlan. I'm the owner and partner of the company.

MR BANKS: Thanks very much. Thank you for attending the hearings. As I said, I'll give you the opportunity to make the points you want to make and then we can have some discussion about those.

MR NOWLAN: Thank you, Mr President. I have submitted a submission to the inquiry. I thought you might have had a copy of it, did you?

MR BANKS: I don't have a copy, no. When did you submit that?

MR NOWLAN: I submitted it last week.

MR BANKS: It was a submission made last week. Is that right?

MR NOWLAN: Yes. Anyway, I've got a copy here.

MR BANKS: Just hang on a minute, I'll check. Thank you, I have seen this submission but I didn't have it with my papers overnight. What I'll do is get you just to go through and make the main points again that you want to make, but otherwise take it as read.

MR NOWLAN: All right, thank you. To introduce myself, I'm a 64-year-old farmer from a little place called Bimbi near Grenfell in central New South Wales. We farm 1000 hectares of cereal crops and what have you, with my wife Robyn and my son Simon, and we run a 200-sow piggery. The piggery operation began as a sideline some 27 years ago, but over the years it developed into a main line as a result of the failed crops and droughts and what have you that we put up with out in central New South Wales; and we relied very heavily on the piggery as years went by.

What I really want to tell you, I suppose, is that back in the year 2001-2002, the prices, compared from then to now, really have slumped, by my records, by about 70 cents a kilo. I've put an attachment with the submission and I've drawn a graph there on page 2 for you to have a look at, of those years. You can see by that graph that the price for pork and bacon was up near the $3 a kilo mark back in 2001-2002 and now we're back to about 2.10 or so. We believe that this decline in prices has been due to the rising imports as the years have gone by.

MR BANKS: That price information that you've got there, is that specific to your product?

MR NOWLAN: Yes, Mr Commissioner, that's entirely my figures. It's all about myself, this submission.

MR BANKS: What's happened to your profitability per pig, if you like?

MR NOWLAN: The profit per pig has declined. I'd say these days it's declined to the extent that you've nearly got to put a $10 note on the back of a pig's back when you send him, whereas back in those days we were making good money. Back in 2002-2003 I extended my piggery. I built a new up-to-date shed to comply with all the modern needs and what have you. It cost about, I suppose, 200,000 or a bit better. The operation was going that well that we funded that shed out of our income from the pigs at the time, whereas today if you went to do something like that, you'd have to get a bank loan, and I think a bank would laugh at you if you went to do that.

MR BANKS: You had obviously relatively high prices at that stage. Is a sort of a cyclical pattern something that you have to come to terms with in this industry anyway?

MR NOWLAN: Yes, we're quite used to the market going up and down during the year, but we've always had a rise in prices around this time of the year - towards Christmas or during Christmas - and I think that's another thing that's happened: that since the imports have risen, that kick in the market at about this time hasn't been happening for us, and we maintain a lower price per pig all year. Of course, in years gone by there have been months that we'd run at a loss, but then we'd pick it up when the market picked up, and we're not getting that opportunity any more.

MR BANKS: What's your explanation for that?

MR NOWLAN: I think it's the imports. I'm blaming the imports. I believe that 70 per cent - or it was reported in the Land newspaper here a couple of weeks ago that 70 per cent of the product on the market in Sydney is imported.

MR BANKS: What about the scale of your operations? How have they varied over the last few years?

MR NOWLAN: Because of disease, two years ago I depopulated to eradicate pneumonia viruses and those things that are associated with it, and that was about the only time I dropped the numbers. To do that, we had to get rid of all the growing stock and just maintain the breeding stock, but not have any little pigs bred for a month or six weeks. So that provided a big gap in the production. Then when it came time to build up the numbers, in my case I didn't build the numbers right up to 200 sows because of the decline in the industry. At this stage I think I've built it up to 100 sows and I'll just go with that for the time being, I think.

MR BANKS: What's involved in building up or repopping, say, if market conditions were right, back to 200? Is that about the capacity you had?

MR NOWLAN: That's my capacity, yes. To get your numbers up you've got to get your gilt pool up. They're the female pigs. You've got to get them up to an age of probably eight or nine months. You join them then, and then of course they start to produce roughly three months, three weeks, three days after that. It takes time. It takes you probably 12 months to do that.

MR BANKS: Yes, 12 months' lead time before you're starting to produce.

MR NOWLAN: Before you'll be back fully up, yes.

MR BANKS: You talk a little bit here about feed costs, in your submission and in the attachment to that. Have you got any expectations about how feed costs will be playing out over the coming period?

MR NOWLAN: Mr Commissioner, I'm sure that feed costs will remain high, purely and simply because of the low stocks of grain, here and everywhere else.

MR BANKS: In terms of the pigs that you produce, where are they processed?

MR NOWLAN: We send all our pigs to Burrangong Meats at Young - Burrangong Abattoirs.

MR BANKS: How far is that for you?

MR NOWLAN: It's 65 K's.

MR BANKS: Just in terms of the contractual arrangements, at what point are you actually selling the pigs?

MR NOWLAN: Well, I think they change ownership when they're weighed at the abattoir.

MR BANKS: On the way in?

MR NOWLAN: No, on - - -

MR BANKS: On the way out?

MR NOWLAN: On the line. On the pig line, the kill line. The pig is slaughtered and he's gutted and everything, and then they weigh him and they grade him when he's hanging up on the line.

MR BANKS: Who is acquiring the pig at that point?

MR NOWLAN: Burrangong Abattoirs.

MR BANKS: The abattoir itself?

MR NOWLAN: The abattoir itself, yes.

MR BANKS: On behalf of other clients or in their own right?

MR NOWLAN: We sell direct to Burrangong Abattoirs. We only deal with them.

MR BANKS: What sort of contractual arrangements do you have now, looking forward, with the abattoirs? Just how does that operate? Have you got forward contracts with them?

MR NOWLAN: No, we haven't. Well, we haven't in the past, although they did offer us an arrangement for castrated pigs whereby they suggested that they thought they'd pay us 30 cents a kilo more per kilo dressed weight. We have got a lot going for that, but we've ceased castrating at the moment because of the downturn of other things and what have you, so we'll have to just play that one by ear I think.

MR BANKS: You produce grain as well as pigs.

MR NOWLAN: Yes, I do.

MR BANKS: How is the composition of your business? What you've said in a sense is that you've cut back on your pig production. Depending on what's happening in grain prices, do you have more of your grain just going onto the market directly?

MR NOWLAN: Under these circumstances, no. We haven't been growing enough grain to keep the pig shed going. Every bit of grain we've got at the moment, we keep.

MR BANKS: All right, I don't think I have any more questions, unless you have some further comments to make?

MR NOWLAN: I was just going to make mention of a little business we had at Grenfell, a business called the Grenfell Rural Cooperative. It was a business we started off in the early 80s for the pig farmers. It was set up as a buying group for those farmers around the district, to give them a chance to buy in bulk and also to give them a chance to get things at a centre point. Because of the downturn of the industry, that business is going to cease now; it will be closed. I think you mentioned earlier that you needed information about businesses and whatever. That business had a turnover, when it was going well, of nearly 100,000 a year. From now on, it will be no more.

MR BANKS: Okay. Thank you for that and thank you for the information that you've given about your own operations as well. I guess the bottom-line question in a way is, how do you see the future for your piggery or your pig operations going forward?

MR NOWLAN: I see it reduced and maybe even abandoned.

MR BANKS: Do you see yourself disadvantaged as a relatively small player?

MR NOWLAN: Not really. We had an exercise associated with that Grenfell Rural Producers some years ago that indicated that the small producer was paid exactly the same as the big producer.

MR BANKS: On the cost side, are there any disadvantages there for you, that you're aware of?

MR NOWLAN: Yes, just like in staff numbers and things like that. If you're a small producer, you can't spread staff around as well as a bigger man could. And maybe you can't buy as well for your product. Everyone has got their own situation to meet. So, yes, there is a difference there, or there could be a difference there.

MR BANKS: All right. Thanks again for returning today.

MR NOWLAN: Thank you very much.

MR BANKS: We'll just break for a moment, thanks.

MR BANKS: Our next participant this morning is Wilmeat Pty Ltd. Could I ask you to give your name and the capacity in which you're here, please.

MR WILSON: Good morning. I'm Trevor Wilson. I'm part-owner director of Wilmeat Pty Ltd. We source pigs from farmers all over New South Wales and interstate and basically have a boning factory. We bone them out to supply ham and smallgoods companies. Basically we produce boneless legs, middles and shoulders. 95 per cent of our business would be these products which are exactly the same products as the imported pork, so we're basically in direct competition - 95 per cent of our business has been affected by imported pork. Our customers are mainly smallgoods, ham and bacon manufacturers.

We've been doing this for 27 years and we've had our ups and downs through droughts and through different reasons but we've never had something like this. The last five or six years, it's becoming almost impossible to operate. We don't mind competing on a level playing field, we're happy to do that, we'll take on anything. But at the moment we feel totally disadvantaged. The market share is rapidly decreasing due to the huge availability of imported pork.

To compete with the imported market - we've had to go back to our producers; that's all of our producers. We've had contracts, and we've had to say, "We can't honour these contracts," which we've never done in 27 years, "because the price - we cannot compete." So we've had to go back and we've lowered the price that we've been purchasing off the growers. Consequently, I think it's become unviable for them to supply us with pork and it's a no-win situation. It's a vicious circle. To compete, we have to buy lower but we can only buy so low and it's not viable for the farmers to exist.

MR BANKS: Has this been reflected in the throughput for your operation?

MR WILSON: Absolutely, and the last several months we can't get volume, the normal volume we produce. We have a factory, we have a mechanised conveyor belt. It's quite a high-tech factory. We just put off seven staff because we can't buy the product we need to continue, because the product is too cheap. It's not worth the farmers supplying to us, or growing the pigs I imagine.

MR BANKS: Are you slaughtering the pigs as well as boning?

MR WILSON: We buy them off the farmer, sometimes slaughtered and sometimes we slaughter them, depending on the contract.

MR BANKS: Okay. What would you say had happened to your volume over the last - - -

MR WILSON: We'd be down 20 per cent.

MR BANKS: 20 per cent on when?

MR WILSON: On sales.

MR BANKS: Relative to when?

MR WILSON: On the last three years, and it is decreasing; not just decreasing in volume, but the price we're having to go in, to serve the customers, is becoming unviable. I mean, it is unviable now. In the last 12 months, the figures that I've got from Australian Pork - domestic processed pork has decreased by 26 per cent, and this can be validated. Imported pork has increased 48 per cent in the last 12 months. It's an enormous amount, and the dollar is obviously not helping. But primary industry can't sustain the one-sided competition. I believe if there was a quota or a levy on imported pork, the local farmers could replenish their stocks, and with further technology, sustain a viable industry, but at the moment it's not possible. If the local fresh pork industry continues on this downward spiral, it can't survive. That's black-and-white.

MR BANKS: All of your product goes to further manufacture. Is that right?

MR WILSON: Yes, all of it.

MR BANKS: None to the fresh - - -

MR WILSON: No.

MR BANKS: Why is that, that you haven't - - -

MR WILSON: We're geared up to do that. That's how our factory operates and that's our market. We do volume. To get the economy of scale down, we do the volume.

MR BANKS: So your output is boned pigmeat?

MR WILSON: Boned pork product, yes, which goes to smallgoods manufacturers.

MR BANKS: Which is competing directly with the frozen imported product?

MR WILSON: Correct, yes.

MR BANKS: Going effectively to the same places.

MR WILSON: Exactly, yes.

MR BANKS: How do you foresee your own operations, under current circumstances, projecting forward over the next six to 12 months?

MR WILSON: It's a fine line. Either we go broke or the farmers go broke or we both go broke. At the moment, we're both going to - it's unviable.

MR BANKS: So you see your fortunes tied very directly to the fortunes of the pig farmers?

MR WILSON: Totally. We all like to buy at the best price, but everybody has got to live. And it's just becoming unviable because we feel we're not competing on an equal level.

MR BANKS: You're buying the pigs from the farmers?

MR WILSON: Yes.

MR BANKS: So they're yours when they come into your operation?

MR WILSON: Yes, correct.

MR BANKS: All right, I don't think there was anything further to ask, so thank you very much for attending today.

MR WILSON: Thank you.

MR BANKS: We'll just break for a few minutes. We'll have morning tea, so it will be more than a few minutes, maybe 15 minutes, thank you.

MR BANKS: Ladies and gentlemen, our next participant this morning is B.E. Campbell (NSW) Pty Ltd. Welcome to the hearings.

MR CAMPBELL: Thank you.

MR BANKS: Could I ask you to give your name, please, and the capacity in which you're here today.

MR CAMPBELL: My name is Ted Campbell. I'm the owner of the business and a director.

MR BANKS: Thank you for attending today and also for attending a meeting that we had with New South Wales Farmers, which was a really useful meeting, early in the process. As we discussed, I'll give you the opportunity to go through a bit of an overview of your submission and we'll take it from there.

MR CAMPBELL: Yes, sure. Just a brief introduction, I suppose, to explain a little bit about B.E. Campbell. It's an Australian-owned and run family business started by my father in the late 60s. We supply a diverse range of customers with pork products, from Asian restaurants to retail butchers, supermarkets, food distributors and export clients. We currently employ over 270 full-time staff and process between 10 and 11 thousand carcasses per week. I will address briefly a number of the questions that the commission has put forward.

Have imports increased? I think that's pretty obvious. From 2002 to 2006 they have increased by nearly 90 per cent. The full year for 2007 hasn't finished; I haven't quoted that. That was question 1.

Question 3 is "Defining the industry: who are producers of 'like' or 'directly competitive' goods?" The industry, as I see it, is a supply chain comprising producers, abattoirs and boning rooms. We have, I suppose, the retail sector as well, but I'm mainly going to talk about those three areas of the industry. We are the producers of like, as we directly compete with the imported products.

