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TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

DRAFT REPORT ON THE AUSTRALIAN PIGMEAT INDUSTRY

DR N BYRON, Presiding Commissioner
MR G EDWARDS

TRANSCRIPT OF PROCEEDINGS

AT ADELAIDE ON FRIDAY, 4 FEBRUARY 2005, AT 923 AM

Continued from 3/2/05 in Sydney

DR BYRON: Good morning, ladies and gentlemen. Welcome to the public hearings of the Productivity Commission's inquiry into the Australian pigment industry following the release of our draft report last December.

My name is Neil Byron and I've been appointed the presiding commissioner for this inquiry. Assisting me today is Mr Geoff Edwards, who is a distinguished agricultural economist who has been working for the Productivity Commission on this particular inquiry.

The inquiry began with a reference from the Australian government treasurer, which we received on 31 August last year. The commission is required to report on the competitive situation of and the outlook for the Australian pigmeat industry, including both production and processing; and secondly, whether government or industry measures are necessary to enhance the competitiveness of the industry and, if so, what measures would be necessary and appropriate. I'd like to put on record how grateful we are to the many organisations and individuals who have already participated in this inquiry. The team and I have visited piggeries, abattoirs. We've met with industry associations in most states, even in spite of the pretty short time available or this inquiry.

The purpose of these hearings is to facilitate public scrutiny of the commission's work and to get comment and feedback on our draft report. We've already held hearings in Melbourne and in Perth last week. This week we were in Brisbane on Monday and Sydney on Wednesday, and we'll be scheduling an extra hearing in Melbourne next Monday to accommodate APL. We're then working towards completing a final report to the government by the due date of 18 March, having considered all the evidence presented at these hearings and in submissions, as well as all the other relevant information that we can find, both within Australia and overseas.

All the participants in this inquiry will automatically receive a copy of our final report once it has been released by the government, which can be up to 25 parliamentary sitting days after we complete the inquiry and pass our report to the Commonwealth government.

We always like to conduct these public hearings in a reasonably informal manner, but I would remind you all that we are taking a full transcript - the court reporters - and so we can't usefully take comments from the floor because the recording won't capture either what you say or who is saying it. But at the end of every day's proceedings, we always ask anybody in the audience who wants to come forward and put anything on the record and we give them an opportunity to do so. If people want to come back and say something that they forget to say during the day, or people who want to react to something that somebody else has said during the day,

there will be an opportunity to make a presentation.

Participants are no longer required to take an oath, but the Productivity Commission Act does say that people giving evidence should be truthful in their remarks. As I say, participants are quite welcome to comment on issues raised in other written submissions or by other speakers here today. The transcript will be made available to the participants to check that there has been no transcription errors, and then as soon as possible after the hearings, it will be available on the commission's web site, usually within a few days. Copies can also be purchased using order forms that are here today, available from the staff. All the submissions that we've received, both the initial submissions and submissions commenting on the draft report, are available on the web site and hard copies from the order forms.

To comply with the Commonwealth occupational and safety legislation, I am required to draw your attention to the fire exits, evacuation procedures and assembly points. In the extremely unlikely event of an emergency requiring the evacuation of the building: out the door there, turn left, two doors exit on the right that go down to Blythe Street, and that's the assembly point on Blythe Street. Other housekeeping, the toilets are out there near the lift, the ladies' are a bit further than the gentlemen's. If I can ask anybody in the audience, including myself, who has a mobile phone turned on, please turn it off, or at least onto silent mode.

DR BYRON: I would now like to welcome the first speaker for today, Mr Greg Ludvigsen. Thank you very much for coming today. We know that everybody who comes to these hearings has a job to do somewhere else. If you'd like to first introduce yourself, for the transcript, take us through the main points you want to make, and then we'd like to discuss it. We have some questions of clarification that we'd like to ask you. Thank you.

MR LUDVIGSEN: Greg Ludvigsen. My submission has been presented on Powerpoint. I thought that would be a good way to organise it this morning, and now I haven't got Powerpoint, so I'm just going to be reading from my notes.

When I entered this industry in November 93, I accepted that Australia was part of the world economy. I knew that from January 1994, just after I'd started, that I needed 2000 sows to be internationally competitive, as soon as I possibly could. I'd bought a 200-sow piggery in derelict condition, so I had a lot of work in front of me. I didn't realise when I bought it how big an ask it was, but I discovered soon after.

I knew a lot of work lay before us to achieve that goal, and I knew those goalposts were going to be continually moving as we grew over time. We set ourselves - this is an aside from notes - the aim to have 1000 sows by the year 2000 and 2000 by 2002. We're still yet to achieve the 2000. We'll achieve that early this year but our aim now is to have 10,000 by the year 2010. We're in a far better position to achieve that aim than we were when we set the aim of 1000 by the year 2000.

As an economist, I was aware of the benefits of free trade and the notion of comparative advantage. If I hadn't seen huge opportunities, I would have never entered the pig industry. At the same time, I did not see a real future for pig producers that failed to come to terms with this new world economic order. And so what we've seen over time, and we will continue to see over time, is a decline of piggery numbers as that stuff comes into play.

What I believe the industry has to do: the industry must commit to world's best practice, and to achieve it in all aspects of our businesses. Pig husbandry, human resources, business structure, finance, engineering, and not just one or two aspects, and people have to come to understand some of those issues. They're a lot more complex than many of the people in the industry currently are aware of. From this inquiry's point of view, as I understand it, is to discover if we have a future as an industry and then to seek ways to exploit that future. This presentation that I have seeks to suggest what the future could be and what needs to be done to realise it.

We have looked at where Australian family farms and the Australian pig industry can compete and where it cannot. We have looked at our comparative

advantages and decided we have a real opportunity to make a large and prosperous industry in Australia, but many changes need to be made to exploit that opportunity.

A little bit of background, why I chose the pig industry out of all the opportunities that we might have had in 93. We chose the pig industry because I believe Australia has had a product mix historically based on selling wool, wheat and wine, mutton, beef et cetera to England. We set our economy up on that basis and then, around about 1973, England was in major decline and also joined the European Common Market. We became cut off from Europe and England.

The fact that Asia is becoming the centre of world trade by 2020 and faces food shortages, has difficulties in meeting its needs; I have also considered the fact that Asians eat pork, rice and wear cotton, and Australia has some great comparative advantage in some specific areas of pork production. These comparative advantages: firstly, we have a nearness to Asian markets that is unsurpassed. Our major competitors are on the other side of the globe or in the other hemisphere of the globe and on the other side. They have huge logistics of getting to those markets with the product, with cost and time, and both of them are important.

The second one is, the Australian pig industry has high health status and we have that largely because we're an island and no-one can drive a truck full of pigs with disease from another country to us. The rest of the world doesn't have that opportunity. We have ample space in Australia. In a lot of places the density of population has been a major impediment throughout Asia. Many of these countries have dense populations and on very confined areas; Taiwan, Hong Kong, Singapore, to just name a couple.

We have a ready source of feed grains, and in fact the feed grain we have here is barley, which apparently the Asians prefer to corn-fed pigs, because of the white fat, which you probably already know about. Australia has a very suitable climate for the growing of pigs. Particularly here in South Australia we like this one. We don't have to compete with 30 degrees below and 30 degrees above, which some parts of the mid west of Canada have, and some of the eastern bloc countries. We don't have some of the eastern bloc problems, which are infrastructure, electricity, water, roads, transport, all those issues that are going to move as the EEC moves into those countries.

We have food safety guarantees, because of the high standard of living in Australia. Our abattoirs have high food safety ability. Many of the Asian countries don't have that luxury of processing facilities and transport facilities within their country that are comparable with ours. We have the ability to probably get a traceability system up and going that is equal to the rest of the world. Australia is also in the fortunate position of having an educated workforce. One of the focuses

we keep hearing is people concerned about getting cheap labour in poor countries where the cost per labour is very cheap. My experience is, my least educated workers are my most expensive ones, even though they're on the lowest pay rates. Someone who can read a manual and fix things up and do things is invaluable, and Australia is very fortunate we have a large number of those sort of people.

The last comparative advantage that I've bothered to list here is that we are a geographically protected location. We have what I've always talked about, when I was teaching about protection, being natural protection. It's an economic protection, like a tariff, in that people have to load it onto a boat and bring it here and that puts an additional cost, which protects our market.

Where can't we compete? We cannot produce as cheaply as other countries because of their economies of scale in production, processing and retail. A couple of examples: Smithfield Foods in the US has 1 million sows; Premium Standard Farms, 225,000 sows. I've already mentioned what our scale is, and I think the biggest in Australia, we're talking QAF, and you probably know their size.

DR BYRON: 55,000.

MR LUDVIGSEN: Yes. What we're noticing in our business is, as we grow, the economies of scale are incredible. They just keep cutting costs all through the chain and I just boggle at what they are able to buy things for, premiums they are able to carve out in the system for themselves.

In USA processing, Smithfield Foods do 112,000 pigs per day. Tyson do 72,000 pigs per day. Swift Foods process 46,000 pigs per day and the source I got didn't quote the fourth, but Paul Miller are the fifth with 34,000 pigs per day processing. The abattoir we deal with, that does all of Coles' processing, does 1100 pigs per day. The opportunities for economies of scale in comparison to those processors are minute. Obviously the cost is much higher.

Effects of these economies of scales: this means other countries' costs - and I've only spoken about America but we know Denmark, we know Brazil, we know other countries and Canada are in similar sort of situations. Maybe not quite as big as that but a long way in front of us. The effects of these economies of scale means that these countries' costs are well below anything that Australia can muster. Result: Australia cannot compete with the larger countries on a straight cost basis. This is why we import frozen pork for processing into ham and bacon. This is not a quotable figure, but I believe it's around about 50 per cent of the ham and bacon that comes from overseas. I can stand corrected on that.

DR BYRON: We'll talk about that later.

MR LUDVIGSEN: And that's why I believe inevitably we'll lose that processing market domestically. I don't think we'll lose it in the very short run, but in time that will disappear.

Where does Australia have advantage over this? When we examined the facts, Australia has an enviable advantage. We have some Danes talking about investing in our unit trusts - this is 24 Danish pig producers looking to invest around the world - in our business, because they can see some of these advantages that Australia has. I think over time we're going to see these other countries recognise the advantages I'm outlining in this paper. I think other countries are going to recognise and come and expand our industry.

Firstly, our nearness to Asian markets, and it's more than just closeness. There are some other factors that come into it. Singapore Airlines now runs six planes a week out of Melbourne/Adelaide. Two are cargo planes; they tell me they're bigger than jumbos and the nose cone lifts off and they're able to drive them straight up to the coldrooms in Singapore; and four domestic flights. That means they can come to take freight from Adelaide six times a week to Singapore, and from Singapore you can to go anywhere in Asia or anywhere in the world. Singapore, and Dubai, I guess, is the other which is an entrepot port.

The joy that we have herein Australia is the low freight. The head of Singapore Airlines says 70 cents a kilogram. My information from Primo is that it's a little bit more than that. With a few other costs it gets out to about a dollar, but it's because it's a back load. Their freight is all coming into Australia and their planes basically work back empty, and they're keen to get anything on that thing that can give them some value. When I wrote my first submission, you'll remember I spoke a lot about the railway line and how I thought that was going to be the option for Australia. I really don't believe that's going to be, when we're talking about 41 hours to get to Darwin.

I now know a little bit more about cold chain, I know a little bit more about keeping temperature, and I understand that seven hours are very important, because in an airline you can't have a motor running in that cabin. So when it's on the tarmac, you have to have dry ice to cool it and that dry ice only lasts a certain amount of time, and that's what makes it very difficult for some other people to compete. Seven hours, you can pack enough dry ice in to get it to Singapore in less than three or four degrees. From Singapore we can go to the rest of Asia very easily. Singapore Airline's cool chain centre means the cool chain is not broken. I'll expand a little bit on that.

Australia has just opened a cool chain centre in here in Australia which looks at

maintaining the temperature of product from, in our case, the abattoir through to the consumer. We have a strategic alliance between Singapore cool chain centre and the Australia cool chain centre, and the two of them are working hand in hand and setting the codes between the two countries. But I'm now aware that the reason they were saying nothing can be called fresh unless it has come less than seven hours from Singapore. When I've spoken to them, they've said it effectively rules out everyone except Australia to supply them with fresh. Other people can supply other products, but not fresh.

Can USA, Canada or Denmark deliver fresh to Asia? Two things: firstly, time is essential. Plants cannot cool containers and I've said a little bit about that already. The time to Asia from these destinations is too long to maintain the cool chain. The second aspect is, cost is important. The airfreight cost of pork to Singapore was quoted by Singapore Airlines as somewhere between 3 and 5 dollars a kilogram, which would mean you'd be talking about doubling the price of the product,. If the price of the product is a dollar, then it's $3 to get that kilogram over there, which makes it a non-event. It's not practical to fly. So there's two aspects: one is 25 or 30 hours, having to stop in several places on the way. It makes it very difficult.

Another aspect is perhaps the ones coming out of Denmark and Canada have a real difficulty - and maybe some parts of the US - of understanding this idea of cool chain, because it's not so much an event. But in Singapore and those countries in Asia where temperatures might be 35 to 40 degrees, very quickly, if you open the back door of a truck, that temperature goes from minus to ambient temperature within minutes. Australia probably has a better understanding of that, especially South Australia and Queensland. We have a good understanding of that because we deal with those temperatures ourselves for at least three months of the year, whereas Denmark never deals with it.

