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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 MELBOURNE ON TUESDAY, 25 JANUARY 2005, AT 9 AM

DR BYRON: Good morning, ladies and gentlemen. Welcome to the public hearings of the Productivity Commission's Inquiry into the Australian Pigmeat Industry following the release of the draft report last December. My name is Neil Byron and I've been appointed the presiding commissioner for this inquiry, and assisting me today is Mr Geoff Edwards, who's a distinguished agricultural economist, who's been working with the commission for this inquiry.

The inquiry started with a reference from the Australian Government Treasurer which was received on 31 August last year. The commission is required to report on the competitive situation of and 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.

We're extremely grateful to the many organisations and individuals who've already participated in this inquiry. We visited piggeries, abattoirs and industry associations in most states, and the purpose of these hearings is to facilitate public scrutiny of the commission's work and to get comment and critical feedback on the draft report. Following this hearing in Melbourne, other similar hearings will be held in Perth, Brisbane, Sydney and Adelaide, returning here to Melbourne on 7 February. We'll then be working towards completing the final report to the government by the due date of 18 March, having considered all the evidence presented in these hearings and the submissions, as well as other relevant information. Participants in the inquiry automatically receive a copy of the final report once it's been released by the Australian government, which can be up to 25 parliamentary sitting days after the completion of this inquiry.

We always like to conduct our hearings in a reasonably informal manner, but because we're taking a full transcript, comments from the floor are not particularly helpful. But at the end of every day's proceedings I always provide an opportunity for anybody in the room who wishes to come forward and make a brief presentation to do so.

Participants are no longer required to take an oath, but they are required under the Productivity Commission Act to be quite truthful in their remarks. Participants are welcome to comment on issues raised in other submissions or by other speakers during the day. The transcript will be made available to everybody from the commission's web site following the hearings. Copies can also be purchased using an order form available from the staff here today. The submissions are also available on the web site or by order form.

Finally, to comply with the requirement of the Commonwealth occupational health and safety legislation, I have to draw your attention to the fire exits,

evacuation procedures and assembly points. In the very unlikely event of an emergency requiring the evacuation of this building, an alert and evacuation alarm will sound. You should follow the green exit signs to the nearest stairwell, and lifts are not to be used. Please follow the instructions of floor wardens at all. If you think you'll be unable to walk down the stairs, it's important you advise wardens, who'll make alternative arrangements for you. Unless otherwise advised, the assembly point for the commission is Lansdowne Street on the east side of Treasury Gardens. Can I also ask anybody in the audience to turn mobile phones off, or at least onto silent mode.

Those are the preliminaries, thank you, ladies and gentlemen. I'd now like to ask our first participant, from the Victorian Farmers Federation, Mr Kingma, if you'd like to come over and sit in front of any of the microphones, make yourself comfortable. The normal way we do this is that if you can sort of summarise the main points you want to make in, say, 15, 20 minutes, and then we can have discussion and questions and answers on that. Thank you very much for coming today.

MR KINGMA: Thank you. Thank you for having us. I have the dual role of representing the Victorian Farmers Federation and also my own enterprise, Gunpork Joint Venture. First of all, I'd like to make the comment that, in representing the Farmers Federation, due to leave over the Christmas period and the time frame that was set for us to respond to this, the position that's taken by the VFF group is largely from myself in consultation with Bev and not widely consulted, so it ought to be noted.

As a general comment about the hearing process, the first comment that I'd like to make is that the time frame and the timing of the commission limits the amount of realistic contribution that the industry can make. To get industry input over a Christmas period lacks understanding, I believe, of what it takes to manage a farming enterprise 52 weeks of the year, seven days a week, through a public holiday process. We need to work a lot harder during that time, and that's the very time that the commission asks for us to sit down and respond to its draft report. I think it lacks understanding of the industry and what we do and how we manage our process.

DR BYRON: Can I just respond to that. We have absolutely no control over the timing, the starting date and the finishing date, and the steps that have to be done in between. We're no happier with the timing of this than you were, but that's it. It's not that we chose to do this over Christmas; we would rather have been doing something else too. So I do understand what it's like to run a farm 52 weeks of the year, but unfortunately the reporting date for this gives us absolutely no other choice but the timing we had to follow.

MR KINGMA: The positive part of that comment is both our concerns are noted, then.

DR BYRON: Thank you.

MR KINGMA:

DR BYRON: No, okay.

MR KINGMA: No. Certainly not in our district, no.

DR BYRON: Rereading the report that my late colleague, Richard Snape, wrote about five years ago, in talking about the opening up of the pigmeat industry to imports in 97, 98, he was saying that one of the consequences would probably be that the traditional spike in the price of leg meat in the second half of the year was likely to disappear because, basically, there's a big farm down the road called the rest of the world that's willing to supply at world prices. So he made - the prediction at that time was that we might actually see the end of that pre-Christmas price spike, and he also said that that represented a fair part of the annual profits of many pig producers. So his concern was that if you no longer get the cream in those couple of months - well, it's not the cream; it's the actual underlying as well. So is that sort of what's happened?

MR KINGMA: That's typically up until a few years ago. Typically you would make most of your money in the pig industry from September through to January.

DR BYRON: Right.

MR KINGMA: Now, end of January, even though the price is depressed, during the warmer seasons the pigs require less energy to sustain their bodies. So feed input levels go down. So there's a window of opportunity to make money out of your pig farm through that five-month period, essentially. Then through the winter months, if you could pay for your infrastructure and pay for your oncosts, you were doing generally reasonably well, you know, in the scheme of it. The difficulty is that as people look in from the outside world they remember the high price and say, "Oh, these guys made plenty of money." They don't appreciate, as you've said, the flatline or the below line parts of the year that you're producing just to maintain your oncosts. And that's one of the concerns for the industry, as you have an ability for people to come in from overseas and, sure, you will debate how those prices arrive and better representation should be made to you, but from the farmers' point of view the effect is harsh.