Question 4 was "Has the industry suffered, or is it likely to suffer, serious injury?" Yes. The industry has suffered, as we have lost tremendous market share to the smallgoods processing industry. In the year 2000, 54 per cent of our products were sold to the smallgoods industry. By 2007 it is back to 26 per cent. We'll suffer further substantial losses with the exiting of the industry by our supplier base. Next year it is estimated between 15 and 25 per cent of growers will exit the industry. Even with the laying off of floor staff, this loss of turnover and throughput will cause substantial ongoing losses and cause possible irreparable damage to our business.

Question 5 was "Are increased imports causing serious injury?" In my written submission I've data to prove that we have been unable to move pork products, and we're forced to freeze these to avoid losses. We have been forced to sell more products into the fresh domestic market. As a consequence, we've had to change the weight of pig that we process; increasing, as a consequence, our production costs.

Question 7, "What are the impacts on other parties?" To try and move leg products, we have been forced to get our growers to produce a lighter carcass. A lighter pig has smaller legs, suitable for the bone in leg market, for the Christmas sales. In 2004 our average weight carcasses coming were 76.4. Today it is 71 kilos. This lighter-weight pig is more expensive to produce for growers. At the same time, our prices have been dropping. Both these factors have a tremendous detrimental effect on the growers' bottom line. This tightening of specifications and general lowering of prices has been going on since the year 2000.

Abattoirs are also being affected. They are feeling the effect of decreased numbers. In the next year, at least two of these that I deal with are either going to be closing down or working only part-time. This will further impact my business, the growers, and obviously the business of the abattoirs. This leads to lower production, a reduction of competitiveness and flexibility, which increases cost. Investment in the infrastructure is also on hold.

I'll come back to question 6 now: "What safeguard measures would remedy serious injury?" I'm afraid that if imports continue unabated it could trigger a collapse of the infrastructure needed for a sustainable industry. Therefore, safeguard action, including a provisional safeguard, is the most appropriate measure. A safeguard is required due to the timelag involved before benefits are realised: time to adjust so that the industry has the surety to invest in actions to reduce costs and improve consistency. The industry requires a mechanism, quota and tariff, that will allow access for domestic supply to the smallgoods processing market. Without this access, the specialised supply chain to this market is under threat. An immediate response by the government is needed to prevent this irreversible damage. The future for the Australian-supplied smallgoods processing industry is positive if we have a chance to improve competitiveness.

That's just a brief overview. I know that I've gone into a lot of detail in my submission, talking about how we're impacted with different cuts, both leg and middle. I think the main thing is that we're probably always going to battle to compete against the American leg coming in, but we have managed to survive with that - the boneless leg out of Canada and America - but with the advent of the middles coming in from Denmark, we've really got two different types of pigs' products coming into our market. I know we can: if we can regain that middle market from the Danish suppliers, our businesses can all survive here long term.

You may have a few questions you want to ask about the submission I've put in.

MR BANKS: I do. I thank you for the submission, because it's a detailed one and obviously you've taken some trouble to prepare it. Indeed, perhaps in looking at it in more detail in preparing our report, we may need to get back to you on some of the detail that's in it. You ended there by talking about the problem of the middles from Denmark and you talk about an oversupply in your submission. If I can just get you to elaborate on that, and whether you see that as an ongoing problem or whether there might have been some aberrations in the market that led to that oversupply of middles from Denmark.

MR CAMPBELL: I think what's been going on, unfortunately, is the fact that over time more and more of the smallgoods sector are basically buying imported product, particularly the Danish middles. So, is it an aberration? I don't think so. I think it's just getting bigger as time goes on.

MR BANKS: We heard that there was an upsurge in purchasing from Denmark that was, in part, trying to anticipate or get around supply problems.

MR CAMPBELL: There was short supply leading into Christmas last year. That short supply meant that a lot of guys then came back into the domestic market, and you will see the price spike through that time. Yes, there was, I suppose, a bit of a rush to ensure supply came into the country this year, and that may have made things worse, but unfortunately - I talk about it in my submission - even though our price dropped well below the Danish price, the processors had made commitments and contracts moving forward to buy imported product. It didn't matter that we were 40 and 50 cents a kilo cheaper. They said, "Look, we just cannot take your product." That's the type of damage which these imports are causing us.

MR BANKS: Could you talk a little bit about the contractual arrangements that you have up and down stream?

MR CAMPBELL: I suppose what we've tried to do over time to ensure supply - and it's got to be something that's got to work for both parties - we have gone down the path of more and more contracts. That's for surety for our growers so they can go off and obtain finance. It's surety for our business so we've got the supply coming through and we've got consistency of product. So, yes, we've got that in there, and you can see there's a figure at the back showing the types of contracts and how they have got tougher with the specifications for our producers. But what's happening at the moment is that the contracts which the growers are wanting me to sign for next year are such that it's just far too risky for me to try and go forward with it, so all of a sudden that whole contract basis is almost coming apart, because it's pretty hard. I can understand a grower not wanting to sign a contract which is going to be below his cost of production.

MR BANKS: Yes. Is the problem, as you see it, primarily that prices are being pushed down by imports or that they're not allowing some scope for upward movement in response to the cost pressures that the industry is facing domestically?

MR CAMPBELL: I think it's just the increasing volume coming in. Look, the last thing you want to do is think this is caused by the spike in feed prices at the moment. It's not. This was always going to happen. It was just building and building and building. Now, maybe it's brought forward by about six or 12 months, but regardless, we're always going to be at, I suppose, that threshold whereby there's that many imports coming in that the price here was just going to be below cost of production.

It's convenient for the smallgoods processors. I think it's something whereby - you know, I'll admit that the Danish middles have probably got a little bit more consistency. The industry has been addressing this and recognised this fact probably going back three years ago, so they've been investing money in Pig Scan, which is a means whereby we can better recognise a good pig from a bad pig and get better data back to growers and then they can work on the genetics. So it's not something we've had our head in the sand about. We fully recognise that we need to improve, but we need time.

MR BANKS: Is the fact we don't import genetics from overseas a bit of a handicap for us?

MR CAMPBELL: I'm not a geneticist. That side of the business I don't know. But I know that - I think probably the bigger deterrent is the fact that we haven't had good data going back to the geneticists and growers to say what's a good carcass from a bad carcass. I think that will make the big difference. Whoever you use, it's going to take years and years to get those better carcasses up to speed, so the sooner we get this scanning equipment in the abattoirs - it's in four abattoirs now, but we need to start having payments adjusted for the type of carcasses which we're really needing.

MR BANKS: Why hasn't that happened earlier, in your view?

MR CAMPBELL: There has been some equipment out there that will sort of give us that information but it's terribly expensive, so what the industry did was try and develop our own. That's been going on for a couple of years now. So I would say the industry has been working on this particular problem for four years. Really, that's almost the same time as the Danish middles started coming in in volume.

MR BANKS: Right. Your submission talks a little bit about the implications of reductions in throughput on your costs. I might just get you to talk a little bit more about that: what the implications would be of farmers exiting the industry in terms of the throughput for your own business and in turn the cost pressures and competition problems you face.

MR CAMPBELL: I suppose any business such as ours you've got a sales staff, you've got a team of people there. Now, we know that if we've got less throughput going through our factory, we can get rid of floor staff, because that's just natural attrition. We can do that. But that's not going to be enough to make the difference. We really need volume going through that place to make it work. It's a factory that's valued, I suppose, at between 10 and 12 million dollars. That's the one factory. We've recently invested in another factory, which is for pork products for the retail ready type market, and that's another $12 million. So if you start to cut down by 15 to 25 per cent, my accountant at work has told us that at 15 per cent, we'd break square - that's getting rid of floor staff. At 25 per cent, we're going to be in a major loss situation.

MR BANKS: In your submission - I was just looking for the page of it - it talks at some point about a 15 per cent reduction in production volume implying about a $5 million increase in costs.

MR CAMPBELL: Yes.

MR BANKS: I'm just trying to understand that. I can imagine how it would be a higher unit cost, but it seems hard to understand how your total costs would go up. I'm sorry, I'm just not sure what page that's on.

MR CAMPBELL: I'll try and find that page myself. The accountant put that one together.

MR BANKS: Here we go. It's on page 11.

MR CAMPBELL: Yes, I've got it here. I think that's really saying that, basically, we're going to be down that sort of number. It's just going to come straight off our bottom line, just through less numbers going through the factory.

MR BANKS: Okay.

MR CAMPBELL: And if we go to 25 per cent, I think they've calculated it's approximately a $4 million loss.

MR BANKS: They're things we might come back to you on. I suppose that leads to the question of whether there may be, nevertheless, some scope for efficient rationalisation in the industry. We've heard that there potentially is scope for that and if we think about the function of the safeguards provisions, it is really to help an industry get itself on a sustainable footing. Do you think there is scope for further rationalisation?

MR CAMPBELL: We've had a tremendous amount of rationalisation. Are you talking from a grower base? Are you talking through abattoirs? What sort of rationalisation?

MR BANKS: I was thinking there just in the primary processing part of the chain - you know, the abattoirs and boning part of the industry.

MR CAMPBELL: Well, I think we're a very big country. You've got to be careful when you're trying to transport livestock over big distances. We've had a tremendous number of abattoirs already go out of existence anyway, so it's getting to the stage now where - you know, you want to talk about animal welfare and things like that. It's not the best thing to be transporting pigs in trucks for hour upon hour so, no, I don't think there is.

MR BANKS: In your view, what would be a viable kind of distance from farm gate to abattoir?

MR CAMPBELL: I wouldn't have thought you'd want to be travelling much more than a couple of hours, two to three hours. At different times of year it's possible to transport them over longer distances, but if it gets very hot I think it's of major concern to producers.

MR BANKS: Okay. I might just quickly go through the submission. There are a couple of things that I was going to ask you about along the way. On page 4 - under the heading Other Factors Impacting the Industry and Your Business - you talk about the dollar affecting imports, obviously, and making exports less competitive. You then go on to say:

> However, shipments to Singapore have not fallen significantly, therefore exporters have not come under too much pressure in that market.

Could you elaborate on that?

MR CAMPBELL: We have certainly come under pressure but I suppose we've fought to maintain those markets.

MR BANKS: Right.

MR CAMPBELL: So I don't think you can say that the appreciating dollar has led to a flood of pork that was generally going export coming back on here. That's staying basically the same.

MR BANKS: I think there's been a reasonable stability in the export market.

MR CAMPBELL: Yes.

MR BANKS: But not much growth.

MR CAMPBELL: It's pretty hard to grow it with the dollar the way it is, but we've maintained those exports.

MR BANKS: Yes. In terms of markets that may potentially open up for us if the dollar got a bit more competitive, which are the ones that you would think would be the prime candidates? We heard a bit of talk about China before.

MR CAMPBELL: I suppose there's China and there could be - you know, Japan has certainly dropped off from where it was. There's potential there. But we're always going to do it fairly hard because America is certainly into that market and they've got a very low grain price.

MR BANKS: Yes. That's an ongoing problem for Australia, I guess: the comparative disadvantage we have with feedstock prices, relative to the US?

MR CAMPBELL: Yes. But at the same time, here we are trying to compete against Danish product and they certainly haven't got that advantage, so I suppose I just ask the question: how are they doing that? At the last Industry Commission I was told - the commissioner seemed to think it was because they were perhaps better marketers of their pigmeat than we were, which I found a bit laughable. They advertise that they do subsidise. At the moment they're subsidising for frozen stocks to go into freeze, to try and move their prices up. So I don't think that's a level playing field.

MR BANKS: Certainly as part of this investigation - as you know, this is not a countervailing duty investigation, but any change in policies in other countries that could explain more product coming to Australia is something to look at. That recent initiative I think is relevant, although perhaps more relevant to the future than to what's happened in the past because I think that program has just been initiated. That's my understanding.

MR CAMPBELL: I think the Danes have always used an excuse though: "We don't subsidise anything that goes to your country." But if you subsidise the bit that goes to Russia, which is the forequarter meat, you are indirectly subsidising the bits that come here.

MR BANKS: Yes. Again, just on Denmark, on page 5 you've got a chart there - boneless middles volumes from Denmark versus domestic prices. In a way, if the red one is the price curve, which it is - average price - it has held up reasonably well.

MR CAMPBELL: Yes. I think you've just got to turn to the next page and you'll see the price movement in figure 3, because I was just doing - I didn't have the data there for the imports, so I finished it off at that time.

MR BANKS: Right.

MR CAMPBELL: But if you go to the next page, you'll see how quickly that price has come back.

MR BANKS: Yes, in the third quarter in particular.

MR CAMPBELL: Yes.

MR BANKS: Yes, okay.

MR CAMPBELL: I was just trying to show on that graph the fact that the two were definitely linked.

MR BANKS: Yes. You talked earlier in your remarks about the shortage of boneless middles out of Denmark at the end of 2006. What's your understanding of the cause of that?

MR CAMPBELL: I'm not quite sure what caused it.

MR BANKS: We can ask the Danes, who are appearing tomorrow I think.

MR CAMPBELL: Yes. It may have just been that they're trying to talk the price up. I've got no idea what caused that, but certainly through the processors there was not the endless quantity available that there was in the past, so that led them to come back into the market to try and ensure they had some supplies going forward. The Danes I think in early 2000 said that there was the threat of a big strike over there, and they got guys to take a lot of pork because they thought the industry might shut down for a period, which is another one of their marketing, I suppose, tricks, and the guys here came in and, yes, it did make matters worse.

Within the industry, the traders will say that the Danes will always talk about the Australian market being very important to them because it allows them to keep the price strong in the UK, which is their main market, so they will just keep on pushing product down here to maintain their main market price in the UK. It's all hearsay, I know, but that's the scuttlebutt in the trade.

MR BANKS: Yes, okay. Thank you. Again, on page 9, legs volume sold - this is bone-in legs.

MR CAMPBELL: Figure 9?

MR BANKS: Yes. If you just look at that last bit there, that quite strong upswing there throughout 2007, do you want to talk about that?