The second aspect is food safety. When I first began in the pig industry, I remember going to a couple of the pig abattoirs in Victoria, because South Australia, all its product went to Victoria. It was like stepping back into a Charles Dickens' novel. Maybe you've seen some like that in your trips, but when I go to Primo abattoir, I pull up out the front and you just feel warm and fuzzy. It's the sort of thing importers would look at just go, "Wow." From the time you enter that road into the abattoir to the time you leave, it's just a wow factor the whole time. The food safety in that abattoir, and I presume the other new abattoirs around Australia that I haven't seen, is going to be a great selling point for Australia.

Australia has some excellent abattoirs and a reputation in Asia for food safety. I think it's a reputation; if we haven't got it, we can build it very quickly. We're all aware of the dangers of eating food and drink in Asia, and when we go there, we all work hard to avoid eating that food, drinking that water. It's a risk that all Asians

take daily. I guess what we see is, they have 10 children born and not all of them live to adulthood. That's a fact of life there. So their wealthy citizens - and there are a lot of wealthy people in Asia and a very rapidly-growing wealthy section in Asia - they can now afford to remove that risk by buying from the best, cleanest suppliers in the world, like us. They don't trust their own domestic suppliers. They can avoid salmonella, they can avoid E-coli, because they're wealthy. The poor, it's their lot.

So I'd see two separate markets for pork in the world. I see a pork commodity market with huge demand and huge supply, a very competitive price-driven market, where the price is low and Australia is going to struggle to compete in that. I believe quite a proportion of our pork that's going to overseas at the moment is going into that market and there's a real struggle for Australia to make profit, where the Americans might be making good money.

The next thing about that market is it's exchange-rate sensitive. So when our dollar was 50 cents, we were very popular. When our dollar is 78 cents, we suddenly have an odour about us. We all know that the Singapore people were taking our meat and demanding the absolute best from Australia: 70 kilograms, 10 mil of back fat, lean, flown over. When the exchange rate changed, they threw us over for Chinese pork, frozen, killed in some of the worst abattoirs in the world. Fat wasn't an issue. It was only price. I see this market as one where, because of our low economies of scale and our high costs, we struggle to compete in that.

We see a second market for pork that is quality, fresh and food safe. This is an international market. This market is characterised by very restricted supply and demand is very large, compared to that supply. So what I'm saying there is that there are a lot of rich people in Asia. If we start to think about in India, with a caste system, there are 137 million Brahman class. That's a very big market for a place like Australia. It's something that we would only need to get .000 per cent of that. The restaurant trade in a couple of cities there would probably knock us out with our potential to supply.

The people who can supply that market are very, very limited. I've said to you, it's very, very difficult for the Americans to get there. Even if they want to, they can't fly planes there to do it at a cost that's reasonable. It's very difficult to produce it domestically. This market is quality driven and price is not so important. Price is high. People are buying on quality and safety and those issues. Australia is one of the few countries that can meet this market.

If that's all so simple, why aren't we doing it now? Historically, Australia's pig industry explains that very simply. Three years ago, when we had the last Productivity commission, Professor Fields would have found - they did find - that we only had two accredited export abattoirs in Australia. His Productivity Commission

had the foresight to recommend $26 million, or something around that mark, to remedy that bottleneck. I believe the result of his Productivity Commission has been recognised in our industry as a turning point, and it's been very successful. We now have almost all our abattoirs export accredited and the standard of them has improved incredibly.

We are now exporting pork to many countries but mainly we're exporting whole carcasses. I know Primo have just begun in the last eight months to start to sell some bone product, but whenever we go into the chillers there, there are the whole pigs or the half pigs in a muslin bag and awaiting export. They are now doing a proportion of bone here. The reason for that? I believe the boning and packing sectors in Australia are still very, very weak. While we now have export abattoirs, we don't yet have the boning and packing rooms to get full advantage of our position. Primo's abattoirs, for instance, still don't have the capacity to meet Coles' demands, let alone have export capacity in a serious way to export from a boning room.

Those boning rooms we have are simply cutting into pieces and are too small to cope with domestic demand. We don't have anywhere near enough trained boners to prepare carcasses for export because that's going to be at another level as well. Our boners are all less than probably three years' experienced in a number of the abattoirs.

When our carcasses do arrive as entire carcasses in places like Singapore - now I don't know this for a fact, but I'm pretty much of the belief that the Singapore boning rooms cut those pigs into sections. They value add them and then sell them in countries like Malaysia. Malaysia is on their doorstep. It's a kilometre over the causeway. Every time we tried to ring the bloke who was buying our pigs, he was in Kuala Lumpur. It wasn't once or twice that we'd ring him. He's always in Kuala Lumpur. The reason is because, I presume, he is doing that end of the business. The sad part is that the boning room that my pigs were going to was not like the Primo boning room. It wasn't pristine, hygienic. It was a rough little dive.

So they took the value and diminished it of what it potentially was, but still made a lot of money from those pigs. So what I'm saying, there is, I believe, other countries getting most of the value in our production chain. Australia is forfeiting some value. We need to do that here in our own facilities in Australia.

When we export whole carcasses, we can only export a commodity. We cannot send each part of the pig to its highest price markets as other countries do. I think basically if we look at America it's sending the loins to Japan. It's sending the necks to Korea. It's sending the feet to China. It's sending the guts to Turkistan. They're getting the maximum value for each part of that pig in the market. We just have to take the lowest common multiple, is what we're doing.

If we go another step and have meal-ready proportions, the market value is even higher. At a conference I was in in Sydney, sponsored by Foodbiz, they talked about lamb shanks in Australia being produced, marinated, cryovac'd and sent to the English pubs. £34 for a marinated lamb shank in a pommy pub and they can't get enough of them. The pubs really welcome them because lamb is very hard to get because of the EC restrictions. If it comes in like this, it can come in. Two minutes on high in the microwave and they've got it on the dish. So it's a minimum cost to the end user. I'm imagining that Australia could do something like that with 500 grams - I think a classic example is in the crayfish industry. There's a bloke here from South Australia - his name escapes me for the minute - but he's selling three little medallions of a tail 5 mm thick in a cryovac, frozen, to go to the restaurant trade in Japan, $34 each, for each of those 300 grams. That's the sort of markets that we need to be in.

To expand, this sector requires a lot of money. To expand the boning and packing sectors we need more chillers. We need much larger boning rooms. We need many more trained boners. We need boners, furthermore, that are trained to meet market specification at a much higher level. We need packing rooms that prepare meal-proportions of export quality.

So what do we really need the Productivity Commission to recommend? We need a government that's going to say 40 or 50 million dollars to be put into our boning and packing sector real quickly to take advantage of the opportunities in front of us now. I believe our abattoirs in Australia are fully stretched from financing, expanding killing capacity and rationalisation and becoming export abattoirs. Doing what they've been doing over the last period of time has been absolutely fantastic. Like I've said, it's government leads that has helped drive it. They've done very well but they're going to need assistance with this next bit.

From my experience with the abattoir that I have dealings with, they're so fully stretched that there's not the capacity. They're going through rationalisation. The number of abattoirs in Australia is going to have to shrink to two or three. I believe that because it's part of what I've got written there about: if you're going to sell these parts of a pig and some parts don't sell overseas, they're going to have to go domestic. So any exporting abattoir is going to have to have a domestic component, where if it takes the loin out and it takes this out and it takes that out, you have to have somewhere domestically where that can go, either into one of the supermarket chains or into processing. and again eventually into the supermarket chains, I presume.

So you'll need that sort of alliance to be able to do it. Otherwise the problem is, if you produce a very big pig and it's not suitable for the domestic market - if

Coles and Primo don't want it - it's too larg

on it and come up with my own solutions. I don't think if APL comes up or the pig industry comes up with a different position that is any more right than what I've done. I'm very convinced that you cannot sit there like Canute on the beach and say, "I command the tide not to come in."

You've got to look at what are our strengths; what are our weaknesses; what are our opportunities and what are our threats. You've got to go through that sort of analysis. You've got to then come up with a solution. You've got to embrace it. Ludvigsen Family Farms has, and whether the industry comes with me or not, I'm going out and the direction that I'm going in is very clear and very mapped out.

DR BYRON: I think you've articulated that vision very clearly today. I'm just commenting. I'm not for a moment suggesting you're wrong. I'm just saying that your point is quite different.

MR LUDVIGSEN: It is relatively different. I've argued with APL all the time. right from 1993-94 when I first started to have contact with APL, their focus, and I was particularly involved in PRDC, the old research part. I kept saying to them "You've got all these scientists but we know from economics, for every one scientist you need seven economists to make that come to into practice. We see places like Purdue University, which I have a lot to do with in the US, where they do that. It's that the economic analysis of everything is so much better done. We've got one economist there now, which is a great move. I guess our industry is scientist, ag scientists or pig scientist and veterinaries. That's been our intellectual nucleus, if you like. Far too few business and too much - - -

DR BYRON: So back to your point about you need an infusion of new people with MBAs or economic (indistinct) trade marketing.

MR LUDVIGEN: Yes, absolutely. You need that infusion of those people who are going to - and it might be that some of those people that are at the top now have go and get an MBA. They get a scholarship to go and get an MBA or go and get some - some of those people get time to go and do a course. They're freed from their work for a three-month period to go and do something on this. It might not be that capital requiring, just a little bit of release of time.

DR BYRON: Just on the vision about the fresh meat market, one of the things I guess has frustrated us a bit is, we ask what I think is a very obvious and basic question about the relative size of the fresh meat market in Australia vis-a-vis the manufacturing meat market. Basically I was going to ask you the question of how big a percentage of the Australian fresh meat market does Coles and Woollies have as opposed to all the other butchers and - I don't know - - -

MR LUDVIGSEN: My understanding of that is - - -

DR BYRON: My first question is, I don't even know how big the fresh meat market is. When people say it's probably about 60:40, or if you say the capita consumption is 20 kilos per head, say, I say how much of that is fresh and how much of that is ham, bacon and smallgoods? "It's probably about 60:40." I say, "Where did that figure come from?" "I don't know." Since so much of your strategy depends on the Australian fresh meat market, can you enlighten us a bit more about how big it is and how much of it is represented by the two big supermarket chains as opposed to all the little retail butchers and restaurants and so forth.

MR LUDVIGSEN: I can only give you the sort of figures you've already got. My understanding is about 30 per cent for Coles and 30 per cent for Woolworths and the other is shared between the others. But it's of that sort of magnitude that I can try and see if I can search it out a bit more, but my reason for being tied to Primo is because of their tie with Coles. They basically have an agreement with Coles to supply their fresh meat around Australia and have it packed and priced at Port Wakefield. That's part of my reason for being aligned with them.

DR BYRON: I understand there's a general trend in Australia and in North America and other places to get butchers out of the retail supermarkets and so more and more of the shops are just going to have display ready tray packs.

MR LUDVIGSEN: Yes. What I think - and I've been saying this since 1994 - is that we will be down eventually to three processing chains in Australia. I think it's going to be very difficult to have an abattoir that's not aligned to one of those two companies, for the rest, the other supermarkets and butchers. What's happened with Coles. They've got an agreement with Primo that ties the two companies together. Obviously Woolworths has Chisholms. It was their subsidiary. I presume that's going to continue to be like that. It's going to make it very difficult to be in that situation in the future of not having that alignment. When you sell export - if you bone in Australia and export and you've got stuff that you haven't got a market for. That's going to be a real issue. How do you get rid of that?

DR BYRON: My other point about fresh - and your export strategy that hinges on sort of fresh in Singapore - we've been told, and it' s only anecdotally, about thawed out pigmeat from Brazil that came on a ship frozen being sold in Singapore as fresh or, "Thawed for your convenience." The strategy is very important that people actually know that fresh means fresh, not thawed out.

MR LUDVIGSEN: Yes. When I talk about going to Singapore, in a lot of ways Singapore is only a three - one of the things that distressed me when I went to Singapore was that I was under the impression that there was heaps of Australian

product being sold in the supermarkets and some going onto the wet markets. When I got there and looked in the supermarket - smaller pork sections than in Adelaide. Then I went looking for the wet markets and they were pretty hard to find there too, as far as I could see. But everywhere I turned on the street there's BBQ pork and people in Singapore.

Then I realised people in Singapore are very densely populated. They live in our lounge room, that's the family. When they cook in that little apartment, they've got no space. So they're all on the street all day and they can buy a meal for $2. That is where a lot of their meat is being sold. I guess they're not the people I think our meat should be going to. I don't think it should be going to the people who can't afford a refrigerator. I believe it should be going to the people who can afford whatever they want. That's when you're going into a commodity market.

I'm saying, yes, maybe out of the 3 million or 4 million people in Singapore there's a little market for the sort of pork I'm talking in Singapore, but I'm imagining that that plane pulls up to the Singapore cold storage. The stuff goes into that cold storage, it gets repacked with dry ice. The plane that's going to another country - China, Japan, wherever - comes in, loads off and in another so many hours you're over there. So I just see that Singapore is an entrepot port. That's where I see our market being able to develop. To use the wine scenario, we can either sell cask wine or we can sell Jacobs Creek, and we can sell some products. You know, $100 a bottle or $3 for a flagon. Right?

DR BYRON: A bit of Grange. If I can move on to your - I think the good point you make about using auctions as the base for pricing throughout the country, I think the figures that we've seen is that only about 3 per cent of all the pigs in Australia actually go through auctions.

MR LUDVIGSEN: But it determines the other 97.

DR BYRON: I don't think anybody else has made the point to us that those auctions might not be truly representative and showing fair value. The sorts of things that we typically assume auctions - - -

MR LUDVIGSEN: We've been involved in some of these conversations where an individual might have decided the market is undervalued, and can go down and purchase enough to significantly move that by 10 or 15 cents in a week. One buyer can either stay away or come, and it can have dramatic impact. It's as simple as that.