MR CAMPBELL: Yes. Well, obviously, because of the pricing of the boneless legs coming out of Canada and America, there has been a general move to try and use as many legs as possible. The last thing you want to do is put a knife into a leg, so you try and use as many bone-in, and that's what's forced us to go back to our growers and say, "We need a lighter carcass." Now, unfortunately, the pricing for legs this year - and one of the reasons why pig prices are staying down this Christmas is that there's an oversupply. We're faced with a situation this year where we'll probably have bone-in legs left in the freezer, which would be the first since I've been in business in 20 years, and that's because every smallgoods company, every processor, is doing exactly the same thing. I find now that the smallgoods companies are actually competing with me to move pork over into my customers overseas.

MR BANKS: And turning over the page, on figure 10 that's reflected in that price that you've got there.

MR CAMPBELL: Yes, that's right.

MR BANKS: So normally you'd be seeing a rise in the third quarter, wouldn't you?

MR CAMPBELL: Yes, of course you would, and that would be passed back to the growers.

MR BANKS: My next question was on page 15, figure 13 there, which was the average hot standard carcass weight price paid to growers. I was just trying to understand the smooth curve there. Is that a fitted curve?

MR CAMPBELL: An IT bloke at work did that, and I hope he just didn't sort of put it where he thought I'd want it. I'm taking it that he did that, doing it the way it should be. I know that you've got spikes and things through it, but he said that was the general curve. That's the way it's going.

MR BANKS: So it's intended to be like a regression curve.

MR CAMPBELL: Yes, that's right, showing the average price paid.

MR BANKS: Okay. The other thing that struck me, when I looked at the chart you've got on page 17 with the number of growers, is that that number has fallen, and I think we've got another chart - it might have been in one of our earlier reports - which shows that that, in some respects, is an extension of a longstanding process, but clearly - I mean, if you look at what's been happening with production holding up, the productivity has increased quite significantly in terms of pig production. Would that be right?

MR CAMPBELL: Well, that's why you've had a lot of rationalisation with the growers.

MR BANKS: Yes.

MR CAMPBELL: This has been going on for a long, long time. That's why my concern is that what we're faced with at the moment, we stand a chance of losing the best of our growers. The crook ones, the inefficient ones, have basically gone. Now we're going to lose the cream of the crop.

MR BANKS: To some extent rationalisation has occurred through exits and, I suppose, the decommissioning of capital associated with it, but in other respects it's occurred through takeovers and so on, with some of the existing firms getting bigger. Do you think there's any scope for the latter to occur, rather than losing capacity - simply it being absorbed into larger operations?

MR CAMPBELL: What we're faced with at the moment, no. These guys are going out. That's it. And there's no-one putting their hand up to take them over, that's for sure. A good example of that is probably QAF, who have been, I suppose, in years gone by fairly aggressive at trying to take up slack and everything else. They've just wound up the white flag and they're out by 5 per cent straightaway.

MR BANKS: And do you see a similar thing - coming back to what we were talking about earlier in terms of abattoirs and boning operations or primary processing - that there's any sort of scope for rationalisation there that would be - I mean, it gets back probably to your point about transport costs, I suppose.

MR CAMPBELL: Yes. There's essential infrastructure that we need in place because we're such a big country. If you do a comparison to Denmark and you go over there, they've got 20 million pigs in a very, very small area. They're the ones who can rationalise abattoir after abattoir and have superworks. We can't do the same thing here. It's just not possible.

MR BANKS: Okay. On page 19 in the chapter Future Strategy, you talk about what the safeguards could do, et cetera, and then you say:

> In the absence of the safeguard, the company may need to diversify into processing other livestock.

How much potential is there for that?

MR CAMPBELL: Let me tell you, it's pretty difficult, because what we've got, we've got Danish equipment in our factory which is specialised for the pig industry. I don't know how we would go about doing that. I'd like to consider myself a survivor. We'll look at whatever we've got to do, but it's not an easy option, that's for sure.

MR BANKS: I suppose the other question, getting back to the little section there on "with the safeguard" and what that might do - I mean, for me a question is why it hasn't happened earlier and why we would expect it to happen in a regime where you had the safeguard in place. You talk about here the various efficiencies that can be gained. You come back to the Pork Scan that we talked about earlier.

MR CAMPBELL: Yes.

MR BANKS: Payment systems and so on to create incentives. I'd just like you to comment on to what extent you think having some relief on the price side would actually in itself be enough to generate these kinds of efficiencies.

MR CAMPBELL: I suppose what I'm saying is that the industry has recognised that they need to improve. They've done this a number of years ago. But we need time to be able to put those things in place. It's a changing market all the time. Where we started four years ago, the major smallgoods processors were using imported pork. Now we're in a situation where nearly every smallgoods processor is using imported pork, so it's changing very rapidly. But, yes, I know that we can make the difference, I know that we can compete against Danish meat, but we are going to need time to do that.

The technology - this Pork Scan - is good technology because it's not overly expensive. There's been a lot of money spent on the research and putting it into the major abattoirs, but it's got the ability to go into these other works at a very low capital cost. So this is going to keep all those blokes viable, which we've identified that we need to do. If we're in Denmark and you had a works that's killing 80,000 carcasses per week, yes, you can probably afford something that's going to cost you a million dollars. In Australia you can't do that. So I think it's happening, but we need time.

MR BANKS: Yes. The other thing just to get you to comment on, and it may well be a summary of a point that you made in more detail earlier, but on page 20 where you've got that useful page or so summarising your conclusions, the last dot on that page:

> A move to fresh pork means that the overall market will become more volatile as a smaller local market will be impacted by any shocks to the industry.

MR CAMPBELL: Yes, it's a very important point. What I'm getting at there is the fact that, yes, there are people in the industry who are saying, "Oh, look, all we're going to have here is a fresh meat market. That's all we can have," and that sounds good in theory, but it's bad in practice. It's bad in practice because it takes one health scare overseas, a disease outbreak or something whereby imports are no longer allowed into this country, and the smallgoods processors will then come in and want to buy every piece of meat they can to try and keep their factories going. All of a sudden, the price of the fresh meat here domestically will just go through the roof.

All the work that the industry has done in growing that market will be shot to pieces. It's taken years and years to try and get pork consumption up in this country. We're in a very, very tough environment. If you go to Denmark and these other places - even America - they don't have the cheap beef and lamb that we have in this country. We've got very cheap protein and it's a very, very competitive market, which means it's very hard to gain that domestic market, that market share, which we've done over the last few years. Yes, if we have only a fresh meat market we're going to have a less robust system here, and it's going to be very, very volatile.

MR BANKS: Your comment there about cheap beef and lamb: to what extent are those prices, perhaps beef in particular - or both - in a sense capping the scope for upward movement in pigmeat prices, fresh pork prices, in Australia?

MR CAMPBELL: How are they capping it?

MR BANKS: To what extent are they, I suppose, competing with fresh pork?

MR CAMPBELL: Yes, no doubt they're competing and, yes, it's a tough environment, but I think we've shown over the last few years that we've been able to grow our market share. I think we can do it a lot further. I think the beef guys and the lamb guys are now looking at the pork industry as one of the ones who really know how to market their meat.

MR BANKS: But clearly price is relevant.

MR CAMPBELL: Yes, of course.

MR BANKS: So I guess what I'm saying is, to some extent your scope to increase price is going to be constrained by what's happening in the beef and lamb markets as well. I think they were all the questions I had, unless there are any others that anyone wants to bring to my attention. No? Yes, that's right, there was one other question I was going to ask. We'll just get you to comment on this.

You can imagine the scenario where safeguard action was put on imports of frozen pigmeat into Australia and, depending on the extent of that action, that there was an incentive for exporters to send to us manufactured product, not too much of which comes at the moment; in other words, cooked pigmeat. Is that a real possibility? I'll just get you to comment on that.

MR CAMPBELL: It is a possibility. I think that one of the deterrents against that is probably going to be a shelf life issue, and I would have thought that it's going to be something we could probably market against anyway, because the labelling issues here in Australia are very confusing. I think that would become something that the industry could really push as a whole, and maybe the smallgoods industry would get behind that one as well, because their factories would become almost defunct if that was the case. It's a risk, but something we can handle, I'm sure.

MR BANKS: Good. Thank you very much for that, and thanks again for taking the time to appear this morning.

MR CAMPBELL: My pleasure.

MR BANKS: I'm going to adjourn the hearings now until 2.15 this afternoon. Thank you.

(Luncheon adjournment)

MR BANKS: Our next participant today is the New South Wales Farmers Association. Welcome to the hearings. Could I ask you to give your names and the capacity in which you are here today, please.

MR POLLARD: Ean Pollard, as a representative of New South Wales Farmers and also as a producer in the pig industry itself.

MR LAURIE: Jock Laurie, president of the New South Wales Farmers, and here helping to represent the pork committee within our association.

MR WALKER: I'm Dugald Walker. I am currently the chairman of the New South Wales Farmers pork committee and I am a farmer from Young.

MR BANKS: Thank you. Thanks very much for attending today and also for the time that you gave me and the team when we visited New South Wales Farmers, I think almost on day one, having come up from QAF at Corowa. We found that a very useful meeting. As we said, perhaps you might just like to make whatever remarks you'd like to make, collectively or individually, and then we'll take it from there.

MR POLLARD: We might go individually, Gary, if that's all right.

MR BANKS: That's fine.

MR POLLARD: I might get in first. I briefly just want to state my position as a producer. We're a family-owned operation. We started in the intensive pig industry in 1967 with about 40 breeders. Since that time we've managed to reinvest in the industry and are currently running a bit over 1000 breeders now. The set-up is farrow to finish on our own property. It's a multisite, but within our own boundaries. So we're producing around 1.75 million kilos of finished product, that being dressed bacon weight. The turnover there is somewhere around $4 million, employing about 13 staff directly, and also employing the services of a wide range of local businesses which look on us quite friendly.

Just to let you know where we're at, I consider we're pretty efficient in what we do. We run an in-house breeding program, with our own AI centre, which is a pretty common practice as far as forward-thinking piggeries go, using a full consulting team - veterinarians, nutritionists - and up-to-date QA systems. If there are improvements there that we can make, we certainly look for that advice. We don't profess to know it all. As I said earlier, I believe we're right up there as far as being in the top end of producers. We benchmark ourselves against industry standards, and that's how I measure myself.

With the current non-viability in the industry, it leaves us having nothing to invest or reinvest in the industry, and it's also very difficult at the moment to even run maintenance programs. Currently we have a farrowing shed refit that we'd like to do and we're just unable to do that. Resources aren't available. With that, we're getting some uncertainty, with staff sort of feeling uncomfortable about their position, because it's something that they would normally see would happen which is not happening.

With an intensive piggery, like a building system, yes, you would certainly hope to be looking for, say, a 16 to 20 per cent return on that investment, because it's not something that appreciates in value. From day one it starts depreciating. It's just that type of environment. It just wears out.

MR BANKS: Just in terms of, for tax purposes, the depreciation period, what's the situation in depreciating your assets?

MR POLLARD: Over the time period and that?

MR BANKS: Yes.

MR POLLARD: Sort of around that 20-year mark, to 25 years. The other thing I'd just like to state with that, Gary, is the type of buildings that you've got. It's strictly for pig production. There's nothing else that I can use it for. I can't refit it for dairy or poultry or anything. I can't even come close to imagining what else I could use it for - maybe mushrooms, if there was a huge liking for mushrooms. I don't know.

As far as my marketing goes, four to five years ago, probably 60 per cent of our end product used to go into the processing job, which allowed us to grow a heavier carcass than what we're currently growing now. In today's environment, around 95 per cent of my end product is just on the fresh meat trade. So what's the problem with that? Five or six years ago it was more comfortable to have an agreement as far as supplying a product week in, week out type thing. On the fresh meat side of things the market is a lot more volatile, they're asking for lighter-weight pigs. Unless your article is exactly what they want, they don't necessarily want you.

MR BANKS: Just on that, you wouldn't see that as a viable future for your business, to be maintaining that kind of marketing?

MR POLLARD: Probably the reason I've made it a little more viable than it probably is, is the article that we produce. We're now trying to aim for that market because that's all that's left, and, yes, we're just shaping our product to that market.

MR BANKS: You're selling to whom, and what sort of contracts do you have going forward?

MR POLLARD: We sell to fresh meat wholesalers. I have no contracts. I can't write a contract with those type of guys.

MR BANKS: Sorry, just one other thing while I've interrupted you: you talked about benchmarking the performance of your farm against industry standards.

MR POLLARD: Yes.

MR BANKS: Is the data readily available to allow you to do that? How do you go about such a benchmarking exercise?

MR POLLARD: Usually there's a collection of data from the industry. Then that's sort of put together in a group form, and averages come out of that, and then there are tops and bottoms and that. That's usually what I gauge my production off: where we are in relation to that.

MR BANKS: Okay.

MR POLLARD: We've spent quite a bit of time budgeting for where we are at the moment and where we feel we'd be at the end of, say, December 2008, and this is based on what prices are doing at the moment and where we are with the cost of production. For me to get from here to the end of 2008, we're not really operating at a loss - like at a no-profit situation - it's a huge loss. In my business alone, it's got to run somewhere around about 800,000, so we'll have a loss of around 800,000 from here to there, just to stay at the same size, the same consistency, as we are today.

MR BANKS: Have you worked out what that would be per animal?

MR POLLARD: Probably a bit over $40 an animal.

MR BANKS: Sorry, what's the period that you've forecast that for? Is it for the coming calendar year?

MR POLLARD: Yes, for the coming calendar year.

MR BANKS: What have you factored in there in terms of grain cost? Is it existing grain cost or have you assumed an increase or a decrease?

MR POLLARD: It's existing grain cost, a bit over that $400 delivered. I can't get anyone at this point to sell me product any lower than that out to the leading months. I'm not sure whether it's even there.

MR BANKS: Clearly that is a real problem. I just want your comment briefly on the cyclical nature of this industry, though. It's obvious to everybody who knows anything about it that there is a cyclical nature to it.