DR BYRON: Not a very good benchmark. I guess one of your main points was the overall weakness in the supply chain that you see in the boning and packing rate, and the idea that $40 million needs to be pumped into that, I guess the standard, from an

economy stance, it was pretty well that that's what banks are for, that there are the resources of the capital to finance expansion. I guess in previous times we might have had rural development banks who might have taken an equity position in this rather than expecting grant money from the government. Would you like to elaborate a bit more on why you think it should or it has to be government money rather than equity?

MR LUDVIGSEN: Yes, look, I've got nothing but praise for the abattoirs in Australia that have gone ahead and done what they've done in the last three or four years. We've revolutionised that sector of our economy, and I don't think there's any doubt the role of that money that the government had was very significant. The thing is, they're like us, they're cash short right now.

We've got an expansion program that's going on, but I'm presuming that they're pretty much full bottle of how much they can respond, and there's an opportunity there which they can't take up, and that opportunity then impinges on the rest of the industry, that it can't take it up either, because the bottleneck is - we can expand production, but if we haven't got that product going out of Australia it only happens by us pushing someone with higher costs out of our own industry.

That's a natural economic force that's going to be going on, and that's one of the great strengths of free enterprise systems anyway. But the truth is, I believe, looking from outside, that they would be very stretched at the moment. I know the two abattoirs here in South Australia - I don't know whether you've seen either or both of them.

DR BYRON: I've seen Big River.

MR LUDVIGSEN: Yes. I haven't seen them. I've been past the outside, and it looks pretty impressive. So they've spent a lot of money. As I said in there, when you do an expansion to go into this, it's easy to say, "We'll just put a boning room," but you've got to increase your lairage where you hold your pigs if you're going to double the number of pigs going in. You've got to increase your chillers, because you've now got to chill down more pigs, and you've got to then hold them. Instead of holding them in this room you've got this room and this room they've got to go into. So there's tremendous expense in that, and that might mean, "Hey, we need more water to come into this."

DR BYRON: Yes.

MR LUDVIGSEN: You know, "We need more electricity to come here."

DR BYRON: A lot of that expansion and restructuring of the processing industry

seems to have been going on as a natural process. I'm thinking of the APL statistics book, and there's a table there that says the 20 largest abattoirs in Australia are for pigmeat, and when you actually look at it now - it's already a bit out of date, with a few closures and evaluations - but there's really 10 large ones, and the next 10 in the third, fourth and fifth rank that - - -

MR LUDVIGSEN: Yes.

DR BYRON: As you say, that may come down from 10 to seven or eight or something within the next few years, and who knows after that?

MR LUDVIGSEN: I think there's already an amalgamation between Castle and KR, is there?

DR BYRON: Yes. Western Australia went from having two to one at (indistinct) that sort of thing. So can it be argued that that sort of amalgamation, restructuring and reorganisation and expansion and so on is going on anyway, because people see investment opportunities. People like you have a vision, who can see a path ahead, and say that what we need to do is raise money for expansion or takeovers or whatever there are. I guess what I'm still fishing for is, why do the taxpayers need to become involved and why do they need to become involved by making a grant rather than banks and investors taking equity or making loans?

MR LUDVIGSEN: I think the model that I'd be looking at is government led, not government financed. Whatever they're going to pay is going to be a small proportion of what actually ends up having to be spent. That's the first part. It's true that a process is going on, and it will continue to go, but at what pace? What are the benefits that the government has actually accelerated?

I would say that the government has already benefited on the export side from the expansion of the pig industry into the exports that it's done so far, and the potential for the government to put out this many million, and pull back in this many million, is a straight business proposition that the government should look at. They shouldn't be saying, "Well, that's 50 million on the out ledger." It's also going to be a continuing balance of trade improvement. It's going to have all those exchange rate employment.

DR BYRON: Tax revenues.

MR LUDVIGSEN: I mean multiplier effects within Australia instead of within Singapore. If we can bring those multiplier effects I was talking about earlier, have them spinning around South Australia instead of spinning around Singapore, there's a huge tax reap that the government would make from that.

MR EDWARDS: But can you accept that this sort of model involves a much more interventionist role for government than the present government generally takes on? If it's going to put money into development of the pig processing sector to build up exports, then will there be an outcry from all sorts of other industries saying that, "With a bit of seed money we can develop a facility to export X or Y or Z"?

MR LUDVIGSEN: Yes, I can see the point you're driving at there, but it's not like it's new. It's already done it for us once. It did it previously for us, and with great results. The government could look at that and say, "Let's look at the costs and benefits of that," and I think they can very easily see that the benefits far outweigh the costs of that. I can't work out what decision the government would make on it, but the issue that I'm seeing is, you've got a bottleneck and that's the impediment for us to grow, really, and we've got to break that down. Government led doesn't mean government financed. If things aren't happening, they don't end up spending the money.

MR EDWARDS: I just have a little trouble seeing the idea of government led, as consistent with your general philosophy and your own business activities, which seems to be very much Ludvigsen led.

MR LUDVIGSEN: No, we look to government for help and we apply for grants. We apply for those sort of things to help us do some of the things we do, especially where the risk is high. I think almost all industries do get that from different forms of assistance that come through. You outlined them in the draft report, some of the things that governments already do for the pig industry.

DR BYRON: What we haven't been able to do yet is to evaluate how well they worked, and that's a big exercise in itself.

MR LUDVIGSEN: Yes.

MR EDWARDS: There also seems to be a question, if we are talking about government involvement - I think you're talking about a South Australian specific initiative. Is the federal or South Australian government that should be looked to, to take this lead?

MR LUDVIGSEN: The one that's going to get the benefit from any export revenue, I guess, is the one that collects the tax, so I think it would be federal.

MR EDWARDS: But there would be benefits to South Australia in terms of jobs created and training.

MR LUDVIGSEN: Yes. I believe that the pig industry could very well be the next wine industry. That's why I came here, because of the potential that I see for it. Wine has had a very meteoric rise and perhaps it's now running into some problems of oversupply, Australia and world-wide. But the pig industry is in a position -there's a scenario that I see occurring - of being in a similar sort of position. To fulfil its potential, it has to make a big leap, because as I said, it's only 10 years ago I was walking into those Dickens-sized places and some of them probably still exist.

There's already been a quantum leap, but there's so much more. The potential to do great things - I think if you look at the size of that market we're talking about, it's monstrous and it's lucrative. I just keeping thinking about someone being rich and living in China and do they want stuff killed in a Chinese abattoir and not cold, having hit different temperatures and not being able to guarantee what we can do. There are people out there that will pay for that.

A bloke at one of the restaurants here in Adelaide said to me, "I want to sell meat like I sell wine, because if I can do that, if I can just get meat from the marketplace or some special meat that I can brand and promote within this establishment, I can sell it for a much higher price," and that's the market that we really should be looking to try and achieve around the world, because there are not many people that can service it in our region.

MR EDWARDS: There is a view that many wine ventures that are not sustainable economically have been developed in Australia in response to tax incentives.

MR LUDVIGSEN: Yes, that was a problem where the government didn't remove a tax incentive. They gave them 150 per cent depreciation, that just drew all the people who wanted to hide some profits. That incentive was left in too long. There was 150 per cent - and it's still there today, isn't it? It's still not been removed. It should have gone right back when the Liberal Party took over, I think. It was due to be finished then.

DR BYRON: Just on the subject of genetics, you might like to have a look at a submission that we got from the CEO of PIC Australia just in the last few days, and Paul O'Leary was at our hearings in Sydney on Wednesday and had lots of very interesting things to say about the import of pig semen.

MR LUDVIGSEN: I've got a paper at home that says how they achieved 30 pigs per sow in Denmark. You know what we're doing in Australia, round about 18.

DR BYRON: I'm not convinced yet that we at the moment have enough information in front of us to be able to make a strong conclusion that Biosecurity Australia has set quarantine standards too tightly for gene plasma. I could say that

maybe they should go back and have another look at it, to see if they need to be that stringent, whatever, but my specialty is certainly not BMWS or virus or germ plasma imports or whatever else, and the same for grain import controls.

So I think we don't have the information - or the responsibility, actually - to go round saying that quarantine controls on both genetics and grain import should be abolished immediately, because they be adversely affecting the pig industry. We can say they at least need to be looked at very closely, to make sure that they're not unnecessarily or excessively stringent. I think the general position on quarantine, including on pigmeat, should be that the quarantine should be as tight as it has to be, but no more, no less.

MR LUDVIGSEN: The part I would like would be, if you're going to have quarantine, you've got to sell at the world price. You can't then use that to artificially pump the price within the country.

DR BYRON: And that comes back to (indistinct)

MR LUDVIGSEN: There's no balance in there. At the moment, they can use the two together to twist our arm, whereas my argument would be, yes, if you want to have quarantine, then you've got to accept that, if we can buy that product in Saudi Arabia for that price, then we ought to be able to get it supplied here. Especially when we could buy Australian barley in Saudi Arabia for one price, we should be able to buy it here for that price ourselves. We shouldn't be finding them selling it overseas, plus the cost of transport, plus this, plus that, and still selling it cheaper than they're selling it to us.

DR BYRON: A lot of other people have made that point too. We could probably go on all day, just talking to you, but it's not fair to other people who come to talk to us too. Have you got one or two last questions, Geoff? Is there anything you wanted to say by way of concluding, wrapping up?

MR LUDVIGSEN: No, just thanks for the opportunity to come and talk,

DR BYRON: Thank you very much. It's interesting to meet you and hear from you on all this, because as I said, you've got a different view from most of the people that we've met. Thank you very much for coming. We're a bit behind time, but maybe if we take 15 minutes for a tea break and then we'll resume with AusPork.

DR BYRON: Next we have representatives of AusPork. If you gentlemen could just each introduce yourselves, and then straight into whatever comments, criticisms, feedback you want to give us on the draft report, and we'd like to discuss it with you. Thanks very much for coming today.

DR PARISH: Thanks, Neil. My name is Ian Parish. I'm chairman of AusPork Limited and we also gave you a second submission under the Australia Pork Farms Group. We are actual producers in our own right, as well as having a processing plant and wholesaling and exporting product.

MR HAMANN: Rod Hamann. I represent the same organisation. I'm executive director of AusPork and the CEO of the Australian Pork Farmers Group.

DR PARISH: I guess the first thing I'd like to comment, just to give a little background of ourselves, I've been in the pork industry myself since 1980, I first started in the industry. I'm a veterinarian by profession. That's given me a little bit of advantage in some of my cost savings in a small area. It has also, I guess, given me a little confidence that I can maintain my lifestyle and get them through.

We started in a small way, just in breeding. We were attracted by the use of a byproduct from a local dairy factory, and then realised it was a more complicated industry. A group of us got together to look at the possibility of marketing and how we could improve the marketing structure. At the time we were paid three to four weeks after we sold our pigs. The auction system was more dominant than it is today. We formed what was at that time the Independent Pig Producers Group, based in Victoria. We contract killed our pigs at the Daylesford abattoir. The Daylesford abattoir owner subsequently had a small wholesale business and we brought that together to form Independent Pork Wholesalers.

Subsequently, some four or five years later, regretfully the liquidator became our partner, as our abattoir owner came on unfortunate times. We were left there with a business that we'd now built up to approximately 3000 pigs per week, some of which were coming here from South Australia. We leased it off the liquidator for 12 months and realised that we could operate this and go the next step, off farm, and include infrastructure in our wholesale business. So we purchased the Daylesford abattoir and I believe it was approximately 1987-88. I can't tell you exactly.

We subsequently realised that we needed throughput and more input to survive in that game and we bought in 1990 the Sheoak Piggery at Sheoak Log, of some two and a half thousand sows. The AusPork Processing Group bought a section of that and the balance of the owners of the AusPork Group purchased it in joint venture structure, so we pooled our funds. We're individual farmers that all had our own farms and elected to pool our funds to carry some of the risk and get some economies

of scale. We subsequently bought the Wasleys piggery, which was another farm that Metro Meats had been operating here in South Australia. We bought that at about two and a half thousand sows.

At that point the AusPork Group sold out of the piggeries and concentrated on processing and what was to become the Australian Pork Farmers Group, independently farmed. Today those two piggeries are now 10,000 sows producing some three and a half pigs a week here in South Australia. Last year we bought from George Weston Foods their livestock operation on the basis of a contractual arrangement to supply them with their product, and that we would use our expertise to farm for them and supply those pigs. That took the group up to 15,000 sows, and with the peripheral sows that the investors owned, we handle and produce something in the order of 7000 pigs that go through AusPork Limited and another 1500 we supply to George Westons. So we handle approximately 8 per cent of the national pig herd.

From that background, I'm quite happy to pass some of our experiences and tell you why I'm a nervous, uncertain participant in that industry today.

DR BYRON: Thank you very much.

DR PARISH: The first one, your draft finding 3.2, the impact of 2002-2003 through to 2003 and 2004, on the economics of the industry in 2004 and beyond, you recognise clearly that we had a severe downturn and severe problems in that 2002 to 2004 period. I guess my summary what that did: yes, I have had financial recovery in the last half of 2004, and as always, being in a commodity and a cyclic industry, I'm never sure how long it's going to last.

I guess the great thrill I got in my new year's present, was I managed to repay some 20 per cent of the debt out of that six months that I incurred in the previous two years. So I've got 80 per cent to go. Unlike others in the industry, I guess we are directly involved. It's our only source of income. My house and my bed are at risk when I'm talking to you. We don't have investors or we don't have other persons' capital. It's our own personal capital. It's within the group.

I guess my business philosophy that's got me to where we are, and got the group to where they are, is that, if you go in as an independent person into business and you got out and mortgage your house and get your private finance that you were talking about previously, rather than seeking government funding for your idea, you do have to mortgage your property. You do have to give guarantees and you do have to put your house up, particularly in an industry that is not perceived as mainstream.