MR POLLARD: Sure.

MR BANKS: I'll maybe get you to talk about how this relates to the kind of troughs that have occurred in the past. Have there been periods in the past where you've incurred losses, and to what extent have they been offset by the good times, I suppose?

MR POLLARD: There have been periods in the past where we've probably produced pigs for no profit, but not extended periods, or where we can see we're producing pigs at huge losses. There would be times when there would be a few months where we'd produce pigs at a small loss or no profit at all, knowing that later in the year there's usually a demand for our product.

MR BANKS: So that would be typically before the lead-up to the Christmas period?

MR POLLARD: Pretty much, yes. The second half of the year has usually better prices than the first half of the year. One of the reasons for that, too, is that when we're breeding animals that have their own breeding cycle and we're trying to produce animals 52 weeks of the year, they don't necessarily like being mated in the autumn, where they're going to be farrowing in the dead of winter, so we tend to - and the industry itself tends to - have a few more pigs available in the first half of the year than in the second half of the year. It's not a great number, but yes.

MR BANKS: Thank you. Are there any further comments you want to make?

MR POLLARD: Yes, Gary, there's one other point. What I've done is just put together some sums as far as our industry goes - the pig industry - in relation to the egg industry and, say, the dairy industry. You might say, well, why do we compare those? It's because they're animals and they're intensive. They're all seven-day-a-week jobs and they rely on the feed grain that's available inside this nation. So I've done a chart, and I'm not sure whether you've seen it or got it there.

MR BANKS: No, I'm sorry, I haven't, but if you've got a spare one there, that would be good.

MS ....: Yes, I've got one.

MR BANKS: Okay. We might have to leave it to you to describe it.

MR POLLARD: All right. What I've done is taken a low of each of those industries, the lowest price that they've had, over approximately the last two years, and then the current price that's being paid. If we look at dairy, the dairy industry was trading around 20 cents a litre for their end product, which is milk, and currently it's up around 42 cents a litre, so if you look at where they've come from, a low to the current high, it's more than a 100 per cent increase in price.

If you take the egg industry, we've had a recent low or a low in the last 12 months of around 80 cents a dozen, and today we're trading at about $1.40, $1.45 a dozen, so that's an increase of around 77 per cent. Both those industries don't have the direct impact of competing with overseas product, and especially eggs. There is some product as far as dairy goes, but when you just talk about milk, there's not.

So our industry: we look at a recent low or a low over the last 12 months or two years of somewhere around $1.80 a kilo. Where we are today is at around $2.40, $2.50, depending on exactly where you are. That's only an increase of just under 40 per cent.

MR BANKS: When was the $1.80?

MR POLLARD: About the middle of last year we were at $1.80. We were down to $1.90.

MR BANKS: So the range is much less. And you show that on a chart over time?

MR POLLARD: It's not just over time. It was just a comparison from a low to the current position.

MR BANKS: I see.

MR POLLARD: What I was trying to show was that dairy has done this in a percentage term, what eggs have done in a percentage, and what our own industry has done. Does that make sense?

MR BANKS: It does make sense, yes. At least, from your point of view it certainly makes sense.

MR POLLARD: Yes. The point I was trying to make was that there are other intensive industries for which the climate has been, "Okay, these guys are affected by the cost of production," and it's been compensated accordingly, or to some degree - better than our own industry.

MR BANKS: Okay. You've made some other comments in relation to safeguards and what that would do for you, but I'll come back to that, because I think that they're more general comments. Maybe I'll ask either Jock or Dugald to go next.

MR POLLARD: Okay.

MR BANKS: Thank you.

MR WALKER: Commissioner, I'm aware of the difficulties we both face. My understanding is that the WTO agreements that were started off were done with the idea of promoting perhaps goodwill, but a better economy, the growth of wealth and what have you between countries was started off by economists that were trying to give a better model. The sad part is that, as it is today, the battles are being fought by lawyers because the countries have never really observed any of the things that were meant to promote wellbeing on an international scale. Indeed, we have people that will be opposing the statements that we make, on the grounds of free trade and free trade agreements. Now, if there was free trade and if there wasn't protection perhaps in the EU, we might actually be able to export pigmeat to the EU, because our cost of production is significantly below theirs.

With the US, they have now a mandated ethanol program that is doing something to disrupt the free marketing of grain and other products. While they have that mandated policy, as I understand it they ban the importation of ethanol from the world's cheapest producer, which is Brazil. Similarly, in Australia we have a tariff on ethanol, which has prevented the importation of cheaper, and genuinely cheaper, product from Brazil. They can grow the raw ingredients of ethanol much more cheaply than either the US or Australia. Nevertheless, the wholly justifiable intent of the WTO was to make provision for countries to obtain relief from unforeseen and perhaps force majeure problems or incidents that occurred.

We believe very strongly that we need a breathing space, as well as the ability to lift our game through improving our - my infrastructure, perhaps, as an individual producer. If I got that breathing space and time and some profitable years to reinvest and to renovate my facilities - as well as that, I can remember back about 10 years ago now - I think 10 years ago - Denmark was the largest exporter of pigmeat in the world. It certainly isn't any more. I think the second-greatest exporter of pigmeat was Taiwan. They are probably now importers. And I think the US was at that stage a net importer. So things happen dramatically.

I believe the EU's common agricultural policy funding problems will mean that they will have to reduce the subsidy that's paid to their farmers. That could quite likely happen in the next four years, so in four years' time, if we were given some breathing space and were able to improve our lot, it's my belief that the extreme volatility that may occur between countries could quite likely produce a vastly different trading environment from the one we have now. I think if we were carved up by countries that had a much greater subsidy and what have you, that is both unfair and extremely unfortunate, and certainly not in the best interests of the Australian economy, pig producers or consumers.

MR BANKS: We will certainly look at the EU policy regime and the policy regimes in other countries to see if there are things that could help explain what's been happening to imports in the more recent period anyway, but if we think about it, what are the other things that the industry can do within Australia, within a breathing space period? Would you like to elaborate a little bit on it, at least from your perspective.

MR WALKER: From my perspective, we have started to try and install newer technology, to renovate our infrastructure, and we've had several starts in the last five or six years and each time we've got part of the way through the program, we've mercifully recognised or foreseen what was coming in the trading climate we've had and we've been able to pull up, otherwise we would have gone belly up. I believe if I was able to go through with those programs that I would easily knock 10 per cent or 20 cents a kilo off my cost of production. With our production levels, that would make me, or make my family, about 1.5 million more competitive each year. Now, that may not be enough to cope with the huge subsidies that EU farmers may get, but by God, it's a hell of a start.

MR BANKS: Would you mind telling us a little bit more about the nature of those investments. When you say newer technology or part of your infrastructure, what are you mainly thinking about there?

MR WALKER: We have some buildings that, from age and the extremely corrosive nature of raising in-house pigs, need replacing. The best way to manage that is to again adopt perhaps newer technology, which is referred to as separate site production. That's getting pigs out of where they're raised and putting them perhaps in batches in separate buildings where they're less likely to suffer from infectious disease and, as well as that, the technology of different flooring, different insulation and what have you does allow for more efficient production.

MR BANKS: Good. Thank you. I probably interrupted you. I'll let you go on with your comments.

MR WALKER: I'd like to say that the consumption of pigmeat in Australia has gone from something like 408,000 tonnes four or five years ago. It's now 486,000 tonnes. That shows a 19 per cent increase in consumption, and I believe that's indicating that the pig industry is not a cot case. We should have a strong and vibrant industry in a country that has those sort of growth figures.

MR BANKS: That's at the same time as a significant reduction in the number of enterprises in the industry as well.

MR WALKER: Yes. I think we've gone through the ultimate in restructuring. There were 40,000 pig farmers and we're now down to 1400. No other industry has done anything like that.

In the cyclical market situations that perhaps all farmers go through, nearly all of the other commodities have had their ups and downs, but because of the pressure placed by imports, we have really only had downs. When we've had any likelihood of getting a marginally better price through shortage, supply, demand, what have you, we get clobbered by a ceiling placed by imports. The tonnages of imports, we all know, have gone up, but it really only requires the threat of imports. If the fellow we sell to, who processes our pigs, is trying to sell the legs or the middles or whichever part of the pig it is, and he rings up the processor, the processor doesn't have to say "I'm getting" or "I've got". He just has to say "I can get" something at a price, and we have a limit placed on what he will pay us.

MR BANKS: You've probably said here, but if you could remind me: what proportion of your output goes to manufacturing as opposed to fresh meat?

MR WALKER: I'd have to ask the guy we sell to, who's behind me, just what he splits it into. About 10 per cent of our production goes to so-called export pigs. Some bits of those pigs obviously go to other countries and some bits will be consumed locally. He does export, I think, some parts of what we call our domestic production, which is about the 70, 75-kilo carcass weight.

MR BANKS: Right.

MR WALKER: Commissioner, it would be my contention that there is no reason for the earnings of the importers - because they are essentially the same as the processors - to suffer, and also the wholesalers and retailers. It would seem to me that they will not suffer if imports are made more difficult by quota or are limited by quota or made more expensive by tariff, or even stopped, because I don't believe their material position is any better off today than perhaps 10 years ago when there were no imports. It's my contention that those people make a margin. The processors, the middlemen in our industry, the wholesalers, the retailers, all make a margin. If it's imported pigmeat, they make a margin. If it's pigmeat that they have bought from me, they make a margin, and it's the same. The real losers are the people who produce the pig, because in our industry costs are always passed backwards.

MR BANKS: I suppose if I went further downstream, the real winners are the consumers perhaps, but I'll ask you to comment on that.

MR WALKER: Commissioner, I think that the long-term interests of the consumer are best served by a strong and stable domestic industry. We perhaps understand why President Bush is mandating the use of domestically produced fuel: because he sees there's some security in having fuel available in what is a rather vindictive and volatile world environment. Previous governments in Australia have thought the same things. The EU after World War II certainly was very conscious about the production of foodstuffs, and that perhaps is why they've gone to such lengths to subsidise their production, because they're aware of the security. I would think the same thing ultimately applies to our pigmeat, pig-producing industry in Australia.

MR BANKS: Although you're not suggesting that there be strategic embargoes of pig exports to Australia?

MR WALKER: No, but I could see that if our industry gets destroyed, then perhaps a country like China, that has a booming economy, could suddenly say, "We'll import pigmeat," and whoever was supplying us would go there because there was perhaps more profit, and we might be left short. Worldwide production of pigmeat I think went past 100 million tonnes in 2003 or 2004. Perhaps one of the reasons why we are getting such a great 19 per cent increase in consumption of pigmeat in Australia every year is the fact that it is a good product and that the average Australian consumption of pigmeat is actually less than that around the rest of the world.

MR BANKS: Good. Thank you. I'll leave you to go on with your remarks.

MR WALKER: Commissioner, I could be the non-pig-producer here, because I'm trying to give my family farm to my children. Now, it's causing quite some disruption, but that's not your problem, that's mine. We do run a family farm. We raise sheep, cattle; some cropping; and pigs. We have about four and a half thousand sows. We employ about 80 people for agricultural pursuits. We sell about 90,000 pigs a year. They are all sold to B.E. Campbell. The principal, Ted Campbell, was here this morning. I gather he employs 250 to 300 people.

Pigs are killed at Burrangong abattoir, which is the local abattoir at Young, which is a great benefit to us, with low freight and what have you. They employ, I think, about 300 people. They do kill sheep and cattle, but the stability of their business and the ongoing employment and what have you of those people is largely from pigmeat because pigs are produced on a weekly basis, and with sheep and cattle the supply is perhaps more cyclical, depending on how much grass farmers have in their paddock and a variety of other things. So it's very important to Young that they have the stability that the pig industry offers to the abattoir, because that abattoir is the biggest employer of people at Young.

I do hope that the Australian government and others that are continuing to negotiate trade agreements and the like are able to move some of the distortions that we all see, that are, despite WTO agreements and the like, perhaps as great as they ever were. If that happened and we had some breathing space - although I want to see our industry survive and I think it's a great little industry, if some of those distortions were moved, we would be stronger still, and instead of only exporting an amount of pork that's small compared to the amount of beef and grain that we export, I would see that Australia would be one of the major exporters of pigmeat, because there's no doubt that, if the distortions and the stupidity were removed, we would certainly be amongst the most efficient - well, we are amongst the most efficient pig producers in the world, and if we could get a fair go, there would be room for great expansion in our industry.

MR BANKS: Okay. We might leave it there for the moment and perhaps move on, if you would like, Jock, to make any remarks.

MR LAURIE: Yes, I will, commissioner. I'll be coming at it from a bit of a different angle, of course, because I'm not a pork producer but I certainly represent and can speak on behalf of agriculture as a whole across New South Wales, where we are representing many different commodities. One of the interesting things is that I can sit down now and have a look at all the industries and see how they're performing against each other. Without any doubt, the pork industry at the moment is in a state of turmoil I suppose would be the best way to describe it. Obviously it's been exaggerated by the drought and the cost of production and cost of grain is one of the enormous things.

When you have a look at all the intensive industries, they've all got different abilities to be able to handle it: the feedlot industry of course, which in a lot of cases write forward contracts out and then when price gets too dear they don't put cattle in, they can just shut their enterprise down; the chicken-meat industry, exactly the same thing, although on the other hand they can turn around and increase their price in order to cover their cost of production, so they do have the ability to be able to do that; the dairy industry can dry cows off and put them out into a paddock situation so that they don't have to feed and the cost of production can be lowered by doing that. Obviously people out in the more extensive industries are dealing with feed issues and buying and selling stock as the feed comes in front of them.

The difference with the pork industry is that, with the nature of it and the intensity of it as it is, while their sows are in lots of cases in very intense conditions, then they don't have the ability just to be able to chop and change. The only way that they can do it is to turn around and sell sows as they have done in the last three months, where I think about 40,000 sows have gone out of production. To turn around and completely change that again would be - if the cost of production goes the way it's going now, we're obviously going to have some more serious decisions made in reduction of the sow numbers, not like the other industries that can just come in and out.