I just make a side comment,. For example, using that, if you have a broadacre

farm, you've got an asset that's perceived to be of long-term security for a bank and it's perceived, if I'd put my $1 million into a broadacre farm in 1990, it would now be worth one and a half million dollars and the bank would feel comfortable, even if I had maintained the same level of debt. The $1 million I put into a particular piggery in Victoria in 1990, today I'd be very grateful if someone gave me $500,000 for it. So would the bank, because they've got a mortgage on it for slightly higher than that. So I just want a perception on finance raising.

While it is my philosophy and it is the general philosophy of the Australian, it is a difficult area, things around it and the atmosphere of the industry. It is a unique industry, but it needs to build a perception of security or perception that it has a long-term viability, to maintain that finance.

DR BYRON: Can I just interrupt to seek clarification on that. We've actually said in the report that we recognise this problem, that the capital assets in the piggery often have no alternative use and they're not good collateral and so on. Before, when we were talking to Mr Ludvigsen, I was particularly asking about raising capital for expansion of boning rooms and processing capacity. Is there any difference between those things? Is it easier to raise equity or loans for processing capacity than it is for the piggery, the growing side of the business? I thought you might shed some light.

DR PARISH: I'm smiling, Neil, because it's an interesting question. I'm sure if I went to any bank in Australia and I typed in the word "abattoir", the computer would shut down. It just says no. There's large print on the front of the screen. I would suggest that if you did any inquiry into and ask any of the financiers in Australia the number of abattoirs that they have on their books that have been successful, that haven't subsequently wound up, I would say if you find 5 per cent of any abattoir that this country has ever had that's still there today and growing, I would be stunned. So the answer to you is no.

You have to have substantial alternate assets behind them. We built the Big River pork abattoir. We spent $21 million on it. We're very proud of it. We believe it's a successful abattoir. Again we used the principle of pooling our funds, in that there are six participants in that pork abattoir. You may have had that explained but I put it onto public record. There is the AusPork Group and the Wasleys piggery itself and the Sheoak piggery itself invested in 50 per cent of that, because they were able to raise that level of capital, because we had to put up a high percentage, if you like, of shareholder capital, to give the bank a comfort zone.

The Hurstbridge Group, the George Weston Foods Group and the B Campbell from Sydney, you've probably had as part of the submission, has, I guess, the other 50 per cent. Certainly, talking to the banks, until George Weston Foods came on board, certainly them coming on board gave us a swing, because perception and their

other alternative support system gave it a lot more security.

The second thing I would say is that the issue with abattoirs is always throughput, guarantee the throughput, and certainly if we had another thousand animals on top of what we're doing now, we can kill them at a very low marginal rate. It's the first pig that goes through costs probably in the order of $65,000, to slaughter the first one down the line every week. Then you divide it into perception from thereon until you finally get down to whether the customer can afford to pay, and you hope there's one more comes down, because that's for you.

So the security to the bank came from the fact that the mixture was good and we had a guaranteed supply, being that they were all our own pigs, and we had a guaranteed market, in that we had buyers involved. So it took a unique mixture to get bank funding of in the order of 30 per cent of the capital cost.

DR BYRON: Is that all?

DR PARISH: That's all. I must say at this point - - -

DR BYRON: Thanks, you've explained that very clearly.

DR PARISH: I must say at this point, we did get a grant, a pig industry development grant, of the $20 million that was put out, and it was a very significant part of getting over the wire. When you were trying to raise that sort of capital individually, the one and a half million we received certainly tipped the scales strongly our way.

Previous to that, I was commenting on the effects of the 2002, 2003 and 2004, and discussing debt and the ability in the farmer and the depreciation of the farms. What I would have to say, that I was starting to say, about the reasons that the ones in business - the definition of a person in small business is a person who is a generally higher risk taker than the average in the community. You meet many skilled people that work in salaried positions who have skills probably greater than I, but they have a slightly risk aversion or higher risk aversion, as I said, to mortgage the house. You need that profile to do it.

I guess what I would like to really emphasise and really make a strong point on, it's that risk aversion level. My risk aversion line has been lowered dramatically in the last three years. I've gone from where we've been growing at a controlled and conservative pace to the extent of building the Big River pork abattoir, to where we now are trying to look at ourselves and structuring ourselves to the state that we need to get alternative investors in or something else, because we feel that we need to look at an exit strategy. We are too nervous from what we're doing to then go and invest

further at this point. We need something to change in the structure for us to maintain our previous 15 years risk profile, I guess. I was trying to think of how I could simplify it down to a small part.

I was going to use an example of a friend that I met when I first started as a young guy in my 20s. I met him at a high school. His wife and my wife were teaching there and he mentioned that he'd had a pig farm in northern Victoria. He was operating around 150 sows. He built that up to 300 and successfully ran it and became part of the AusPork Group and was a director. A good operator and was in the top third profiles of efficiency, if you measured against any efficiency profile. He came through the drought with the rest of us and he created a debt.

He went from in credit and not using his overdraft to where he owed something in the order of 180 to 200,000 dollars, and his scale of 300 sows, that was significant. He just said to me, "I've just lost half my house. If I hang around and there's another drought in 18 months or two years, I'm going to lose the other half, and I owe more than that to my wife and my family." The 2004 recovery meant that he made the decision to exit, because he was able to recover a lot of those funds, because his livestock recovered in value and he was able to sell his asset, if you like, the main asset, the pigs and get himself to debt free. His property sits there today. He once convinced the banks it was worth 650,000 and his best offer to date is in the order of 200 for the property which is a specialist piggery.

We incidentally happened to lease it off him in the interim period for animal health purposes. I just want to illustrate that's a person I've known throughout my pig career and started with me, and he's made the decision, and I think that's the trend that the industry is going to see, that with these highs and lows people are going to make - there's quite a strong exit attitude among the producers at this point still.

I guess where I'm trying to lead to in these comments is I'm going to make money - if I look back historically over the last 15 years I've made money in around eight or nine of those years. I broke even or close to even in around three or four, and I've lost severely in three; you add them all up, I might have missed one. So my strategy and my business of running the piggery is I have to have the ability to get through the valley and across the valley. I've got to build a bridge through the downturns to be there. I've got to survive and make my financial commitments and get there. Certainly this one looked like Death Valley. I was actually personally losing in the order of 16 to 18 thousand dollars per week because I do have a large number of sows, I have something like two and a half thousand sow, so while it's very nice when I'm making $10 per animal, when I'm losing $10 per animal the effects are far more pronounced.

Separately you make comment about there is government assistance because

there's government programs are there, and I guess I would have to say that I've made the mistake as a family farm of operating as a company structure, and I'm automatically ineligible for all those processes. I look with envy at the ability to include in my risk management strategy the ability to put some deposit funds away and save my tax for the following years. I haven't got the title correct on that.

DR BYRON:

dollar was 90 cents to the Australian dollar. When we left Singapore, which is July this year, we left when the Sing was 1.30 to our dollar. We realised the maturing of the Singaporean consumer, and the realisation that, yes, they don't have refrigeration necessarily in their homes, but they tend to purchase today, cook today et cetera. They simply transferred that same thing from the supermarket, what they used to do in the wet market. They just got a little bit longer shelf life out of a chilled package than they did out of what they bought unchilled in the wet market.

After a couple of years there, the government introduced chilling and chillers as a legal requirement in the wet market. Your comments earlier about thawed frozen product making their way into the wet markets is factual. It's very difficult to recognise and very difficult to control. I think the Asian culture allows that practicality overrides perfect health status when necessary. They have a notion they have to feed themselves and they have to face up to the realities of what's there, and a few of these issues, I think, have been influenced by that.

Certainly in our factory, we determined that the supermarkets were gaining a higher and higher proportion of the chilled pork sales. We elected to extend our factory and we invested another seven or 800 dollars between us to put in the packaging side, which we broke the pork up. We package it and we actually produce 10 to 11 thousand trays per day, which we deliver to the NTUC and Prime Group. The difficulty of delivering into supermarkets in Singapore is no different to delivering here. You have to be there between 5.30 and 7.30 and so you finished up with nine trucks delivering a thousand pigs. You can imagine the frightening overheads of all that goes with that.

There is $1.25 to $1.50 from hot weight price on the hooks here, to land it in Singapore at the factory. Then there were the overheads of the factory, to cut it, slice it and put it into supermarkets. Our experience with the supermarkets there were no different than supermarkets here. It was the currency change from one to one to 110 to one to 120 to one. The currency exchanged moved something in the order of 40 per cent. The price changed 10 per cent in that period and they flatly refused to adjust pricing. Our company was unsuccessful in achieving that. We had many meetings with them et cetera.

So with the continuing losses that occurred, we elected to leave Singapore in June 2004, and we left behind in the order of $1 million in our investment. We continue to send out five to 600 carcasses to the Oh family, who have gone back to concentrating on the wet markets and the specialty area, because we felt the supermarkets, we were not able to sustain them.

As far as my future goes and my investment in the piggery, based on the potential of the Singapore market, it is an opportunistic market, in my opinion. We

got a lucky break. There's a lot of pressure continuously on for Thai pork and other pork to get in. Eventually one day others will prove a reasonable health status, and they obviously have a massive commercial advantage to us. I think that market will disappear on that day. We were always aware of that.

We continue to supply it and we continue to do it, but we maintain a very small portion of it. When we first arrived, the proportion of pork coming from Australia and pork coming from Sumatra was in the order of half and half; half frozen, ours and theirs. Today the mixture is about one-third from Sumatra, frozen, and one-third is us. We've slipped our market share, as you can see from the figures. I don't see that's a reason for anyone to invest in pork, the Singapore market. Ask any questions, if you want to.

DR BYRON: Just a quick one. I remember being told that, when the Nippah virus struck in Malaysia, people were saying Malaysia is probably going to be out of the Singapore market for five years. If my watch is right, the five years is up. Is there any likelihood that Malaysian producers are in a position to re-enter that, and if so, what would be the consequences for Australian exports?

DR PARISH: If they were successful, the consequences for Australia would be that we would be uncompetitive in Singapore, totally uncompetitive. They don't have the $1.50 imposition of getting there. They have a cost but it's certainly below one-third of that. As far as the assessment of whether Malaysia will open up again, there have certainly been attempts, I believe, for sections of Malaysia to open up. I'm not an expert in Nippah virus. I understand it has a connection to (indistinct) forest-type situation. From any other veterinary knowledge, I find it extremely surprising if they manage to control it or remove it from their system.

They may get regions, a bit like Australia's approach to outbreaks of exotic diseases, and quarantine areas. That's a possibility. It doesn't have to be Malaysia. It could be Thailand. It could be anyone else. It's convincing the authorities that they have a pork of fair quality.

DR BYRON: That would be what Mr Ludvigsen was calling the bottom part of the market that's purely driven on price, rather than the premium or boutique top-end market of people who will pay specialty prices for special products. Do you see that sort of distinction?.

DR PARISH: The only part of the pork market that we deal with is the fresh meat side. We're not smallgood operators to any extent, but on the understanding of any of our branded products have been successful or large volumes of it going into Singapore at all, they do manufacture smallgoods there themselves and they have smallgoods producers, and obviously based on frozen pork. The world price for

frozen pork is a lot lower than what they could get it from here.

The draft finding 6.4, current import levels are changing dramatically and disrupting the industry. What I would have to say is, I have to farm 52 weeks of the year. I have to keep my employees and pay my costs et cetera, and I have to produce the year and I have to produce a whole pig. The thing that the imports do, they have the ability to surge or change. Whenever there is a movement in markets here, if there's a sniff that there might be a little bit of recovery, that I can accumulate a little bit more to pay off some debt, as soon as the processors get a sniff, they have the ability to order in a specialist cut that they require, that is their maximum returns, which is why they bring in the middles and the legs only, for specific purposes.

That automatically reduces the returns that the person that takes my whole pig from me, he has to increase return significantly from the other cuts. So the fact that it exists has a dramatic effect on our ability, if we're going to have periods of high grain prices which are related to weather and other things like that. We're more affected by weather, for example, than the US or higher rainfall producing companies like Europe. It has to be taken that it's a high risk to be a grain farmer in Australia, and it's a high risk to be buyer of grain in Australia, following on from that.

So this ability to surge import and bring in product again puts my risk at high level continuously, because I need some periods of reasonable profitability. Previous to this import dominance, it just didn't chop off. As I said to you, I think the 2004 recovery, you appear in your draft report to focus on the fact that, "Gee, things are back again. They don't look too bad. You've got a possibility." I got a small impression of that. I apologise if you feel you weren't intending it.

DR BYRON: Things are less catastrophic than they were.

DR PARISH: Absolutely right.

DR BYRON: We weren't by any means suggesting that everything was perfect and bliss again.

DR PARISH: No, what I meant was that we were going okay at the moment and I admit it, that yes, we are. What I previously could be more predictive of, if I did measures of Australian pork product and I thought the rest of the Australian pork producers have my problems, they're not going to surge out and increase production in the current environment. They're going to do a bit of consolidation and they're going to go through and reduce some debt and get themselves ready to go across the next canyon. But I can't predict what the importers -or I can't predict what the change in support, whatever a government might give - to bring imports against me.

There are others more expert than me on subsidies and changes and the ability to bring in. Certainly I'm aware that the Danes put out a couple of million dollars to enhance exports of middles here two years ago, and that had a significant effect on us and there's Canadian surges that even I think my friend here will point out. He's worked in America for a long time and we noted recently that the Americans have started to ask for import protection against the Canadians. I thought of your brother and sister Russ. We've probably got a reasonable case. Mr Hamann will outline that to you.

I guess that's all I would add. I would have to say that when we sent the submission in, we were operating the Daylesford abattoir. We closed that abattoir in November through lack of throughput, the drought. We had some significant growth plans throughout our suppliers, and that's why we elected to build the Big River pork abattoir, and we took away I guess part of what we were killing at the time, because we used to pay something like $7 freight to take the pigs to Victoria to slaughter, and a fair slab of our market is in Sydney. So it was an obvious financial reason to build that here.

But we were never able to recover the Daylesford situation through throughput. We soldiered on for two and a half years. We managed to make the plant 50 per cent more efficient. We renegotiated union agreements that were acceptable had we got throughput et cetera. That plant is now simply operating as a depot for us for our Melbourne distribution of product, and we are just boning 200 pigs a week there. We were slaughtering around 3800 pigs when we closed it. We don't believe it will open again. I guess I would describe that as another casualty of the drought. I think that's all I can add. I'm quite happy to answer any questions you might have.

DR BYRON: Thanks. Was Rod going to add something now?

DR PARISH: Yes, Rod has got a couple of things.

MR HAMANN: I had a few comments that I would make, to add to that, if you'd like.

DR BYRON: Please speak now.

MR HAMANN: Just a brief background. I left Australia mid 80s, and went overseas and worked for just over two years in the European industries, mainly England, but had exposure into the European industries. Then moved from there to the United States, and so had another 13-14 years in the US industries, in various roles, but most recently working for two of the largest integrated pig production companies over there. So I guess I have that background that sort leads just into a

couple of comments.

Certainly I agree with the findings in terms of the US producers that I was with and worked with, and would agree they have no or maybe they might accept a minimal assistance in their pig production, and the Canadians were the next up the scale, and the Danes were right over the scale. Certainly the US producers don't feel like they get very much directly. I think there is certainly some effects on their business because of what happened in the grain industry, and that that allows them to do a number of different things that helps their competitive position.

With regards to the Canadians, we certainly always talked about it, we knew it was there, and it didn't affect the US industry until recently, to the extent that it has that they have now gone and are trying to take actions against the Canadians. I didn't get the sense from the reports as to how far that piece of information, or the fact that the US was taking something against the Canadians, had been investigated or looked at. Certainly, just recently. it was quoted in that case that something like 100 per cent of the Canadian's 1999 income came from subsidy of production, and income came from subsidies, and in 2002 it was 50 per cent of their income. So obviously that has some impact on their ability to compete.

DR BYRON: We followed very closely the US anti-dumping actions, and the Commerce Commission and so on. Part of my background was that when I lived in Canada 20 years ago, I was frequently involved in US anti-dumping actions against Canada in the areas of grain, fisheries, timber, paper, car industry. I don't think there's any industry where the Americans haven't accused the Canadians of dumping or subsidies or anything else. But, yes, we've certainly followed that. The fact that the Americans made accusations shouldn't be taken as proof that it's correct. But we're still following that, and getting further information on it.

The main difference that we can see is the Canadian income stabilisation scheme, and like people in the US, it looks extraordinarily generous. But the question is, how much does that effect pigmeat production and the price of the Canadian pigmeat, as it applies to Australia at least. We're still working on that. I think most of the US subsidy does seem to be, as you say, through billions of dollars that go into supporting grain prices through farm buildings and so on.

But to a certain extent that may affect world grain prices, and to the extent world grain prices are lower, Australian grain buying industries benefit from lower world prices. But the US taxpayers are unintentionally pushing down the world price of grain. But there's another paper that I was sent recently by an APL member. It points out that, if you think the Americans and the Europeans are going to stop the farm bills or the CAP in the next few months you're a bit optimistic.

MR HAMANN: That's right.

DR BYRON: So the question is whether we think that it's grossly unfair and it's distorting world markets, and it shouldn't happen and all the rest of it. The reality is that it's going to take some time to wind back those sorts of distortions. The question is, how do we react and survive in that distorted environment.

MR HAMANN: I think probably in the US, and particularly Canada, it's just to make sure that it's there, it's aware and it comes into the overall background of it. I think, to me, it supports a little bit about what Ian says in terms of his attitude as a significant investor, with money at risk, the fact that he puts a lot more predicability into things and takes out some of the huge gyrations which, the minute you take a different attitude to your ongoing role in the business, and what you do in that business.

DR BYRON: I was going to say in response to Ian's comments that if you go back, say 10 years or something, when Australia was basically self-contained because we were quarantined, if we had a drought there'd be higher grain prices, but pig prices would go up and the whole thing would work its way through. But now if there's a drought, the price for manufacturing pigmeat is still basically set by world prices, and if the Europeans and North Americans haven't had a drought, or if they'd had a good year, world prices might be low at the very time your feed costs are high. So the ability to pass on high grain prices are basically gone. Would that be right?

DR PARISH: Absolutely. My hope for your recommendation is that you - at least if you don't, you're probably going to have difficulty getting the single desk situation removed - at least it will be on the table, that you feel that it has a contribution to some of our difficulties. The comments that I would see is the issue of the pool, and I would like to see maybe if it is going to continue in the short-term, that one of the licensing requirements of having a single desk is that they have to offer produce here at a world parity price as part of that privilege of operating that way.

DR BYRON: Again, in North America there are all sorts of sources of information of how much is in storage, how many months of supply are there, and you've got all sorts of commercial and US government people who are dealing in market intelligence on transient grain prices and so on. Whereas in Australia the amount in storage are, as you say, commercial in confidence.

DR PARISH: It makes a difference.

DR BYRON: Yes. No, that point has been raised by a number of other people in Sydney hearings and so on. Whereas, I think Dougall Walker said that they've retained all the worst features of the old system when they privatised it, so the checks

and balances seem to have been stripped away. I take it you're in agreement with that. This isn't an inquiry into single-desk marketing of grain. But one of the things that we can point out is that - and the Grains Council has taken exception to this already - that it does appear to have adverse effects on all of the grain using industries, including pigmeat.

MR HAMANN: I guess, to just expand and to finish off on the component of other countries, certainly the observation that we touched on during the break with regard to the Danes and their situation, and from an AusPork standpoint and the impact that they have on the middle price, is probably far more damaging to the overall complex of profitability of competitiveness of the Australian pig industry than the Canadians on the one hand. It's such a huge component of the pricing mechanism for the pig, impacting one-third of that pig as the highest priced cut by a long way in the Australian market.

So when we look at the Danes and the cost of producing pigs, and then marketing in Europe in general, it seems challenging to us to make the pieces add up to what they appear to be able to drop that pig here. I know that we've said it, we said it during the discussion, that it just appears to me that if you add the pieces up of this is how much a live pig costs, and then I understand all their economics and the fact that they have an industry of one-plus million sows, and they have over time evolved it into a cooperative-type industry, and therefore that has some economies of scale all the way through.

Even if you add up the most aggressive ones, and how much it costs to kill a pig, to cut it up, to package it, to get it out of the country, and all those various things, you put that on top of the cost of product that in the best years is going to be low $2, the worst years is high $2.50 and that sort of range, really I find it hard to believe. Even if you take the other two-thirds of the pig and put aggressive prices on those, I really do find it hard to see how they can do that, and I'd love to see that as part of the final package you give to us to help us understand that.

DR BYRON: There seem to be two different approaches: one top down, one bottom up. But most of the people in the industry, I think, have been saying, "Well, the average cost of production in Australia is X, and the average cost of production in Denmark is Y, therefore they must be subsidised because how else could they get product in here." We've been looking for the subsidies, and like weapons of mass destruction, you know they're there but they're awfully hard to find sometimes. But one of the conceptual problems is that even if those cost of production figures were right, it doesn't necessarily tell you very much about how much they get for a particular part of the pig in a particular market.

One of the things that we've been told by all sorts of people is that the Danes

and their systems is that they have people who every hour of the day are analysing, "How do we break up this pig into bits that will input into anywhere in the world to maximise the total amount that we get from the whole pig?" They seem to be very good at doing that. They say, "Okay, we've just lost X per cent of our market in Russia because of Brazil or something, but we can juggle this around." So they seem to be constantly trying to optimise that.

The question of who's driving what in the prices, one of the importers who gave us evidence in Brisbane, half an hour before he came to the hearings, he got all the prices, the current quotes, Australian leg $6.50, Canadian leg $4.50, and we went through it until he got to middles from Europe, and Australian price, Danish price, exactly the same. Then he said, "But we buy them anyway because we think they're better quality." But are the Danes setting the maximum price that an Australian supplier can get or are the Danes saying, "We've got a pretty good idea of what the Australian price is going to be, so we'll put in a quote for one cent less than that." I mean, are they following us or are we following them, or is it a bit of a backwards and forwards?

MR HAMANN: Certainly, my experience in the last 12 to 18 months in following that, it's certainly been that they have said it. Yes, my experience in how it's impacted us and the little bit of boning that we do and those type of things, it is. They are putting a cap and lid on it, and saying, "We want to get this volume, increase the volume that we've got, and we're willing to sell it at this particular price." For whatever their reasons are, but that's what they're doing.

DR BYRON: Is that because the amount of Danish middles that come into Australia, even though it seems like a huge amount from this angle, from the point of view of the total Danish exports all over the world - it's three-fifths of five-eights - it's a very small amount.

MR HAMANN: It's a relatively small amount, yes.

DR BYRON: And so, if they're making a bundle selling something in Poland or the UK or whatever, they can afford to pitch the price for that relatively small amount, at whatever price they want to.

MR HAMANN: That's as good a hypothesis as any one, yes. And you're right, they are arguably certainly the best pork marketers in the world, and yes, they're the best at exploiting getting the best prices they can get from that pig. But they're going to say, "Here's the middle. Here are the prices I can get from the middle," and it's going to work within a range and the ham is going to be lower than that, and work within a range. The front of the pig is going to work within a range as well, and they're going to pitch it wherever they can to get the last few cents out of it.

When we think about 50 cents on a middle, 50 cents on a middle is going to translate into 15 to 20 cents difference price that a pig farmer will get in this country. That's roughly what it's going to do, just the middle.

DR BYRON: Have you got any advice for us on where to look to find what sort of subsidies - we've been looking at are there subsidies on grain prices, are there subsidies on storage. There don't seem to be any export rebates. We've gone through the government budgets for both Denmark, as a national sovereign, and also the budgets of the European Commission in Brussels. If they're exporting X hundred thousand tonnes and there's some sort of export rebate, then we should be looking for a figure with so many billion euros on. We can't find that.

The number of small amounts of budgetary support for pigmeat, either from the Denmark government or from the EU system, is less than a cent a kilo.

MR HAMANN: I'm sorry, Neil, I don't have any insight into that, I'm afraid. As I said, the only way that I feel like that you can perhaps come through it from a backdoor way is to look at it from the standpoint of saying, "If I piece these bits together, do they add up to greater than the whole?" and therefore something has to give somewhere within their system, and no, we can't find it. Obviously, if they have an industry that is somewhat structured around it, they're not going to make it very obvious to anybody, I wouldn't have thought. But that's how that industry works and is able to be competitive worldwide.

I don't know what all the answers for this, but the US has limits on what it will allow to come in from Denmark. It won't let them just come in and dump, and they've had that, I believe, for a number of years. It's just got taken off now. They certainly had it there when I was there five years ago.

DR BYRON: The European Union has tariff quota import restrictions, but as far as we can tell, the tariff quota cuts in at 88,000 tonnes and the total amount of imports that's come in is usually seven and a half, eight, eight and a half. So even though there's a tariff quota, it doesn't seem to be binding, because only about 10 per cent of that amount is being imported anyway. So it's very hard to argue that this trade restriction that they have on the books is actually operating to give them trade protection, because it doesn't seem to be binding.

MR HAMANN: When you talk to them - and I know you're talking to them - do they say how it adds up, given their cost of production, or not?

DR BYRON: Not yet. The conversation continues. But believe me, it is genuinely complicated.

MR EDWARDS: But as you have recognised, to do all the adding up and look at the overall picture is extremely difficult and perhaps impossible. Certainly it's very clear that the average costs of production figures that we have obtained - and we've obtained a number of them - they vary quite substantially. So there is a question mark, first of all, about how good the costs of production per kilogram over the whole carcass is.

But then, because Denmark is not selling whole carcasses - it has been recognised that it's cutting the carcass up and selling different parts to different parts of the world at very different prices - one of the things we have found is that the price they are selling middles to Australia for are relatively high, higher than the prices than they sell those middles for in a number of other markets, including within the EU itself. It has been suggested to us that Denmark is dumping into Australia, but the figures seem to give the lie quite clearly to that.

DR BYRON: The other thing, just to build on what you've said, is that we've looked at the annual reports from Danish Crown and Danske Slagterier and so on, and one of the things that you can't help noticing is that, in 2002-2003, when the world pig prices were low, they're all complaining about how much money they're losing and how difficult it is to survive in this period of very intense global competition and low prices. They're saying that over the last few months, world prices are getting back to what they think is a more sensible equilibrium level. At one level, the Danish pig producer has exactly the same problem when world prices go down as the Australian producers, for much the same sort of reason.

DR PARISH: He has a lower risk profile on grain. He's more sure of his grain.

DR BYRON: We've just got figures from OECD and from the European Union on grain prices within the EU versus grain prices in the rest of the world. Over the last couple of years there's been virtually no difference at all, one or two euros a tonne. So we're still digging. We're cross-checking every number we can get with everybody we can cross-check it with, and there are still a few things that don't add up.

MR HAMANN: Just a question round (indistinct) on middles into EU, was that looking at the middles going into different markets, or was it looking at just the average of all the middles moving in the rest of the EU?

DR BYRON: We've got prices for Danish middles going into each of the other 14 EU - each country.

MR HAMANN: Into each country, okay.

DR BYRON: There's actually quite a lot of variation there.