The feedlot sector, for instance, can go straight back into production tomorrow if grain prices come down, or if they get markets or they get an increase in their price. They can come straight back in and feed on a contractual basis. That's not a problem, whereas the pork industry, if they start losing sows and many numbers of sows, they've got to turn around then and try and get back in the industry, which is a very difficult issue.

What I see is that out of all the industry sectors - and I see the flexibility in the other industry sectors, but in the pork industry because of its make-up, there are very difficult and intense circumstances, and those circumstances are having an incredible impact on the personnel within the industry. I think it cannot be underestimated, the amount of impact that this is having on the individuals within the industry, and the pressure that's being applied to the industry. Obviously on many occasions they employ a considerable number of staff directly or indirectly through processing works and right down through the chain, so because of the nature of the business there's a lot of labour employed there and a lot of rural towns actually survive very much on their labour that is employed.

So there is an incredible amount of people who are really reliant on this industry and to see the pressure that's being applied, and to see the fact that a lot of pork producers at the moment are continuing to employ staff simply because of the relationship they've got with those staff, at the expense of themselves - and I think the figures being quoted, and I've heard regularly from many producers - between $40 and $50 a pig they're losing for every one they turn out the gate. For people to stay in the industry on a continual basis and be prepared to lose that sort of money because they hope that a bit of commonsense will prevail down the track is quite amazing.

There's no doubt that the imports definitely put a cap on the domestic price and I think purely and simply by the fact that, if any sort of increase in price comes along, we can turn around and import it and put pressure on it that way. We see in the other industries, in the dairy industry for instance, there has been a big shift in price. While their cost of production has shifted also their return has shifted, simply because of a supply and demand thing. They're not under the same intense pressure from imports that the pork industry is. And, as I said, with the chicken-meat industry, the wholesalers there have the capacity to increase the price simply to cover their cost of production anyway.

So the pork industry in itself really does have some pretty unique things: the way it's set up as an industry, compared to the other industries; the fact that it really is under immense pressure at the moment; the fact that they have to feed grain. They don't have the capacity to turn around and feed anything else. They are very much at the whim of the seasons and they've been, the last two years, great for people who are growing grain, of course, but a disaster for people in the intensive industry. And a combination of all these things is really hammering the pork industry very badly.

As Dugald said, a need for relief as much as anything else - the demise of an industry, the demise of the pork industry in Australia would be an incredible thing, to sit down and think that a country like this would allow an industry just to fall completely to pieces. I think the reduction, as I was saying, is 40,000 sows in the last three months. If that's an indication of what's going to happen over the next 12 months to two years, then the industry itself could be in very serious trouble. I think for the country as a whole to allow that sort of thing to happen would be amazing.

MR BANKS: With that 40,000 reduction, if we just thought about the share of the market that I suppose Australia would have, either through remaining in quarantine or other things, which is the fresh market and the boned leg hams, I guess - what sort of capacity would that involve? Would you know that? We're talking about the number of sows currently is about 260,000. You've said if something is not done, another fall in sow numbers - it's expected to be as low as 200,000. I'm just wondering whether that involved overshooting in terms of what you would normally think of as a captured domestic market for the industry.

MR POLLARD: Commissioner, are you thinking about - to be quite blunt, an ideal scene for us would be for Australia, our own domestic market, to supply fresh and that type of thing. But the thing that I'm probably concerned about as well is if, for some reason, there's this level of imports and then all of a sudden we can't import a product and then there's no local industry to back that up or support that. As Dugald mentioned earlier, the consumption of fresh pork has been pretty good. So how do we support that?

MR BANKS: In other industries what happens is that the price would go up. That would choke off a bit of demand while the prices were high. When the prices came down, demand would go up. I think what you've got here is some lead time in getting more production online, but they're not historically unique circumstances, I wouldn't think. I guess what you've got to demonstrate is that that potentially could have ruinous effects on the industry in terms of making it hard to build back up. This is all predicated on the fact that the industry, for good or ill, is part of a world market and the safeguards provisions are intended to be temporary to allow breathing space - that's the term that's being used - to gear up. But it's not intended to provide a sustained wedge between world prices and domestic prices, or even sustained headroom to allow cost fluctuations to be accommodated. That's not the way the safeguards arrangements are designed.

MR POLLARD: Sure, okay. The industry is well supported with its national body and some states have their own state body. Then with the Pork Cooperative Research Centre it's a well-supported industry. That gives me a lot of confidence in looking ahead as far as the future goes. With that relief period, I feel comfortable that they're there. That would work for me as well.

MR BANKS: Implicit in what you were saying, Dugald, I think, is that you see the industry actually doing well as an exporter as well as doing well domestically. Is that right? Potentially, you see the industry prospering in the long term.

MR WALKER: In the future, there is no doubt that we can have a bright, strong, sound future. There's been a lot of discussion about how many sows have gone and that's perhaps a reasonably sound figure. The speculation or the hypothetical things of where we go from here essentially have to be just that. I think there is probably acceptance that there are people waiting - the word might be they've got their money on you, and if this Productivity Commission and the government provide no assistance, then I would expect that there would be a large number of people that would say, "Right, well, that's one avenue of hope cut off," and there will be a decision then to downsize further. The industry has discussed critical mass and we're all concerned that if we get below a figure, then the people that we supply - the abattoirs, the processors, what have you - will lose a lot of their efficiency.

In the case of New Zealand we have seen where somebody is now either applying or the government is suggesting they do a study into importing fresh meat or selling imported meat as fresh meat with its inherent diseases and the like. So we're aware of the huge need to preserve a critical mass of our industry so it can go ahead. If it gets below that it's almost like a downward spiral that's ever inward, ever downward and, I presume at the end, we're a boutique industry and we've lost everything.

MR LAURIE: I think the issue with the supply and demand - the thing with other industries, when they cut back on their production, obviously demand then comes into play and there's an increase in price; spike in price in order to try and carry those people through. One of the problems with the pork industry is, with their cost of production at the moment, they seem to be reducing their sow numbers because they can't continue to be losing $40 or $50 a pig, but there's no corresponding spike in demand or spike in price because of that lost production. It has been taken up by the imports. That's where this real problem is.

So as these fellows are reducing their numbers, because they have to reduce their numbers - where normally we would see that happen and then a lift in prices, accordingly, come in and allow them to get back into production - that has been taken up by the imports, to a certain degree, which is really causing some problems. I mean, we're in a situation where we could lose - if we did get back down to 200,000 sows then there's probably no great incentive, financially, in order to step back in and increase that production and that's one of the bigger issues here: is the fact that if they're losing that money on each pig that they're doing, then long term, under the current circumstances - the current grain prices and the competition - it's really creating some problems for them.

MR BANKS: Dugald, you talk about a boutique industry. How many sows do you see in a boutique industry?

MR WALKER: I shouldn't speculate because I don't know. My daughter is an economist, not me.

MR BANKS: And is it that part of the business you're trying to give to your daughter, is it?

MR WALKER: And there's a lawyer in there, too, and they're all giving me grief.

MR BANKS: Okay. Look, the grain issue looms large, obviously, in the stories that we're hearing. I think, Dugald, you referred to ethanol policies and so on as perhaps compounding that. I don't know whether others would want to comment on that. I mean, that is an area - if you look forward and think about a sustainable future for the industry - whatever happens to grain and the price of grain has got to be absolutely critical in that future that you see. Are there any other issues - policy issues, I mean - that bear on the costs of grain that you want to raise? I say that also for your submission coming in at the end of the week.

MR WALKER: Commissioner, Jock, as chairman of a multicommodity organisation, might have perhaps a different view from a grain consumer but - - -

MR BANKS: I didn't mean to wedge you or anything like that.

MR LAURIE: No, you haven't, don't worry.

MR WALKER: - - - after years of arguing for and against and with the Wheat

Board and often being quite strongly opposed to their de facto monopoly of acquisition that they have, I've always thought, "Well, look, I'm not quite sure about this because I think the inefficiencies that they have may give us grain, may save me $10 a tonne in my grain purchases," so there's very much two sides to the argument of the so-called single desk.

MR LAURIE: The issue with grain and where it's going: a lot of this could be resolved with rain, more than anything else. So while there's intense pressure for the supply of grain at the moment, basically coming on the fear of what has been delivered in the last two years and what could potentially be delivered or might not be delivered over the next 12 months, and I think that's driving the market as much as anything, we've seen the grain market move in the last two months, I suppose, on the back of what's actually coming in now and some good rains to get a summer crop in, so that's an issue.

When it comes to the ethanol argument, I think the ethanol argument in Australia is - if it was viable to actually get turnaround and produce ethanol out of grain at the moment, it would be happening now, right now in Australia, and it's not happening in Australia. It's certainly happening in America and that's putting a lot of pressure onto the grain market across the world and certainly, I think, corn over in America: there's enormous pressure over there. So there's no doubt that that is applying pressure to the market, and the shortage or the big droughts that are happening in Australia at the moment in relation to their winter crop production, especially, has put enormous pressure on the market.

Of course, these blokes are just squeezed right in the middle of it and that's the thing that's really cruel in the industry at the moment: is that they're squeezed by ethanol probably overseas and the pressure that is putting on by their loss of production of the winter crop and summer crop last year. I remember, I think for the first time ever, we had a winter crop loss last year, a summer crop loss which has virtually never been heard of, backed up by another winter crop which had a substantial loss also.

I think, one or two of the things that are probably saving it is that the feedlot industry is probably backing out in numbers compared to what they did. I think they were nearly a million ahead on feed and I think they're coming back at substantial rates, so they're not going into the market to buy grain. But there's still plenty of competition to try and get the grain and I think wheat is still sitting at about $340 or something a tonne at the moment. It has come off a bit but there's still enormous pressure there.

So there will be, in the future, probably a lot of pressure applied. It all depends where the oil price ends up. I think it's about a hundred bucks a barrel now. It all depends where it ends up as to whether ethanol is going to become viable in the market but, of course, if you invest substantial money into ethanol production in Australia and have two years like we've just had, those factories will be well and truly out of business anyway, simply because they wouldn't have the grain to put through. So there's a lot of uncertainties in developing that industry in Australia so no-one knows where it's going to go, probably.

MR WALKER: Commissioner, at the end of the day grain may be a problem but the big problem is just this ever-present ceiling that's put on our market price for pork by imports. That is the crux of the problem.

MR BANKS: We have talked about the breathing space afforded by safeguard action and, as you know, that potentially could last four years under WTO rules. What we're also working towards by mid-December is an accelerated report focused on the question of provisional protection related to the question of whether a delay of say three or so months could lead to damage to the industry that would be difficult to repair. I might just get you, if you wish, to comment on why action say before Christmas rather than at the end of March could be so important in terms of the industry's future.

MR WALKER: Commissioner, the big reason for that is that, with the losses at such a high level, people have to make very quick decisions. If there was no chance of a decision until March, it would be my belief that there would be a further wave of people that would make the decision, or their bank managers would make the decision, that they were to go. If that happens, then it gets back to the question of critical mass. We have a reduced industry to go ahead.

MR LAURIE: If you have a look at the figures and talk about the numbers of pigs that these blokes are producing, and you have a look every week and they're losing 50 bucks for every pig that goes out every week, you can understand that there is an absolute need to make decisions straightaway. They don't have the opportunity to continue to lose that on a weekly basis into the future. Decisions are already being made when it comes to sow numbers. Obviously more and more pressure will be applied, and the pressure can be applied either through your financiers or simply through the severe pressure that people are under anyway. They will make decisions, and it's never a great time to make a decision when you're making a decision out of emotion instead of sitting down and using your other skills to do it.

MR BANKS: Just that point you made about loss per pig: I think Ean said $40. Based on that projection for the next calendar year, I'm not sure that you gave us a number, Dugald, but would you like to venture a number?

MR WALKER: All of us have marginally different costs of production. Some of us have by-products and they are of greater benefit in a time when grain prices are so expensive. I'm sure Ean is a better pig producer than I am, so he will gain some efficiencies from his very good management and from his very good facilities. So all of us are a bit different.

MR BANKS: So where does that leave you?

MR WALKER: Where does that leave my cost of production? Well, with my other greenhouse hat on, perhaps: I think we're currently getting a semi-load of failed dairy product daily. The investment in handling that has been pretty large. We may have spent $150,000 or something, making things that almost unpack half a million yoghurt tubs a week, and that is some benefit to us, and that was being ejected either into the ground as fertiliser or into the Sydney sewer system, so we get a bit of advantage from that. We also have another failed product that, under the formulas we have with them, in a year with input costs as they are, they're of course more beneficial for us. It's difficult for me to - - -

MR BANKS: Yes.

MR WALKER: At the end of the year I can come out with a figure and say I've made a loss, so much a pig. It's difficult for me in the middle of the year to be able to say, "This is where I am." I watch the Plimsoll line on our bank accounts, and I know because of drought we've sold off perhaps 1000 head of cattle, and they tend to sort of lift the ship out of the water a bit, and there will be perhaps a day of reckoning a little further down the track.

MR BANKS: Okay.

MR POLLARD: Commissioner, just one thing I'd like to emphasise is what Jock was alluding to earlier. In our industry you have a delayed reaction, so when you turn a tap off, it flows for a long time, and then when you turn it on, it takes a long time for the flow to start. If we were to stop mating pigs today, it would be around 10, 11 months before the progeny would be on the ground and off to market. We can't put the sows out in the back paddock and just run them like - yes. Either you're in or you're out.

MR BANKS: Yes, there's no doubt it's a challenging business, for the reasons that you've described. I think that's covered the questions I had, but were there any further comments you wanted to make before we close?

MR LAURIE: I don't think so. The only thing I can say, commissioner, is that, as I said earlier on, I represent all the industry. I've got a very good understanding of how they're all going. I can tell you first-hand that the pressure this industry is under at the moment is absolutely incredible, and the effect that that's having on the people involved really can't be underestimated. It's a very difficult time. It's just amazing how damaging it is, what's going on in the pork industry at the moment.

MR BANKS: All right. Thank you again for taking the time to present today. I look forward to New South Wales Farmers' submission by the end of the week, and if that has things in it that we're not sure about, I hope we can get back to you to get clarification on some of those.

MR LAURIE: Certainly.

MR BANKS: Thank you very much. We'll just break now for a few minutes, please.

MR BANKS: The next participant is Inglegreen Pastoral Company. Welcome to the hearings. Can I just get you to give your name, please, and your position with the company.

MR GETT: My name is Malcolm Gett. I am the owner and partner in our family company.

MR BANKS: Good. Thank you very much for attending today. You've also provided a brief submission.

MR GETT: Yes.

MR BANKS: I'll give you the opportunity to perhaps talk to that.

MR GETT: All right.

MR BANKS: And then we might have a bit of a discussion following that.

MR GETT: Thank you, commissioner. Just a little bit of history first. We are a family business. The property has been in the family for 80 years, farming grain and cattle. The piggery was commenced in 1977-78 with 10 sows. We currently run, or did earlier this year run, 1200 sows, selling between 24 and 24 and a half thousand pigs a year. We employ a staff of 12 people, with two casuals. Because of the current state of the price of pigmeat, we are in the process of cutting back our business to 650 sows. We've already put six of our staff off, and we're also in the process of emptying out three of our grow-out sites. We have contract grow-out sites off farm and we're in the process of emptying those out.

This time last year we signed a contract for supply for this current 12 months at \$2.80 a kilo. That contract was signed in good faith by both parties. By March this year, the people I'd signed the contract with rang, dropped the price by 20 cents. They rang me in April and wanted to drop the price a further 60 cents. That didn't happen. We ended up with a price for the year at \$2.40 a kilo. Now, the difference between \$2.80 a kilo and \$2.40 has represented a loss to us of just under \$800,000 for the year.

You've heard people speak earlier about how we normally get a spike in price leading up to Christmas. This year we are definitely not going to get that because of the amount of frozen meat there is in stocks. It's just not happening. I heard Ted and Trevor speak earlier, that this time of the year normally their phones don't stop ringing. This year they're not ringing at all. They're not getting any inquiry for legs leading into Christmas, to give you some idea about the amount of meat there is in cold store. Also, earlier this year there were a lot of farmers that could not sell their pigs. They had big difficulties. Unless they had tie-ups with people or had been loyal to suppliers in the past, they couldn't find anywhere to sell the pigs to, and that caused big problems to people.

I agree with what Dugald was saying: we need something to happen in the long term to give us some stability so that we can go back in and invest money in infrastructure and technologies so that we can start to lower our cost of production and become a lot more competitive with the imported products.

MR BANKS: Who are you selling to actually? You don't have to name the company, but what sort of - - -

MR GETT: We sell into the fresh meat trade. Up until this year we have always sold into the processing industry. This is the first year that we've sold into the fresh meat trade.

MR BANKS: And again, in terms of the cycle of who owns the pig when, when is the pig no longer yours? When have you actually sold it?

MR GETT: I think when anybody sells pigs, they change ownership at the scales at the abattoirs.

MR BANKS: You said you've cut back to 650 sows.

MR GETT: That's right.

MR BANKS: Do you see that much lower level of production or capacity as being sustainable?

MR GETT: Yes, we do. We're removing our grow-out contract sites because they cost too much money to maintain, to run, and it's just an extra burden on our costs that we can do away with, and hopefully we're going to - well, we can't become profitable under the current prices, okay?

MR BANKS: Yes.

MR GETT: By doing what we're doing, it still doesn't mean to say that we're going to survive. It's just a way of lowering some of our costs, but under the current price structure it's still going to be very difficult to survive.

MR BANKS: If there was safeguard action that gave you some more headroom on prices, what are the sorts of things you could imagine - you talked about investing, et cetera - you could do with your business that would help down the track?

MR GETT: Spending money on genetics, refurbishing some of the sheds Dugald was talking about, insulation in roofs on sheds and so forth, which improves feed conversions - again, it's lowering your costs.

MR BANKS: Okay. I don't have further questions, because I think the sort of issues you're raising were very similar to the ones that Dugald and Ean were raising before, so I thank you for that.

MR GETT: Thanks very much, commissioner.

MR BANKS: We'll just break again for a short time. This time, if you didn't get a cup of coffee before, you can get one, and there's some cake out there as well. But we'll just take a 10-minute break because I have to look at a submission that came in very late, so just another 10 minutes and then we'll resume. We'd be proposing to finish today by 5 o'clock at the latest, anyway. Thank you.

MR BANKS: The next participant today is Heather Braw Pig Stud. Welcome to the hearings. Could I ask you to give your name and your position, please.

MR HARVEY: My name is Charles Harvey. I'm a pork producer from the Grenfell area of New South Wales. A bit of background about our operation: it's a husband and wife operation, until recently, 1100 sows, employing 16 staff in a mixed farming operation, including our own on-farm feed mill.

MR BANKS: Sorry, how many sows did you say?

MR HARVEY: 1100. I've been in pork production all my life and as Ean Pollard indicated earlier, I started in a small way immediately upon leaving school and through continual reinvestment we've got to the stage that we are now, as in earlier years pig production was very profitable and reinvestment was quite easy - as you do tend to reinvest in the things that you do well. We run a multisite operation, which means that we have the sow farm on a different site to the grow-out operation. We have a high health status herd, which was established in 1994 through a process of medicated early weaning to eliminate all the major economic pig diseases. I think we were the second herd in Australia to undertake such an operation. That improves our productivity and efficiency due to that health status, so we're free of all economic respiratory diseases as well as major enteric diseases.

MR BANKS: Just on that, you're saying you were one of the first to do that. Is that more generally the case now?

MR HARVEY: Many have improved the health status since. Health status is one of the major factors affecting efficiency in pork production, and medicated early weaning, as it was, was first developed in the United States in 93. We undertook it in 94 and many others have followed suit in the interim period to improve their health status.

MR BANKS: With innovations in the industry, is it true to say that an innovation anywhere in the world communicates itself around the world pretty quickly? You were saying from 93 to 94 you'd picked up on this American innovation. Would that be true or could a country get a bit of a lead by doing things that weren't obvious to or able to be adapted in other countries?

MR HARVEY: No, generally there's a very fast dissemination of improvements in either technology or whatever and, like most farmers, we're very happy to share advancements because of breakthroughs, be it in veterinary science or other areas of production. Australia by way of that, through the levies that we pay, actually has one of the best industry research based organisations in the world. Australia has made many breakthroughs in production efficiencies due to the excellence of their research base.

MR BANKS: Just as a matter of interest, since you mentioned it, how significant are those levies?

MR HARVEY: They're very important.

MR BANKS: I mean in terms of the costs, the outlays involved?

MR HARVEY: I don't look on them as an impost at all. I think they're very good value for money. We have gained far greater returns than we have lost. As has been mentioned earlier, our increase in domestic pork consumption, especially on the fresh meat side of things, in the last two years we can only put down to some really excellent work by our marketing organisation in APL, so I think we get excellent returns on both the marketing and on the research side.

MR BANKS: Okay.

MR HARVEY: So our production goes mainly to a butcher shop chain which is based predominantly in Sydney. We supply them with the bulk of their whole-carcass pigs. The carcass weight is around 67 to 72 kilos dressed, which suits their butcher shop trade. We sell them 240 pigs a week, which is roughly 17 tonnes of pork meat and the balance of our production is sold on the spot, wholesale market. Our price is worked off the - there's a reporting service for pork prices by the National Livestock Reporting Service, which gives an average bacon price. We basically work off that price, so our price moves according to the market indicator.

MR BANKS: In the contract you have with the butcher chain?

MR HARVEY: Yes. The market price as it has been set or indicated by the reporting service this year has been particularly flat in the last 12 months, especially in the last six months. As an indicator, our actual price received at the beginning of January was $2.93 a kilogram. This dropped to $2.21 in June of this year. Normally from June onwards we get a very strong price spike as we move towards Christmas. It has only moved 26 cents in the last five months, and we are only three weeks out from Christmas. It is the flattest that I can ever remember in relative terms. And it is quite obvious that as imports have risen in 2007, at a greatly increased rate through this period, that has been the main driver as far as keeping our domestic price flat.

It is quite obvious that we no longer have a freely operating market because as soon as prices rise to a certain level which is uncomfortable for some processors, imports are just dragged in or, as indicated earlier, used as a lever to produce a cap on our domestic prices. That would not be too much of a worry if it only affected a small sector of the market, but the whole market is affected by that cap. Just on our own operations, we've been losing money on pork production throughout this year. We don't put it down to any great inefficiency as our herd feed conversion average is around 3.8 to 1, which is quite good. In some of the best seasonal condition periods, say April-May, for one-month periods we've actually achieved herd feed conversions of 3.5 to 1, which is world-class. We would probably be able to do better than that. We would need further investment, as a couple of other producers have indicated, to improve the facilities, through better insulation, et cetera, to bring that even closer to that over other periods which are not seasonally as good for production.

We market 1.4 million kilograms of pork per year, and I would estimate our cost of production in the range of $2.80 to $3 a kilo over this last 12-month period. Therefore, our total losses for the year are in the order of 50 to 60 cents a kilogram, which gives us a loss in the order of six to seven hundred thousand dollars. These losses at this level are not sustainable. Our survival has been assisted due to the fact that we have destocked what was originally our oldest herd unit to actually repopulate with all high-yield stock, and that has actually taken pressure off us, because we've had a sow herd being sold off, with the idea that we'd be immediately restocking that herd. At the present rate, that will not be taking place until the terms of trade get to a point where we can guarantee that we can sustain the restocking.

I'd like to point out that initial investment for pork production on an infrastructure basis is probably around $4000 per sow. We have increased our herd size from about 350 sows in 1998 to the 1100 sows that we have now, so we have invested a hell of a lot of money, especially over the three-year period 99 to 2001, and this investment is really at risk at the present time because, as Ean pointed out earlier, depreciation is over an extended 20-year period, so we still have a lot of money sitting unable to be realised, and I think I mentioned to you in Melbourne last week that when you've got market conditions as we have now, our infrastructure becomes valueless. We have borrowed money to put that infrastructure there, but the financial institution that has lent us that money has got very little chance of getting it back if the market continues along the current lines.

Our staff levels have dropped from 16 to 10 permanents. Part of this has been due to our destocking, but this is actually only three staff, simply put. We haven't replaced three others that have left through natural attrition for various reasons, and these have not been replaced due to economic pressure, and basically all of us that are there now just have to work a little bit harder to pick up the shortfall.

We definitely need immediate relief, and time is of the essence. We need something to happen sooner rather than later, because three months' time will be too late for many of us, and we may be one of them. We do need some sort of safeguard measure to be immediate and substantial. We can measure the real cost of production of our import competition, and there's no way that pigmeat can realistically land at the prices that it is for Australian processors. When we talk about free trade and fair trade, while some things might be called "free", they definitely are not fair.

We need to continue to improve our efficiency through, as previously mentioned, upgrade of our facilities. I would say we are quite capable, as Dugald stated earlier, of producing pork as efficiently as anywhere else in the world. We, of course, will never have the low grain prices that America has had. Whether they continue there - because of their ethanol policy - is totally irrelevant. But apart from them, and Brazil, there would be no other country I could see that could compete with Australia. We have a high health status, we have a climate that is well suited to pork production, and we are not plagued by the environmental worries that other countries have, simply because of our low population and our broadacres that we tend to have our piggeries situated on. That basically covers everything.

MR BANKS: All right. I just have a couple of questions. One is: when you say a tariff or a safeguard action would need to be substantial in nature, what would you see that being, in terms of equivalence of cents per kilo, say?

MR HARVEY: Basically, given that our spot price is the price that's influenced by imports, and that is around 240 cents, 245 - well, 247 in our own case at the moment - and our cost of production is in the region of $2.90, $3, it would have to be enough to bring that up to the cost of production, so we're looking at 50 cents.

MR BANKS: Yes. You've talked about it in more general terms, but I might just get you to comment a little bit more on the difference between relief of that kind, cutting in in December say, or before Christmas, relative to say end of March or early April, from the point of view of your business and its viability.

MR HARVEY: Basically, when you are in a loss situation, as all of us are, we're bleeding at a large rate, and basically it comes down to how much blood you have to bleed.

MR BANKS: Do you see things actually getting worse? Some have implied, I think, that things could get better over that period in some respects; potentially the grain price, or other things.

MR HARVEY: I do not see the grain price moving much from where we are. There was a very volatile period for the last three months for grain prices, where they went to unheard-of levels, but they have now dropped back to levels which are probably going to be fairly consistent for the next period, maybe even through till the next harvest, which is $350, $370 a tonne. They are levels which are still quite a bit above periods 12 months previous, which we thought were quite high. But those grain prices are not a problem if your market is back up where we were at Christmas 12 months ago. We are literally 50 or 60 cents below what we were at Christmas 12 months ago, and it doesn't look like it's going to move. That's our real problem.

MR BANKS: All right. We'll leave it there. Thanks very much.

MR HARVEY: Thank you.

MR BANKS: We'll just break for a moment, please, before our last participant.

MR BANKS: The next participant is Leon's Pork Pty Ltd. Welcome to the hearings. Could I ask you, please, just to give your name and your position with the firm.

MR DE GROOT: Thank you, Gary. My name is Leon De Groot. My company name is Leon's Pork Pty Ltd. My position in the company is that I'm the owner-operator manager or director, as such.

MR BANKS: Thank you for taking the time to appear today and also for the submission, which came in reasonably late, but I'll give you the opportunity to talk to it. I note that there's a confidential component to it, which is fine. I'll hand over to you to make the main points you want to make.

MR DE GROOT: Thank you, Gary. I do thank you and I do thank APL - Australian Pork Ltd - for driving this commission, and I do apologise for being late with my submission. How are we going for time?