MR HAMANN: Yes, there would be. Extremes in customs will demand a different sort of middle, and that's what the Danes are great at, sending those middles in different directions. That's part of the reason they're so good at their quality control, that they have great systems to get the best here. They're a high mark for us as sellers of middles to manufacturers to meet because they do send very good middles here, the best. But that's because another EU country will take the worst at a price that is reasonable for them. So I think that has an impact on that, that mix of prices, but at the end of the day it is the overall mix that seems extremely challenging for us to understand how the whole picture is brought together without something else in that mix.

Just a couple of other areas I'd just like to touch on, and then I'll finish. I was very interested in the comment that there is a benefit in the lower prices to consumers, retailers, manufacturers. I guess I understand the situation where it is going to make for cheaper meat at the end of the day, the level of imports coming in, and that consumers will get the value and the benefit of that. The wider ramifications of that, I guess, are more of a challenge to me. Retailers, yes, they will pass it through. Arguably if they follow the philosophy they tell us they follow - which is a margin percentage on what goes through - if it's a lower price they actually make less, but that doesn't necessarily mean that's going to happen.

Certainly, when you get to the manufacturers, I would agree that it is arguably better for their larger ones, in what they can do and how they manage their business, but there's a heck of a lot of smaller ones, regional ones, who have to try and compete with the big boys. With the amount of imports coming in, they've had to make fundamental changes, and as I cited in my original submission, there are some that just can't compete and are going to go out of business, whereas they could when it was Australian product. So that has a wider impact on the local community in jobs and the economy.

MR EDWARDS: O course, over a very long period, over many decades, some pig farmers, like other small business people in other areas, have found that they cannot compete and have gone out of business. So indeed the potential number of pig producers who can go out of business in the next 10 years is much smaller than was true in 1970 or 1980, because we now have something like two and a half thousand pig producers, whereas in 1970 we had about 40,000.

MR HAMANN: I wasn't talking of pig producers in that particular case. I was talking about the manufacturers and the boning rooms and those sort of things. I understand change is inevitable, but I also in that particular case know that particular

business and how it operates. At the end of the day, it was because of what it was competing against that impacted (indistinct)

DR BYRON: Clearly if the smaller or regional manufacturers of ham or bacon don't have access to cheaper imports, then they're disadvantaged compared to the people in Sydney or Melbourne or whatever, who do have access to the cheaper raw material. I take that point and also the one about - I'm not sure that the retailers should be included there in beneficiaries because of (indistinct) margins. It was simply an observation of fact that the final price to consumers is likely to be less if raw materials are cheaper.

MR HAMANN: And if low-priced food for our consumers is the ultimate goal, then okay, that's fine. If that's a policy, a pure policy of the country, then that's fine and there are some countries that have that policy. But it has some wider impacts on the overall economy, that's all, even in our very small industry.

DR BYRON: We didn't attempt to measure what the benefits were or the costs were, and to say that consumers are benefiting more than producers are losing, we're simply making the observation that, yes, the distorted international market imposes serious costs on pigmeat producers, but by the way, you can't forget that consumers may benefit in the sense of cheaper ham or bacon. We haven't tried to weigh them up and say which is more important. It's just a statement.

MR HAMANN: Just one final touch on there. There are other people that can't compete and they go out. There are also that individuals that try to compete, and how they try and compete, they either have bigger investment and all the rest of it, or they cut corners. Quality gets manipulated. I think there is a higher risk to consumers and food product at the end of the day. I believe that within those operators that five years ago were quite content with the level of imports that came in, they could compete quite adequately.

What's happened in the last five years, since 1998, is that shifted so dramatically and it has such a large impact on the manufacturing industry, that they've got to be involved, most say, to compete. Then they're trying to do it without the millions of dollars that two or three larger ones have to make sure it's done absolutely right, with all the bells and whistles and all the checks and balances. When it goes down to the smaller ones, given the operations I've seen, I'm concerned, both from a consumer risk point of view and also a producer risk, when it comes down to disease ramifications. I do think there are risks there that are high, because it's not the same as it was five years ago.

DR BYRON: Were you thinking particularly of the New Zealand PMWS example, people who are cutting corners and doing shonky deals?

MR HAMANN: That's certainly a component of it, yes, but I also think, if you come in with more frozen product, you have more risks associated with food quality and shelf life and longevity, and has a higher potential than otherwise would be there. That's what I'm saying.

DR BYRON: I think it's in the submissions that we got from Rigley AgriFoods. There's an interesting graph where they have estimates of profitability of the Australian pigmeat industry in general. What they were saying to us was that, in the period before imports occurred, it was up and down, good news and bad news, of fairly small amplitude. But over the last decade, the highs have been higher and the lows have been lower, and the amplitude of the fluctuations seems to be increasing. So the good times are really good and the bad times are catastrophic.

That suggests to me, if that is a real change, that everybody in the industry is going to have to have either very deep pockets or else, as you were saying, Ian, the mechanisms that governments have put in place over the years to help primary producers even out the troughs, the down cycles, at the moment apply almost exclusively to family farms. All those sorts of measures were put in place, say, to mum, dad and the two-boy farm (indistinct) but now, as agriculture generally, and particularly pigmeat production, are often much more a corporate thing. You don't have access to the farm management deposits and the automatic averaging and those sorts of things.

Are you suggesting that the sorts of measures that typically apply to family farms need to be made - or something similar - accessible for corporate agriculture, not just - or people who choose to use a proprietary limited framework rather than just - - -

DR PARISH: The superannuation industry is a reasonable example. I mean there's a very big distinction between a superannuation fund with less than five members than there is with a public fund. It recognises that the ones with less than five funds tend to be family, tend to be less than two shareholders, or less than three shareholders. It's quite an easy thing to distinguish.

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DR PARISH: The superannuation industry is a reasonable example. I mean there's

different? We seem to be like the ugly duckling on the pond. We seem to be - what have we done wrong?

DR BYRON: I think it's probably more likely to be an oversight than malicious. But the thought has occurred to me that pigmeat producers have located themselves in South Australia because they see it as a reliable source of relatively low-cost grain, and then when the drought comes, that very grain that is on a truck going to northern New South Wales or south-east Queensland and being subsidised to do so, and so whatever advantage that you might have thought you were going to get by being in an area of stable supplies of relatively low-cost grain, goes out the window.

DR PARISH: Particularly when he's 10 cents closer to Singapore than me, because Brisbane is closer than me geographically et cetera. There's a whole lot of contras that - you come down here looking for that, and you give up some of the benefits of their geographic location, and then we get hit with that one.

DR BYRON: There are issues, and a number of people have raised this, just the way drought relief is done in Australia, frequently as what - and I'll give them the benefit of the doubt and say unintended reverse effects. But people who grow fodder pray for a drought, because that's when they get the highest prices for their fodder.

DR PARISH: I wouldn't be eligible anyway, because I've got a company.

DR BYRON: We're going to have to draw that to a close, gentlemen, but any final comments that you want to make by way of wrapping up?

MR HAMANN: No. I'd like to say one thing to you, just have a break if we can, please.

DR BYRON: Okay. Thank you very much for coming, and putting it all on the public record. Thank you.

(Luncheon adjournment)

DR BYRON: We resume the public hearing of the pigmeat industry inquiry with the representatives from the South Australian Farmers Federation. Thank you very much for coming, gentlemen. If you could each introduce yourselves in your own voice so that the transcribers can recognise who's talking later on and then if you'd just like to take us through the main points you want to make today, we can discuss it.

MR MATZ: My name is Jed Matz from the South Australian Farmers Federation.

MR BRECHIN: Peter Brechin, farmer and member of the South Australian Farmers Federation.

MR BERLIN: Rob Berlin, I'm the chair of the South Australian Farmers Federation pork section.

DR BYRON: Take it away, gents.

MR MATZ: I would just like to thank the commission for the opportunity to appear before you today and address some of our concerns with the draft report of the Australian Pigmeat Industry Inquiry. By way of introduction, the federation - or SAF, for short - is recognised as the peak representative body for primary producers and therefore pig producers in South Australia.

In essence, SAF believes that while the draft report for this inquiry does identify some deficiencies in the industry, it fails to recognise the significance of these deficiencies. We believe that this very lack of understanding demonstrated in the Commission's report will ultimately be detrimental to the South Australian and national pork industries if left unchanged. The draft report does correctly identify that the pigmeat industry has seen significant structural adjustment; that is, overall production as increased but at the same time, the number of farms, abattoirs and jobs has fallen.

What is most concerning to SAF is the commission has identified that most pigmeat producers have in recent years struggled to make a profit and we are becoming increasingly uncompetitive on the world stage. Yet, at the same time, the commission fails to recognise that the industry as a whole is insufficiently resourced to return to profitability. It is clear that an unprofitable industry cannot survive in the long term. In the case of rural and regional areas, the loss of major industries such as pigmeat production can signal the social, economic and often environmental death of a region.

SAF believes the triple bottom-line accounting principles need to be applied as part of the rigorous analysis and investigation of any industry. To look at things in

purely economic terms can no longer provide a representative picture. At the core of our concerns, which we relayed in our previous submission, is that everyone seems to see the problems but nobody wants to look at the solutions outside a narrow economic framework. We request that the Productivity Commission take the next step and recommend policies, procedures and practices that, if applied to the pork industry, will help to make it internationally competitive and consequently profitable.

SAF has a number of other concerns about the draft report, not least of which is the time line that the industry stakeholders have had to research and prepare submissions and indeed the time available to the commission to assess and analyse these submissions. The terms of reference allowed for a period of only five months between the announcement and the inquiry and the delivery of the draft report. SAF does not believe that this is anywhere near adequate time for an important national industry to provide the commission with the necessary intelligence to deliver an informed and useful assessment of the changes and opportunities facing the industry.

In SAF, the resources available to work on this project are very limited and this problem is echoed throughout other major pigmeat producing states. It should be noted that for other Productivity Commission inquiries there have been much more satisfactory time frames. Examples of this are: the inquiry into the economic and environmental potential offered by energy efficiency, 12 months; the inquiry into the impact of advances of medical technology on health care expenditure in Australia, 12 months; and the review of the national competition policy arrangements - 9 months.

SAF believes that the commission has not been able to fulfil its service charter in this inquiry because of the tight time frame that has been set. The Productivity Commission Service Charter, which has been effective since August 2003, clearly states the service standards you can expect that is that the commission will provide sufficient time and information to facilitate public participation in our work. So I restate SAF's concerns that this core service standard has not been met. It's ironic, therefore, that the industry actually believes in the terms of reference set down for this inquiry are justifiably broad. This is a good thing.

The industry needs to look at, in a holistic and comprehensive way, the problems the industry is facing. We just feel we haven't been given sufficient time to fulfil this lofty goal. It's therefore imperative that the Productivity Commission requests an extension of its deadline to allow the industry to provide more substantial analysis and the allow the Productivity Commission more time to consider this evidence and validate its findings with more comprehensive assessment of the submissions.

It's clear from reading the draft report the evidence provided in the SAF

submission about the effects of legislative and regulatory changes on both profitability and competitiveness has not been considered. SAF feels that the Productivity Commission draft report has failed to address the fact that legislative regulations affecting water use, animal welfare, environmental management, labour accessibility, property development - to name just a few - have been placing increased pressure on the South Australian pork industry. Nor does the commission recommend any strategies to stop the decline of the farm numbers which, I will show, directly contradicts one of its broad guidelines as it certainly is in line with SAF's triple bottom line philosophy.

SAF is particularly concerned by the commission's conclusion that the Australian pigmeat industry experienced improved competitiveness during 2004. While it makes this claim in general terms, it fails to quantify the profitability recovery that it suggests has occurred. We therefore believe it is impossible to say that its so called improvement in the competitiveness is sufficient enough to consider the industry recovered. Producers have incurred significant debt in the last few years because of drought, low prices and high feed costs. Finance has been used to maintain the day to day operations of the farming business. Producers in South Australia have reported to SAF and to the Productivity Commission that the industry has made no investment in capital improvements to increase their competitiveness or sustainability. In fact, producers in this state have been unable to fund general maintenance of their facilities due to lack of capital.

Without further detailed analysis of the industry, it is not prudent to assume that the industry has recovered its profitability and competitiveness. In talking with local producers and visiting their properties, it soon becomes clear that most are not experiencing the profitability and recovery that is suggested in the commission's draft report. The draft report correctly identifies the pig industry as having high capital investment with very low margins. This would suggest that a return to profitability for the industry should be measured against a range of factors, notwithstanding return on investment which the report has not considered. It would also suggest that a return to profitability would be gradual and would not be likely to occur in the space of a season, as is suggested in the draft report.

In the past 10 years, the pigmeat industry has endured massive swings and profitability. This did not provide producers with a strong financial base leading into the recent drought. In only three of the past 10 years - 2000, 2001 and 2002 - has profitability reached adequate levels for what is considered long term business sustainability. One of those three good years was due, principally, to the foot and mouth disease outbreak in Europe, resulting in substantially reduced Danish imports into Australia.

Now I'd like to move onto the notion of the triple bottom line, which I have

alluded to earlier in the presentation. Last year, SAF released a report entitled A Triple Bottom Line for the Bush, which I included a copy of in the submission that you've got in front of you. A Triple Bottom Line for the Bush is now being adopted by the South Australian government to develop a plan for sustainable rural and regional communities. Our report illustrates that throughout the developed world farmers are required to deliver a range of outcomes, social, economic and environmental as part of their contribution to sustainable non metropolitan communities. A key element of this strategy acknowledges that farmers are primarily stewards of the land and do this on behalf of the greater community.

This new role farmers play as stewards is directly linked with legislation and regulations. National guidelines, state legislation, regulations and council planning rules have transformed the average pig farmer. Today they are experts in quality assurance, promoters of animal welfare, skilled environmentalists and waste disposal managers. Undertaking all of these responsibilities requires significant resources and is a direct contributor to the downward pressure on the profitability and competitiveness of the Australian industry. The commission's draft report has failed to address this issue, despite it being identified as a major impediment to the pork industry in SAF's original submission to the inquiry in September 2004.