MR BANKS: That sounds like a leading question! I think we'd need to finish by 5 o'clock, so you've got 40 minutes, if we need all of that. Some people are laughing.

MR DE GROOT: I'd like to not miss any points. I'll go through the formalities of it all as I've put it here, and I certainly don't mind you interrupting and asking me a question as we go. As I said, my name is Leon De Groot, and I run a company, Leon's Pork, on a property, Waterford, 10 kilometres from Gunnedah, north-west, in the slopes and plains of New South Wales, about 650 kilometres here from Sydney. To give you a little insight, I'll give you a photo.

MR BANKS: All right. That's good.

MR DE GROOT: The core of our business is the breeding and finish of pigs at Waterford. We have around 400 sows. We've got a capital investment of between two and three million dollars, depending on how you look at it. Leon's Pork is a fully certified member of the Australian pork industry quality assurance program. We have also run grow-out sheds on other farms and work with a committed group of other pig farmers, who give us a combined production base of around 900 sows. We sell approximately, in that base, about 18,000 pigs per year. That's a decline from probably our peak of about 24,000 pigs in the last couple of years. This informal group of farmers helps us to regulate supply of the right numbers to the right markets, with the ability to deliver that production and supply, with transport to abattoirs at the right times. We've got a transport commitment of almost eight hours, 700 kilometres away.

We have operated and developed this business on the site since 1985, when I bought it with a partner. It was then 180 sows. The piggery actually started in the early 1970s. I took over the full business in the mid-90s. Shortly after that we went through the period of paying 20 per cent plus interest rates, which I described as a bashing from the banks, and we went through the post-drought squeeze of the banks trying to push us along.

I'm 53 years of age. I was born of Dutch immigrant parents. I grew up in Brisbane. I attended the Queensland Agricultural College and I passed the agricultural certificate and then an advanced certificate in pig husbandry in 1974. I then started to work in the pig industry, which at that time, if I can remember correctly, was about 400,000 sows, and there was - I've written a figure of 50,000 but actually I can remember someone described it as about 60,000 pig producers then, and the average farm was about eight sows.

I started as a leading hand in a 200-sow piggery at Gatton and haven't stopped since. I moved to New South Wales and married my wife in 1977. I had five children between 1980 and 1990, two boys, one girl and then two boys, none of whom have an interest in taking up the business at this point. I don't wonder why. In 1981 I owned a car, a TV set and five sows and I rented a small block, so the industry has given me my lifestyle and my livelihood. I certainly have grown that part of it, and it has, and had, that ability, as other speakers have said.

I've served on many committees over the past years. I was on the New South Wales Farmers pork committee for possibly 10 years, until about 2003. I was very active in the early stages in the development of the Australian Pork Ltd and have seen many, many things come and go in the past 35 years, and I'm still learning. I really do like my work and I like what I do, so I'm quite happy with my position and lot. Sorry I didn't introduce how I was going to talk today, but I've basically got about 10 points, and that was the first one.

My second point is production. We have a production base, as I said, of about 18,000 pigs per year. We also buy, sell and grow out input stock. The piggery is run on a weekly basis. Everything happens once per week, every week of the year. This means we have to sell every week, say 350 units, sometimes twice a week, and one of those trips, as I said earlier, is a 700-kilometre trip to the shop. It takes a bit to organise. Production is continuous. We turn over our stock on hand 2.3 times per year. Production has a lead or a change time of, on the short side, 10 months, and it takes 16 months on the long side. In other words, if you said, "I want to pull it up now. I want to do something," you've got 16 months of either going in or out.

In 1980, our family piggery would or could run 100 sows and make quite a good living. At that time it took 28 weeks to grow a pig, if I can remember rightly, and we sold him at about 50 kilos dead weight, and we probably averaged around

16 millimetres of fat. Now, in 2007, our family farm apparently needs to be about 400 sows, employing at least three people plus myself, and it truly is a family farm. We now produce pork up to 70 kilos dressed weight in less than 20 weeks of age, at 11 millimetres fat. That's eight weeks faster, 20 kilos heavier, and five millimetres leaner, so we've made some quantum leaps and bounds over the last 10 to 20 years.

Pork now accounts for about 80 per cent of the product that we sell and handle, bacon 20 per cent. Now, when I refer to bacon I mean manufacturing meat - pig - okay? With a pig growing approximately, in that later stage of life, a kilo per day and cut-off points on pork at margins of 100 grams, and pigs over 11 millimetres or one millimetre default at killing - they fall out of the pork grid - we always have some bacon.

Point 3 is marketing, changes to compete, what we've done to stay viable. When imports first started, they were used as a tool to lever the market prices, and that was by the processors at that stage. They levered the price around to the debit of the producer. Now they are used almost exclusively, as we heard many times today, in the manufacturing industry, who only buy the cuts they want at the time. Some of the latest information on imports tell me 75 per cent of the volume used in manufacturing smallgoods is from imported meat. Here we are producing whole carcasses. How can we compete?

At the time, we made a decision not to compete head-on with imported product and started to shift our production type to the fresh pork market. This is over 10, 15 years ago. I've forgotten when Canadian pork first hit the shores. We've been living with it for quite a while - not at the volumes around at the moment. The pork pig then was a very small, inefficient unit to produce, but now we do it well. We get the very best in efficiency of feed conversion and the lowest cost of production by producing the biggest pig unit we can, and this is where the industry has been driven over the past. In other words, all the departments of agriculture, everybody in the know, said, "Push the pigs. Big, big, big. Go for the big, more efficient, more cost-clever, everything," but for us this was not the case. We knew this was not what the market or the consumer really wanted.

What they wanted was legs at one time of the year and middles at the other, at a different time of the year, and different parts at other times. That's what they really wanted, to fit out their customers and demands. Imported meat was coming in from other countries, as I understand, from 80 to 100-kilo deadweight pig. That weight is approximately 75 per cent of the live weight on a carcass definition, and you can buy in advance whatever cuts you want. Our manufacturers' pigs were at this stage possibly around 72 kilos of weight, but going up; but still whole carcasses, as we've heard today.

We decided to move with the fresh market which uses most of the pig that week with some going into storage, say for small hams at Christmas. After some seven years, we are about 70 per cent of the way there. To switch out of a bacon or a growing concern into a pork market, as I'll explain later, just doesn't happen overnight. There are other people in that spot. Someone is sitting on the seat. You've got to dump them or you've got to change the marketplace. I give credit to APL. Over the last couple of years they've really changed that marketplace and lifted consumption of pork in Australia.

MR BANKS: When you say 70 per cent of the way - to all of your output going into the fresh market?

MR DE GROOT: Yes, into our designed choice of placement, yes. I don't think we'll ever be there. I don't think anybody is 100 per cent - of what they do. Instead of producing large lumps of meat for the processing meat market that still sells its leftovers on the fresh pork market, we went for a different angle. It made us sit for a while. We had to sit there in the pork industry that wasn't a very profitable area but I think we've fared fairly well out of it in the long run.

Changing consumer preferences takes years, but when our marketplace did change, we moved with it. One of the changes, as I can demonstrate, happened about two years ago. At that time our maximum weight carcass was 55 kilos dead weight and it jumped to a 70-kilo weight, with the minimum weight being 55 kilos. That was a horrific change for us. We had one week to fix the problem, with no price changes and indeed to keep up supply as well because we didn't want to lose our customers, our orders, our infrastructure. The order was 80 per cent of our production at the time and required us to find an extra $50,000 in capital funds, just to accommodate a shift in weight, with no income for two weeks. We really could not do it but we did and it's taken us over two years to adjust. We've just gotten there now.

We lost two of our producers out of the group, who couldn't sustain the change. We now sell 10 different ways each week and carefully guard our fresh pork market share and pricing with a solid commitment to our supply chain of both small butchers and one of the largest supermarket chains in the country. I think I can tell you that it builds up an association after 15 years with Woolworths. We don't directly sell direct to Woolworths at the moment because there's a processor/manufacturer in the middle of that point now.

The biggest single change in production and the marketing area that we have seen has been in the differentiation of fresh pork producer and the manufacturing pig producer in the last couple of years. That's been an outstanding change in the last two years. It's really happened. There's a different producer out there. The line has only just started to become clear in the last two years. Before this the water was very muddy. As the market prices changed from bacon and ham pigs to compete with fresh pork for supply, producers would change their production types at different times. In other words, they'd just switch into one or the other and no-one had any allegiances.

I don't think the manufacturers of smallgoods were very happy and no wonder they have embraced imports. It did not do much good for the fresh pork market either, getting hit with unwanted pigs or shortages from the bacon or export producers. This shift in production option is now closing down. Each marketplace has its limits and needs and they are being filled.

Point 4, exports: well, we tried that in the late 90s. We were exporting about 22 tonnes of frozen product each week for about 12 months. We had a little bit of a look at Singapore when it came along too but quickly realised that it was never going to work as a solid supply chain business, other than what it is now. I describe it as an opportunity commodity type market because of our imported grain policies and the import restrictions which hammer our costs of production in ever more times of drought on the east coast. It seems Western Australia is in a different land and has better opportunities. I think they do make a good job of exporting into Singapore and places like that - number one, closeness of supply. Also we tend to find that, when we run out of grain, and there are shortages here, we have to import them from Western Australia.

The export industry for pig producers in Australia - I tried to think of a little story to describe it how I think it is. I cop a lot of flak over this. It's like a big boof-headed ram in the paddock of ewes. He looks good and makes a big fuss about things but he doesn't come to much because he has one big problem he alone can't fix: he's got a little Elastrator ring around his nuts. The importation of cheap grain up-country, that's what I call the Elastrator ring, when we need it - for example, in the time of drought.

The situation in the marketplace at the moment with imported pigmeat - naturally I didn't say at the beginning why I'm really presenting this case, but I really do think there is a case for safeguards. Regional effects on the - I don't think I need to argue that piggeries should be in grain-producing areas and that abattoirs or processing plants need to be next door. The total decimation of the abattoir industry, in particular the pig plants, has led from one cancer to another. In my area alone, five plants have gone - that's Gunnedah, Tamworth, Moree, Mudgee, Scone. They're all within about 200 or 300 kilometres of my piggery set-up and we're in a very big, high-producing grain area of the state.

I bet those abattoirs would love to have part of the 50,000 pigs per week that we import, or equivalent to. I'll clarify that figure. Basically, I think - and Ted could probably tell me more - a 58, 60-kilo amount of meat would be equivalent to a pig 80 kilos dressed weight on the carcass, would it?

MR CAMPBELL: Possibly, yes.

MR DE GROOT: So just divide the tonnage that's imported per month by that and it comes to about 50,000 pigs per week. That's a great loss of jobs, loss of opportunity, loss of infrastructure. One of the biggest plants in the country only kills about 15,000 pigs a week so you could see if we had that killing capacity still here it would do something. We have to follow the buyer with our pigs and we have to operate, at this stage, 700 kilometres away. We must go where the buyer is and we do.

Can you think of what it does to a small producer who's got 100 sows, say, probably got a half-million-dollar investment, he's got 40 pigs per week and the best truck for the job needs 380 pigs on it. If he makes, say - I put down here that say he made $7 profit out of his pigs, and I don't think he would, the cost of the transport alone at this stage is around $12/head. That knocks out a producer just on transport costs alone because of loss of infrastructure and that loss of infrastructure is basically because they're not killing the pigs here. Basically 10 or 15 years ago it used to cost us about one cent a kilo to transport our pigs to the abattoirs. Now it costs between 10 and 15 cents a kilo, so it's a cost that we've had to absorb and take on.

MR BANKS: Because of the distance, obviously.

MR DE GROOT: Because of the distance, yes, and infrastructure change. Small plants just disappeared, that's it, because of critical mass that they require to keep operating, and export-accredited abattoirs. You can also see the logistics and problems of trying to service the local butchers. The local butcher shop trade is 50 per cent of the fresh meat trade in Australia. How are you going to service a local butcher with his two pigs out of an abattoir 700 kilometres away? You know what I mean? Five shops, four drops, all that sort of business. That's leading us to very much a centralised distribution type system. That's fine for the big supermarket chains and things like that, like Woolworths, who do have that. So the whole thing is really not leading the right way.

Six producers out of the 15 in my area have left the industry for good in the last 12 months, two of them in the last week. The urgency has been described a little bit here earlier, and truly I couldn't push it even harder. Unless we can again expand on our critical size - now, that's the requirement if we want to stay in business where we are. We're operating with other producers. We need a critical size to survive. Unless we want to invest in there, we will also implode quickly, and unless we get some sort of external help - because we have used all our resources in past years. We had a big crunch like this two years ago with the cost of feed and pricing, and I can tell you, nine other farmers will go in one hit with us, and they won't be back, because you've got to realise that the average age of farmers is 60 years of age.

Point 6 is profitability. I know I'm presenting some stuff here, and I did ask for part of it to be a bit confidential because it's our income and expenditure totals, but I'm sure people here will take that well. We are a business that operates on a weekly sales basis. Our production is fairly even each week to match that. Our major cost on farm is feed, which is fully imported - what I call imported - from a local mill, Ridley feed mills, and I hope they have some sort of input into this commission as well - at Tamworth. It's 85 kilometres away, and we've done this since at least 1990.

Feed prices change with basically how well Ridley run their business. I really do rely on my feed millers to be the purchasers of my grain and be partners with me. They've got the buying capacity. I think they're one of the biggest millers in the country. Our prices of feed change with how well they're doing their job. I hope I've said that right. They don't change much during the year. They go up and down five or 10 bucks on a monthly basis, except for when there are problems such as low grain production and high demand from spot grain feeders coming in and out. That spot grain feeder or drought feeder is a real problem to me.

In October 2006 we had a rise of 25 bucks and then a month later we had a rise in our base feed price of $100 a tonne, in November. There was a spike, a 66 per cent rise, from say $262 a tonne, which it was costing us using prices that have a point in the scale, and we went from $262 a tonne to $397, nearly 400 bucks, a tonne. We have been paying this all year, some people here. The grain situation is basically because of harvest and coming up to harvest. They might have had large reserves. Our piggery and our operation runs on a reserve of seven days. That's all we've got of feed on hand, so we're very volatile to changes. As I indicated, they don't usually happen, but they did last year and it's really made it hard for us.

We've paid this all year, and we were looking at another probably $40 to $85 a tonne rise in our feed cost, but I can update you. As you have probably indicated earlier today, this may just pull up, and it may even stay at a price and level where we're at. It depends, like I said, on how well Ridley have done their buying. Ridley have come to me three months ago and said, "We're not buying any further ahead than three months." I can tell you, they don't like going out on contracts. They haven't for a long time now, and we have to ride along with that situation.

Ridley came to me and they said, "Righto, we'll give you a 12-month contract." That's fine, but with contracts for feed and things like that, generally price is not the - it's production, it's volume that they're talking. In other words, they will come along and say, "We'll supply you, but we're going to put the price up whenever we like, and we'll drop it when we want to, too." Earlier, you constantly mentioned contracts. I know people have dabbled in them, but contracts don't exist really in the pig industry, certainly to my knowledge. It's basically consignment, and it's an agreement with suppliers and producers or processors. I've seen contracts, but they've got so many little things attached to them that they're non-existent anyway, with the ups and downs in flows, and I haven't seen one person benefit or gain equally out of a contract yet.

Getting back to our profitability and feed, that feed price rise that hit us then, we were required to lift the prices of our pork by 35 cents just to cover that feed cost. We got the rise in our fresh pork markets, but the bacon market was going the other way and clearly followed the import volume basis. Prices for bacon pigs in December 2006 were around $2.85. That was a spike in the market. By April 2007 - I think it was April or March - I think it was down to about $1.90. Our pork prices went from $2.75 within the same period - that was December 2006 - and in March 2007 to $3.10 over the same period. We've sat there all year. We've basically been on 3.10.

The prices quoted that I'm giving you here in this presentation are ex farm; that is, the freight to the works is paid by the buyer. I can quote you prices, and the National Livestock Reporting Service quotes a price there most of the year at $3.25. Well, I can tell you, that was me, or our Woolworths contract or commitment to Woolworths. That's a price less freight, or the equivalent of 15 cents a kilo.

You might say we should be selling all our pigs as pork, but unless we reduce our production we can't make a shop that takes 12 pigs a week take 13. It takes a fair bit of time and a fair bit of market development. These are our average prices for fresh pork and manufacturing pigs over the last 12 months. I did follow a little resume there. People seem to be interested in what was happening in 2002 and I've presented them there. You don't need me to read them out, do you?

MR BANKS: No. In fact, I'm just projecting ahead. I've got some questions for you - - -

MR DE GROOT: Yes, go for it.

MR BANKS: - - - when we get down to the labelling bit.

MR DE GROOT: Yes. My labelling bit is actually one of my burning issues.

MR BANKS: So if you want to skip section 7 and go straight to section 9.

MR DE GROOT: Excellent. Righto, and I've skipped out the feed costing too. Section 9 is imports and the serious impact on us. As I understand, imported pork is frozen, skinless and without bone, and needs to be cooked and heat-treated on land - in other words, Australia - plus it's not Australian meat, it's not produced in Australia. This gives fresh pork the difference in a consumer market. Clearly there is a need for producer differentiation in the marketplace - product differentiation.

For the other half of our product - and that's the manufacturing pig - why I want to say that is to give you an example. One of the examples is the meat tray in a supermarket where it's got Chinese prawns at $10 a kilo and right next door Australian prawns - because it's clearly marked "Made in China", "Product of Australia" - $22, and they can sell them. This is supermarket stuff. And they're price-sensitive. Clearly, I couldn't see why anybody would want to put something in their mouth out of China anyway.

MR BANKS: Well, Chinese restaurants would be out of business if that was generally the case.

MR DE GROOT: No, they're still using Australian food, probably, here. Anyway, my point is, there is a clear differentiation between eating fresh pork and imported stuff, but there isn't a clear defined differentiation in the marketplace, as I see it, between imported pork products and manufactured pigs that we produce to match them. I give you the prawn example in order to say that differentiation does really work.

I'd like to also show you photos - sorry, that was the prawn money. In late 2005, some work has been done to address this, and this was a circular that I had presented to me, Food Labelling Legislation in Australia, Country of Origin. I'll give you a copy of what I've been working on.

MR BANKS: Thank you.

MR DE GROOT: You've probably got more information than me, but that was presented in 2005, with an expected date of commencement of 8 December 2006. I thought it had happened but apparently it hadn't. I made quite a few inquiries pre this commission to my local member and minister and found that the date for the requirements has been voluntary for food labelling laws - that's particularly seafood and pork - until this December; in other words, next week. I hope it's going to be legislation by next week. I did receive a letter from the minister John Anderson and his department or the food executive manager of the agricultural division here.

MR BANKS: Sorry, you might have to go back to speak, just so they catch you on the transcript.

MR DE GROOT: Sorry. I received a reply there from my government representative and there's quite a number of issues in that letter that I'd like to take up. Now I've given it to you, so I probably can't take them up.

I think food labelling laws, as they were put in place, their main aim was to help the consumer to be able to see where the pork came from. I think this has been really not the case. I would like to demonstrate how, in the voluntary period, both the manufacturers and retailers have done an absolutely woeful job of it. I'll show you some photos. The Made in Australia and Product of Australia campaign, and also as in this letter from the minister's department, they indicate that everything will be hunky-dory because we've got a home-grown program. Now, to give you an idea - somebody here might be able to enlighten me, but to give you the first one, legislation did come in place to say that we had to basically say whether it was "Made in Australia" or "Product of Australia". There are defining issues. The clarification of made in Australia that it had to have underneath it "from local and imported ingredients". Right? What I can't understand is, I see a sign in a window that says, "Finest ham off the bone" - I've seen it in two or three major supermarket chains - "made in Australia from local and imported ingredients". Now, made in Australia means basically if it's not product of Australia off the bone - - -

MR BANKS: Processed in Australia.

MR ....: Yes, processed in Australia.

MR DE GROOT: Yes, but the ham itself that it's talking about can't come off the bone. Only the meat can come off the bone.

MR ....: It doesn't come off the bone.

MR DE GROOT: No, it doesn't come off the bone. So it's advertised that it's "ham off the bone". That's not true, is it? Is that true?

MR ....: I don't think it is.

MR BANKS: Well, it's de-boned.

MR DE GROOT: That's how it's come in. But it's not ham off the bone.

MR ....: It's pork off the bone.

MR DE GROOT: Yes, it's pork off the bone made into ham. It's not ham off the bone. The only ham off the bone that you can get is "Product of Australia". See what I mean?

MR BANKS: The only boned ham you can get is from Australia, that's right.

MR DE GROOT: Yes, and that says "Made in Australia". It's not Australian ham, for a start. Okay, I know it's voluntary but I walked into another supermarket - and I've travelled the supermarkets from one end of the country to the other, right up to Cairns - and I've got some photos here of one. I do ask you to keep the photographs, as an exhibit, a bit confidential, because it does place the actual name of the supermarket on one of them. There's no labelling, absolutely zero, none at all.

MR BANKS: Yes.

MR DE GROOT: More examples of that. What I'm trying to demonstrate here is basically that the consumer who is supposed to be getting the choice of what he's doing isn't really getting the right message. I've walked up and ask a lot of consumers in a lot of shops and a lot of managers and asked them, "What's the difference between made in Australia and product of Australia?" Well, "There's no difference, mate. It's all Australian, isn't it? There's no real difference." Even the "Made from imported and local ingredients" is a baffling issue.

I'll give you another example of why I think it is confusing to the consumers. I've got a packet here of stuff. It's middle bacon rashers. On the actual packet, it's got "Made in Australia". Then it's got another sticker on it, on the thing, and on that sticker it's got "Product of Australia", on the same packet. So if you're a consumer, you just say, "It's all the same, isn't it?" There's no real product differentiation, is there? I've got one here, and when it comes in the product is actually in the packet and it covers up where it's probably made. They have got no "Made in Australia", "Product of Australia". This is during a voluntary period, so what's going to happen in - I mean, they've got about a week to get their organisation together.

MR BANKS: Yes, I agree this one is confusing. But it says, on the bottom here, "Made in Australia from local and imported ingredients".

MR DE GROOT: On the same sticker, above it - - -

MR BANKS: Yes, but then on the same sticker, which I think is a generic sticker, it says "Product of Australia" and they obviously haven't looked at what they're putting the sticker on, I'd say.

MR DE GROOT: The point, and the issue that I'm bringing up, is that the consumer is being confused.

MR BANKS: That's almost certainly the case.

MR DE GROOT: That's right. I don't want to appoint a boogie man or people are breaking the law or doing the wrong things, or whatever. I'm just saying the consumer is being confused. It certainly hasn't happened for them.

MR BANKS: Yes. Could you just clarify for me what's happening next month in relation to labelling, as you understand it?

MR DE GROOT: Here in this response that I got back from the Department of Agriculture. They have indicated here that:

> The new standard also requires distinctive statements of origin on packaging products including pork. The manufacturer's addresses on the labels will no longer be significant. The tightening requirements for the packaging of food have been voluntary since 2005 but will be legally enforced from December 2007.

That's all I understand at this stage.

MR BANKS: It implies that enforcement has changed but the rules haven't changed.

MR DE GROOT: That's right.

MR BANKS: Could you make us a copy of that letter?

MR DE GROOT: Yes, I have. I've got a couple of copies.

MR BANKS: Have we got that letter?

MR DE GROOT: No. I've got them here. You can have this one as soon as I walk away. Then we've got a packet of bacon here that's made in Australia - and this is a deviation from the original wording: "Made in Australia from Australian pork and other local and imported ingredients". What, every second rasher is Australian or what? Do you know what I mean? I'm not trying to pick at things, I'm just saying it is confusing. It is confusing to the consumer. That's it. That's the point that I wanted to bring up. I believe it's confusing and part of this regulation that was presented as country of origin was to alleviate some of the problems of imported product in that original letter there.

MR BANKS: What I wouldn't mind asking you about now is how much difference you think good labelling properly enforced would mean in terms of selling

Australian product?

MR DE GROOT: I think it would make a huge amount. I think the Australian consumer is becoming more and more conscious of where his food is and what he's putting in his mouth. And besides, I don't really care what it makes, it empowers the consumer to be able to make the choice. If he or she really wants to pay more for Australian-produced product, they will, and if they don't they don't, but imported product at the moment is basically like a snake in the grass. It's a very scary situation, a snake in the grass, but if you can identify or see it, well, there are no problems with it. I can live with it. I don't have to stand over it and stomp on it or get rid of it, and that's how I view the imported product.

In that required legislation, country of origin labelling, there's a fair bit of goodwill-type wording. There's a fair bit of, "If we don't really want to, we can just say 'From imported and local ingredients'." But a piece of pork is a piece of pork. You can't get half of it imported, or a quarter of it or whatever. It's food we're talking of here, not car parts - a car that's made in Australia from local and imported parts. This is a bit of food. The whole bit of pork that's presented has got to be one or the other, imported or not. The manufacturing part of it might be, or 50 per cent of the cost might be, because that's what it leans on. If 50 per cent of the cost is attributed to an Australian component, they can call it "Made in Australia". Now, I put it to you that all imported pork at the present time is branded "Made in Australia" - all - with a little line underneath maybe of "Partly imported ingredients". Do you know what I mean?

MR BANKS: Yes.

MR DE GROOT: That's in principle, I think, unfair and wrong, just on the fairness scale.

MR ....: It's misleading.

MR BANKS: Is part of your argument that - - -

MR DE GROOT: We need time to rectify that situation. That's what my argument is. That's what I'm getting at. The trigger around the safeguards, until we get that right we're really only shooting ourselves in the foot, and clearly we haven't got it right - clearly. I'd really like to know who's going to police this checking of labelling, what protocols they've got, and who's going to report on it.

The other little trigger that I'd like to bring up - and it's a thought that I had as this day went along - is really to do with the other issue of profitability and whether the pig industry can survive, with the cost of feed grain and things like that. One of the triggers that is available is called EC, exceptional circumstances. If this commission really wants to get serious about implementing something or doing something, you should start looking at what EC means - exceptional circumstances - and certainly to the producer base in certain areas, because this is what kills us, and they could be some of the triggers of using some sort of safeguard measures.

MR BANKS: Okay. I might have to allow you to wind up now.

MR DE GROOT: As I said in my conclusion - I don't think I can conclude - imported pork is at present, like I said, a snake in the grass. If we can show the consumer where it is, we have no need to fear it.

The pig production industry and this commission, as I said, is at a point where I was last week when I found a lamb - which I'm referring to as the pig farmers of this district - in a paddock and it had been badly mauled by a wild native animal. Its guts were hanging out on the ground, which I believe the pig industry is at the moment, but it was still alive. I felt like killing the intruder - it's quite easy to do - who was still sitting in the paddock, but I knew by law I couldn't kill a native animal. Anyway, I had a few choices: either take the lamb to the vet and then give it some sort of protection until it was old enough to get going, or destroy it now, and my question is, what is the commission going to do? Thank you very much.

MR BANKS: All right.

MR DE GROOT: And I think I've only touched on a few points that I'd like to, especially about this letter from the minister.

MR BANKS: Thank you.

MR DE GROOT: I invite you to quiz me more.

MR BANKS: Yes. We might get back to you, having seen the attachments and various other material that you've given to us, but we're out of time here today. I'd like to conclude these hearings, adjourn them, until tomorrow morning at 9 o'clock in Canberra. If anyone is really keen, you can come to Canberra with me tonight. The hearings will proceed tomorrow, and then on, as I indicated at the beginning of this session. Thank you very much to those who participated today and those who attended.

AT 5.08 PM THE INQUIRY WAS ADJOURNED UNTIL
TUESDAY, 27 NOVEMBER 2007

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