I'd like to cite a paragraph from page 31 of the draft report which illustrates this point: "Competitiveness depends on all management choices, inputs, technologies, product mix and markets as well as factors external to the business." While external factors are listed in that comment, in the draft report there is no mention of legislative or regulatory factors and the effect that they have on both competitiveness and profitability. This demonstrates that the commission has not considered the triple bottom line and has, in our view, misinterpreted the terms of reference of the inquiry, that is to investigate key factors influencing the profitability of the industry and the competitiveness of the pigmeat industry.

Page 61 of the draft report states that inquiry participants suggest some sectors of the industry may face difficulties in recruiting and retaining staff. Possible reasons given for this difficulty include the relative isolation of some farms, the working environment and relative wages. The consequences of the decline in rural and regional labour are discussed in SAF's triple bottom line report as being a reduction in the number and size of small towns, together with a rise in the size of large rural centres and pressures on the environment for farmers' continued attempts to raise farm productivity and to farm larger areas with fewer people and resources.

The report goes on to show that if left unchanged, agriculture in South Australia and Australia is not sustainable. If it were to continue as is, farm and farmer numbers will continue to fall, small regional towns would continue to wither and die and damage to the environment would become worse, not only from the

intensification of agriculture in some areas but by the abandonment of others of less productive areas to feral weed, pest and animal invasion.

We believe the draft report fails to recognise the evidence provided by SAF which clearly shows the consequences of the continued decline in farm numbers. The broad guidelines under which the Productivity Commission operates state that the commission must recognise the interests of the community generally and all those likely to be affected by its proposals and promote regional employment and development. Based on the evidence that I have provided to the commission today, SAF does not believe the commission has successfully met its broad policy guidelines in this draft report.

In summary, SAF recommends that if the commission's inquiry is to provide useful intelligence to government and industry, it must undertake further investigation and analysis. The draft report must fully quantify the profitability gains that it suggests had occurred in 2004. Once this has been achieved, it will be possible to determine the validity of the claim. The draft report must consider further evidence provided for the last 10 years which shows producers were not able to maintain a strong financial base leading into the Australian drought. The report must consider the triple bottom line framework in assessing the contribution of farmers to the overall sustainability of rural communities. Finally, the commission should request an extension of its deadline to allow a more comprehensive analysis of the pigmeat industry and a possible revision of its preliminary findings.

I'd just like to thank you for the opportunity to run through that pretty wordy speech and if there are any questions we've got Rob and Peter here to talk about different issues of that statement.

DR BYRON: Thank you very much. Rob or Peter, do you want to say anything at the moment or will you come in when we get the discussion going.

MR BRECHIN: Well, I was only going to comment on areas where I felt that I could comment and when that arises I would talk about it. Do you want to take it in order?

DR BYRON: Okay, let's go through some of these matters and I do thank you sincerely for the issues that you have raised. I think you have got some very important issues there, some of which have been raised by other people was we've been going through the hearings.

But firstly, just on the housekeeping stuff, the terms of reference are certainly not our creation. They are given to us by the treasurer on the advice of the prime minister and cabinet. So if you would like to tell him that he's made a mistake in the

way he's written our terms of reference, please go ahead and do so, but it's not us. The other inquiries which you have mentioned, which have longer time frames, I can assure you - being involved in a couple of them - are far, far more complex than this one. Again, it's the treasurer and the prime minister who decide how long we're given to do an inquiry, not us.

We did already ask for a six-week extension and we've had it. We got it. We're into it now. That was largely because of the inability of the industry to provide information that was necessary. I should point out that the industry spend at least six months lobbying for and demanding this inquiry, not me, not us. When the industry then said, when it was announced, that it should be done in 90 days, I gave them five months. We've had six and a half. If the industry still can't assemble the information to provide the sort of factual basis that we need to make firm judgments, then I'm not sure that the commission should be held responsible for that.

I can assure that you that all evidence from every submission in writing and here at these public hearings is carefully and fully considered. A lot of the things that we are told in writing or at hearings don't actually make it into the final report. That is not because they were never considered. It's simply because the information was not seen as being sufficiently relevant or pertinent to appear in the final report.

I was a bit surprised - I was wondering what report you were referring to at one stage - that you've resorted to the oldest debating trick in the book, of setting up a straw man and then attacking it, rather than responding to what we've actually said. We did never at any stage say the industry has recovered fully. What we've said is that it's beginning to recover. It may be it appears to be recovering over the last few months. You then criticise us for having failed to quantitatively prove something that we never actually said; mainly, that the industry is now fully recovered.

In fact what we explicitly do state is that the apparent improvement over the last few months is probably pretty fragile. It may continue. It could get worse. You could plunge back into an awful situation awfully quickly if there was another drought or if world pigmeat prices suddenly went through the floor instead of the upward trend that we've had. I'm very happy to accept criticism about what we've said. I'm less happy about being criticised for something that's quite different to what we said.

You also said in your opening remarks that we've concluded that the industry is becoming increasingly uncompetitive. I'm not aware of where we actually did conclude that. In fact what we're saying is that the industry is a mix of very different firms. Some of them clearly are very competitive at the moment. They're as good as anywhere else in the world. They're making money. Even when the average may have been unprofitable, there were some who were making money.

So it's not terribly helpful to talk about "the industry" as if it was a single beast. It's a very diverse and complex beast, and what we're saying is, some businesses seem to be world class. Some are managing, they're about okay most of the time. Normally have their head a bit above water but sometimes they go under for a while, There are some people at the other end of the distribution who are really struggling and you have to wonder whether they have a future in the industry. You could probably make the same assessment about almost any industry in Australia: that are some who are doing very well, some who are average and some who are battling.

We didn't actually say the industry is becoming increasingly uncompetitive. In fact I think we present evidence that is quite different from that conclusion you attribute to us. You said we didn't consider environmental regulation and animal welfare issues and planning controls. Now, that's on pages 117 to 119. We did look at it. We may not have given it as much prominence as you think it deserves. In fact when we revised the draft report, we probably will spend more time looking at the welfare issues, the environmental regulation and planning controls and all these other measures that do impose higher costs on Australian producers, particularly when the people we're competing against, such as the Americans and Canadians, don't have to meet the same welfare standards, for example.

Every time we impose another piece of red tape in Australia, it just makes things that much harder for everybody. We're aware of that and we'll be pushing that line very hard. It's not necessarily going to be that all regulation that adversely affects pig producers is going to magically disappear overnight, but what we can say is that environmental protection regulation we agree is important, but it should be no more stringent, no more expensive than it has to be to achieve the results that the public wants. We should also make sure that it does achieve those results. So that was a very long - much longer than I intended it to be - response.

The question now, you said that only three out of the last 10 years the industry has had adequate levels of profitability and to me that just begs the question of what do you think is adequate. It's obviously more than zero, but are we talking about 10 per cent, 15 per cent or - - -

MR BERLIN: We'd want to be seeing a decent return on the capital investment. Certainly some of the concerns that we have from the producers that we represent is that during, for example, the last 02 drought, we had the situation whereby - and since that time - and we heard Dr Parish talking about this earlier - the value of their investment has dropped away. So their borrowing capacity is diminished quite a bit. In a lot of cases the producers we represent have had, for example, a two-year moratorium on a lot of the repairs and maintenance.

So in what Jed has quite rightly stated before, when we get things such as a change in the welfare or in the environmental requirements that may be imposed, it's very hard for producers to be able to finance those sort of changes. So they are the sorts of concerns, and it's about being able to put some money aside to be able to weather either a drought or a downturn, or even changes that are imposed upon the industry.

DR BYRON: You probably heard the discussion from the people from AusPork, about whether the ups and down are becoming steeper. The highest might be higher but the downs are - is that your experience too, that the swings are becoming more exaggerated?

MR BERLIN: Yes, they are. They're becoming greater. If you go back prior to us being involved in the situation of imports, for example, we used to have seasonable swings. The seasonal swings were things that were short-lived type swings that you could actually manage. Now what we seem to be having are swings that actually last for a lot longer period of time. So for the smaller to average pork producers, it's a lot harder for them to carry those.

DR BYRON: Sure. If we agree that that's the problem, what do you think is the answer to that? Is it better income equalisation, tax averaging, farm management deposits? Is it having corporate structures with deeper pockets? Is it having a more sympathetic bank manager? How do we fix it?

MR BERLIN: I think the big thing, from talking to financiers that our members have to go to, that I get to go and talk to as well, is that they have an acute understanding that the profitability of the properties are diminishing, but the other thing with it is that their capital investment, what they've paid for their farms, is diminishing all the time. So their properties, because of the unprofitability of it, their likelihood of being able to find buyers or to be able to sell those units - I've actually talked with financiers and people that own properties where, if they actually took the pig units off the properties, the properties would be worth more money than what they are with the pig units on them. And it's purely because of the cyclic swings that they are not something that other people want to go into.

DR BYRON: Are you saying that it's not just the cyclic nature or the volatility, up and down, but that this volatility is about a declining trend in profitability and a declining trend in asset values?

MR BERLIN: It has been over the last few years with the consideration of the drought since 02, which has plunged a lot of them into very difficult times.

DR BYRON: I appreciate that a lot of people had to substantially increase their

debt or draw down on their equity.

MR BERLIN: Absolutely.

DR BYRON: Again, we spent a lot of time trying to distinguish between the short-term, the one or two-year stuff that happens, the shocks, and the fundamental long-term underlying trends. The message that we're trying to get in the report is that there are lots of positive features in the long-term underlying facts of this industry, but it's how do you deal with the shocks in the short-term. But what you do about the shocks and what you do about the long-term underlying fundamentals, they might require different remedies, and it's important to distinguish between the two.

MR BERLIN: Yes. Certainly, as the AusPork Group spoke this morning, there's the need to even out the cost of feed, which we'll talk about a little later on, and that's a huge issue. If you look at, for example, between now and during the 02 drought, for a 70-kilo pig, it's something like $30 a difference in the cost of feed. So that's made a huge difference to anybody's profitability through that. But in some of the things that Dr Parish was saying, from AusPork, this morning, with the use of the bonds, the income-equalise farmers' bonds and that, a lot of our producers haven't been in the position whereby they've actually been able to put money away into those bonds, because basically they've been playing catch-up for so long, in putting their units into order and getting them before they got to the drought. Now they've gone backwards again. There's not an amount of money there that they can draw down on.

DR BYRON: The Queensland Department of Primary Industry told us that the three or four years before the start of the big drought was the most profitable period ever - ever, ever, ever - in the history of the pig industry in Queensland. So they presumably had some money stashed away in the bank. Was the situation different for the South Australian producers in that the period, say between 99 and the middle of 02, wasn't that terrific, that you weren't able to stash away a bit for, not the rainy day, the dry day?

MR BERLIN: Yes, the problem at that stage, commissioner, was that South Australia had only just started to get its export abattoirs. The problem that we had here is that about 70 per cent of the pigs that were produced in South Australia were exported to the eastern states, where they were slaughtered. So the South Australian producers were basically at the whim of the supply requirements in Victoria. So the prices were generally lower here than what they were in the other states.

DR BYRON: Thanks. Geoff, did you have some questions at this stage?

MR EDWARDS: I think we understand that all farming industries go through different periods and better periods, and most farmers probably expect that they have

to somehow arrange to carry funds from better times to difficult times. Certainly the AusPork people told us this morning that they were doing okay now. You asked the question, has the industry really recovered from the difficult time. The AusPork did say - and these were their exact words - "We're doing okay now." Of course that's not to say that that will still be the appropriate answer in three, six or 12 months now." Of course, that's not to say that will still be the appropriate answer in three, six or 12 months from - - -

MR BERLIN: Dr Parish did also say that, with the "okay" bit, being able to repay 20 per cent of what they'd lost in the previous years.

MR EDWARDS: But that's quite a significant improvement, I would have thought, given that the improvement in the economic situation is mainly in the last 12 months. So it's a fairly short period where that debt reduction has been made.

MR BERLIN: So if you've improved your position by 20 per cent in 12 months, theoretically you're going to have to go for five years to make sure that you've cleaned that position up, and being with some sort of a margin before you go into another bad time.

MR EDWARDS: That's looking at it very simply. I accept that the period of better times is, thus far, relatively short. But I thought your statement that the industry in South Australia is not investing was also rather doubtful. We heard this morning from Mr Ludvigsen, who has told us about some of his major investment initiatives. So clearly, some important players in the industry are investing in a significant way.

MR BERLIN: Yes, there are some people, and the AusPork group is another group that is expanding. But in general, if you actually look at the abattoirs numbers, the abattoirs numbers have been declining, and there are a lot of people leaving the industry, and there's not that much expansion going on - - -

MR EDWARDS: Is it not the reality that if you take a period of three decades or five decades or 10 decades, the general trend in agriculture - not just in the pig industry - is for (a) a fall in the number of farms associated with an increase in the average size, and (b) a fall in the number of processing plants associated, again, with an increase in average throughput.

MR BERLIN: I'm not going to argue on that one because you are correct. What I was talking about was, there is a decline in pig numbers within the state of South Australia. The sow numbers have been dropping. The farms have also been dropping, but the sow numbers have been dropping - even though there is the expansion going on with some of the larger units, there's still reduced numbers. That's one of the things with the AusPork group. By closing the Daylesford unit,

they've brought those pigs across to Murray Bridge, to build the numbers up here; but they're only just above their quota here.

DR BYRON: Can you tell us a bit more about the decline in sow numbers in South Australia, because the national figure is that, even while the number of producers came down from 40,000 to 2 and a half thousand, the total number of sows was going up. So is it just a movement between states or is it that South Australia has got a different trend compared to what is happening elsewhere?

MR BERLIN: I think we've seen - and Peter can probably allude on this - we've seen more sows going into the market at Dublin, haven't we Peter?

MR BRECHIN: Yes, that's not a figure that you can entirely rely on, but generally speaking, I would think that the reduction has now ceased, because a lot of the smaller producers were waiting to see what happened grain-wise at the end of harvest - whether grain was going to be a proposition or whether pigs were going to be a proposition, or whether they could stick with what they historically had.

The decision now would probably be, in view of grain prices, that - especially the outlook - that they give the pigs another lap. Having said that, though, I don't believe that any of those people would have a clue as to what they think might happen after June this coming winter. I don't think many of us have, and that's one of the problems that I would hope that would come out of this inquiry, that we could address the issues that would give some longer term certainty to where we think the industry is going.

MR EDWARDS: Could I just follow up on that and ask, do you think that addressing the problems of the industry is something that needs to be done mainly at an industry level, say with substantial guidance and input from APL; or is it something that's going to be determined mainly by decisions taken by individual producers doing their assessments in their own way and backing their own judgment?

MR BRECHIN: It will be a combination of both, I would think. We've only recently seen one large producer go out of business for all sorts of reasons. Again, I think he went out not because he was a bad pig farmer, because I think it gets back to this cyclical business. If you decide to do things at the wrong time, then you suffer. I think that was true in his case.

So it gets back to the situation, if we could not so much even take those blips out of it - because I don't think we've got a lot of control over that, I really don't - but if we can certainly take the blips out of the inputs that go into making up the cost of producing a kilogram of pigmeat - - -

DR BYRON: Particularly grain.

MR BRECHIN: Particularly grain, and I'd like to talk about that further. It's even things like financing. One of the things that small producers suffer from, and this would be common across Australia, is that their access to finance in times of need are prejudiced by their size, whereas - and I'll give you an instance of that. I happen to be attached to the group that was speaking this morning. When we want money, the banks come out and do a competitive proposition.

If I as an individual want money, I don't get to see those people. I get to see the next guy down the ladder, and the way I'm treated is quite different. I guess that's true of all people, big and small, but it does prejudice the smaller producer in making his case for - he may well be a very good producer - for making it easier for him to survive.

DR BYRON: A number of people have talked about alliances and cooperatives and buying groups, and these sorts of things. Some people say that it's absolutely critical for the future of the small producer because so much is stacked against him, including things like that. Other small producers that we've spoken to have said, "We looked into these buying groups and alliances and things, and we decided we're better off out of them."

We certainly didn't say in the draft report that the small producer has got no future and he has to get big or get out, or anything like that, because we think small producers sometimes have an advantage of being fast and nimble on their feet and being able to do things that the big guys can't. From your situation, how do you see the pros and cons of alliances and coops or joint ventures, those sorts of things? Is it essential to get big or get out?

MR BRECHIN: I think if you look at the facts, and the facts are that Coles and Woolworths between them now hold about a bit under 80 per cent of the retail market. I think I wouldn't be too far out in saying that.

DR BYRON: Lorraine from APL told us before lunch that it was only 51 per cent.

MR BRECHIN: Between - - -

DR BYRON: Coles and Woolworths, between them add up to - - -

MR BRECHIN: In the two meat areas of processing and - - -

DR BYRON: Sorry, in the fresh meat market. Sorry, I misunderstood you.

MR BRECHIN: You've got to include the whole box and dice, I think. Then you've got the independents outside that. The fresh market at the moment would be more diverse than the rest of it, but you can see the direction it's heading. Both of those instrumentalities are in the business of satisfying shareholders, and to do that - and I believe it's gotten to almost a fairly mature situation. We've seen them get into fuel and all sorts of other things. I think there's only one left and that would be the pharmacy industry, unless they get into travel as well.

But you can see that they are going to achieve those results, with the power that they've got, by what they would describe as efficiencies; and that would be by maintaining or even increasing on retail products. We're seeing it happening daily. Look at the imported fruit that's coming in in cans in this country now. It's cheaper than it was 10 years ago. What's going to happen down the track?

We are clearly in that situation, and unless we can go out one, two, or even three years as Dr Parish alluded to this morning, with grain, so that we can then go to the people to whom we hope to sell pigmeat to and say, "This is what we think we can produce pigs for over the next three years with a rise and fall in there that's commercially realistic." They then turn around and say, "This is what we agree to give you." If it continues the way it is, then it's going to get even more volatile, in my view.

DR BYRON: We've had a lot of discussion in the hearings about the pressure that the major retail chains can put on all their suppliers, on the manufacturers and advertisers to put pressure on growers who put pressure on grain growers, and so it goes on. Everybody along0(y)19.retail chains

third payment, because of marketing conditions you're not getting anything." So that sort of dealing over a period of years has developed that sort of mentality.

MR EDWARDS: Is there any other specific policy suggestion that you'd like to put to us for consideration?

MR BERLIN: Not at this stage.

MR MATZ: The broad nature of the submission reflects our complaints about just the amount of resources we had to throw at the submission. But it would probably be fair to state that the industry has a strategic plan in South Australia, that goes out for 10 years. It does outline what our state wants to do to achieve profitability fairness in South Australia. I'm sure Primary Industries have put it forward, and it's been considered by you, and it will require extremely large amounts of capital investment, something like $90 million, which at this stage it's difficult to see where that's going to come from and how that's going to eventuate, given the current industry situation.

I'm not convinced that the industry is where perhaps you suggested it might be in your report, but I do take on board that perhaps I misread your report slightly. However, if in your review you could look further into supporting our statement implementing that plan and perhaps looking at other states doing the same thing that might be a policy that you haven't looked at previously.

DR BYRON: That's right. I guess we haven't asked the question of what's required to make the South Australian strategic plan come true. I'm not sure that other states have equivalent things but we are - it might not look like it - but we are trying to think ahead of the next six months and the short term crisis and we're trying to think of longer term but we also recognise there's not point in having a beautiful long term future if you go broke next week. So I think there are two different jobs to be done.

One is getting through the short term as well as possible and one is making sure that the long term framework and - so people keep telling us - it's all about reliable grain at reasonable prices, the right sort of grain, it's about getting the supply chain right and it's getting economies of scale. Everybody seems to keep repeating that and it seems to me that the industry and individual players within the industry all know that and are all working towards that in their own sort of ways. What we are debating is how much this government need to be involved and what can they usefully do and what should they not do that would get in the way.

MR BERLIN: Probably the only real concern that I have, apart from the grain industry side of it, is what legislative change has come into effect, such as the environmental things that are foisted on the industry, welfare requirements that are foisted on the industry and the time frames that are in place to adopt to those

considering the economics of the industry - that the industry is in. They are of concern.

DR BYRON: The code and dry sow stalls was raised by the WA Pork Producers Association as their number one issue. That was raised in Sydney by New South Wales Ag Department, who were very concerned about it. We've been told about how the sudden, almost overnight, introduction of a ban on dry sow stalls in the UK has greatly increased their prices and yet they are competing with other people across the channel who have different rules. It's pretty self evident that every time we impose another condition on ourself that the competitors don't have that it's whittling away at the competitiveness.

MR BERLIN: That's correct.

DR BYRON: That's not to say that governments won't do those things. I think it's your job and mine to make sure that they are aware of the consequences.

MR BERLIN: That's right and that's why I say that we need lead times to those changes.

DR BYRON: Just on the welfare code and the dry sow stalls, my understanding is, I think, they were given 10 years or something before they actually had to do anything.

MR BERLIN: That's correct.

DR BYRON: Now, just off the top of my head it seems that when you think about the economic life of capital assets and things, 10 years is a pretty long time to be able to depreciate something and prepare to move into a different sort of production technology if you have to, whereas if you were told you had to do the same thing within two years or five years, it would be a hell of a lot more expensive.

MR BERLIN: That’s right.

DR BYRON: We got that point, thanks.

MR BRECHIN: Can we just make one final comment and I've deliberately avoided the issue because I know that it's not something that's popular or ever likely to be with the Commonwealth government, but it's this capacity to cause a halt to imports at a level when an industry is in trouble. I'm talking about any industry now, but one of the things that we can't foresee in this business is whether there's a disease outbreak or something that happens overseas that causes meat to be sent in this direction simply because it's cheap - and that could well happen down the track.

One of the interesting things for me is that during the arguments over the Free Trade Agreement with America, and it's interesting that built into the agreements the Americans have retained the right to impose quotas and tariffs if imports from Australian beef - for the same reason - becomes an embarrassment to their own beef industry. I know as a matter of policy, because they are screaming to get access for agricultural products into all sorts of countries. They've not looked at the mechanisms that are available to institute those things, even though there may well be grounds for doing it for a brief period.

I would urge that in your deliberations we at least retain the mechanism to do that. I would note that in August last year the WTO actually made it a little bit easier to make those approaches but it would seem to me that from where the government policy is at the moment - particularly the pig industry - it is something that they steadfastly would refuse to even entertain.

DR BYRON: I'm not party to what cabinet decides and why they decide certain things but you may well be right. I think one of the issues is that having been extremely critical of the restrictions that were put on Australian lamb in the US or Australian beef into Korea or Japan, there might be a certain embarrassment if we then did exactly the same thing that we've been so highly critical of other countries about, that there may well be a feeling that we should be consistent and not adopt the tactics that we complained so vociferously about when others have done it. The safeguards provisions exist, the opportunity for countervailing duties or anti dumping measures exist, they are on the books, they can be used. It's a question that somebody has to make a case.

MR BRECHIN: It would have to be said though that with moving targets and currency alignments and all those sorts of things it is almost impossible to apply those in the time frame in which they are operating. You would have to have somebody constantly watching that they have the documentation to even look like proving your case.

DR BYRON: Are you suggesting that we should have something like the gate price in Japan?

MR BRECHIN: No, not at all. Scrub that bit out.

DR BYRON: No, just to put some boundaries on it, to a simple mechanism that says that whenever exports get above x per cent of the domestic market, something happens and then we'd have to figure out what something is.

MR BRECHIN: Well, I think 6000 tonnes of pure meat came in December.

DR BYRON: Yes.

MR BRECHIN: I don't know what that is in carcass equivalent, but it's a lot of semi loads of meat.

DR BYRON: At least 10,000.

MR BRECHIN: Somebody's told you that already have they? We are going to get meat at the end of this month from the US.

DR BYRON: There was meat from the US came in last month.

MR BRECHIN: Little birds tell me that the North American price has gone up.

DR BYRON: Yes.

MR BRECHIN: You'd have to wonder at what price that meat is coming in from America. The Americans - given that they've already publicly said that they want $50 million worth of the import market into this country, and I believe they want that for other reasons, not purely trade reasons. Maybe that's an instance where, if you had those things in place you could do something about it. We react very slowly to these sorts of things and it seems to me that the industry has to go through a hiatus down the track, historically, to do something about it. Each time that happens, it's bad for the industry.

DR BYRON: Yes. Just a casual observation that I probably shouldn't make, but there was a very, very serious downturn for the Australian pigmeat industry in, I think, 95 and there was an industry commission inquiry. I think before the ink was dry prices were booming and grain prices were down and people were doing fine. In 98, there was the situation--

MR BRECHIN: There was a drought in 93 and what used to happen after droughts was what you said before, that we always had a pay back, but that doesn't happen any more.

DR BYRON: That's right. Because the up side has been cut off. The down side is still there, but the up side has been cut off.

MR BRECHIN: That's correct.

DR BYRON: After the 98 Productivity Commission inquiry, thanks to a couple of very lucky disease outbreaks, export opportunities opened up and things recovered

pretty well and pretty quickly. I wish I could guarantee that this inquiry is going to result in an increase in world prices for pigmeat and the lowering of world grain prices but I'm not sure what the cause and effect relationship would be.

The serious point I'm trying to make is that we know that it's a cyclical industry, that world prices go up and down. Now that Australia is much more integrated in world markets both as an exporter and an importer, we're sort of locked into the world prices and it's going to be a roller coaster. The point that you and many others have made is that the grain is not necessary at world prices but because of a combination of quarantine and single desk, sometimes the grain cost goes well above world price. So we are taking out the good times and leaving the bad times.

Is there anything else you'd like to say to wrap up? I said this morning in my opening remarks that at the end of the day we always give the opportunity to anybody in the audience that wants to come forward and put something on the record to do so, but most of the audience seems to have not come back since lunch time.

DR BYRON: But if anybody would like to make a statement for the public record? You'd better come and take a microphone. I'm sure if it's coming from you it's important, so we'd better have it on the record.

MR POPE: Graeme Pope with PIRSA. Just this morning, we heard from one of the AusPork reps about the welfare restrictions and regimes in the EU compared to here and Canada and the US and reference made to the use or non use of stalls in Denmark. I think Rod said that they have free and long term access to them, but they don't. They are also on a time line running down to get rid of stalls. Canada, not, America, not.

DR BYRON: But Denmark is going to have to phase them out.

MR POPE: You lumped Denmark in with US and Canada.

DR BYRON: But they know what the time line is for introduction and they've been given a phase in period.

MR POPE: Yes. Everywhere there's been restriction or cut back there's been a phase in and it's either been four, seven, 10, 15 or whatever. But Denmark's clock has been ticking for quite some time to the absolute obliteration of stalls. Holland's the same, Germany's the same, Sweden's in front of them and so on. When those pork people said "Well, look at the Danes, the Canadians and Americans - they can do what they like with their stalls" the Danes know that the day is going to come when they will be like the English who you just referred to.

DR BYRON: Thank you very much for that clarification. If there's nothing else, I can declare the public hearing closed and we'll reconvene on Monday morning in Melbourne. Thank you very much, ladies and gentlemen.

AT 2.52 PM THE INQUIRY WAS ADJOURNED UNTIL
MONDAY, 7 FEBRUARY 2005

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