DR BYRON: Well, I mean, we've got evidence, studies in Europe, from Denmark, Ireland and other places like that, that are showing that at the time of low world pigmeat prices a lot of the Danish producers were doing it tough and were losing money and that from their point of view the sort of higher than average prices in the Australian market in the few months leading up to Christmas, it seemed to them like a terrific opportunity, in which case it's very easy to understand why they bid to supply this market if they see it as a place where they can get good prices. You

know, as a producer, does that seem like a logical way to think about how they're going to sell their product.

MR KINGMA: I agree with everything you're saying, just as I as a producer will seek the highest price for my commodity. I guess the concern I have for our industry is that - and where I am in disagreeance with the commission is in fact how the price is arrived at. There seems to be inconsistencies with the price that it's sold at, and that needs to be resolved, and hopefully I trust that the APL will offer evidence of that.

DR BYRON: Okay. We're doing everything we can to get to the bottom of that.

MR KINGMA: Sure. It needs to, because it will be a continuing difference of opinion within our groups I'm sure.

DR BYRON: Geoff, did you want to come in with a question?

MR EDWARDS: I suppose one high level question that arises here, you know, stems from the reality that we live in a world that's becoming more and more closely integrated. Australia has, you know, devoted considerable resources to trying to free up overseas markets for its products, both agricultural and non-agricultural products. I think it's widely accepted that international specialisation increasingly will take place. We see this in many other areas. More and more we import parts of cars into Australia. Our firms make parts which in some cases are sold successfully to BMW and Mercedes-Benz in Germany.

It's perhaps the way the world is going that we're going to see more and more trade in all sorts of things including pigs, and perhaps increasingly that trade will be in components of those things, whether they be cars or pigs, not in the whole product, the completed car or the whole pig carcass. Do you have any problem with this view of the world?

MR KINGMA: I have difficulty in trying to breed a pig without its front legs, but when you talk about components of a pig, I accept your comment that the world market has become more specialised and people will shift product around the world more readily than they have in the past. I have a view though that any nation should not give away for the price of free trade those things that it does best, and one of the things that we do best is we maintain the health of our herd, and so I have a strong view that any imports should take care of our competitive advantage in that we can grow pigs in a healthier state than any other land mass probably in the world, and that's because of our isolation. So in our rush to take in these parts, there should be great care taken not to trade that particular part.

I also have a view - and it may be slightly cynical - that, yes, people seem to be in a hurry to do this exchange of trade, but often there seems to be blocks when we pursue trade elsewhere that we seem to be making way for here, and I have a concern that we really need to come back to the pricing mechanism and understanding the pricing and the cost from our competitors, so that in our rush to be free traders, that we lose our ability to be competitors in the future and any short-term gain may be lost in long-term reality if our industry disappears because of short-term predatory pricing, then it's not an industry that just can crank up easily because of the high capital cost. Consumers and other people may in the long term find themselves worse off.

So I think there needs to be a balance on the examination that the costs and the way people export needs to be real, an examination of the impact of losing an ability to compete because of predatory pricing and what effect that has in the longer term, and I believe that we need to make sure that we don't trade the very thing that we're good at, and that is keeping our quarantine standards very high.

MR EDWARDS: I think that we would all agree that a sound quarantine system is vital for the future of our pig industry and other agricultural industries. Do you have any specific concerns that our quarantine system is not working satisfactorily to protect the future of the pig industry?

MR KINGMA: I do have concerns of the push particularly from the US which has PMWS and PRRS, and I have a particular concern that the New Zealand experience where they've imported, that disease could be transmitted. There appears decisions being prepared to be made without the full bulk of understanding of the disease, and I guess as a pig industry representative, I would like people to be absolutely certain before they sign off not on, you know, likely events, given a lack of understanding of some of these diseases.

MR EDWARDS: It's a tough test to be absolutely - I take that to be 100 per cent certain. I'm not sure if it's feasible - - -

MR KINGMA: The reality - - -

MR EDWARDS: - - - to get there.

MR KINGMA: - - - isn't a hundred per cent. I accept that, but I would like it to be a lot closer to a hundred per cent than 90 per cent.

MR EDWARDS: So you think it's too low now.

MR KINGMA: I believe there are moves and, as you would be aware, pig industry

is pursuing those aspects, and as an industry obviously we think there are some problems there.

MR EDWARDS: You have referred to predatory pricing damaging our pig industry. Can you point to any particular instances of predatory pricing?

MR KINGMA: Certainly the Danish middles last year were a case of where there was an ability for them to use those middles in the Australian market. They devalued the whole - the pricing structure prior to Christmas last year, the pricing structure didn't plateau or straighten out until the Danes agreed not to continue to supply the middles at those lower prices and acknowledge that - and then the price stayed static from March through to July. So it was a very abnormal - the effect of that on the - if you plotted the Australian meat prices was very significant in that as the middles came in, the price dropped significantly. When the pricing practice stopped, the decline stopped also, and it's one of the difficulties for the pig industry that it didn't return to a normal pattern until we got through to July this year.

MR EDWARDS: I can understand that from an Australian pig industry perspective, that might look like predatory pricing. Is it possible that from a Danish industry perspective, that was sound commercial and profitable commercial activity?

MR KINGMA: I don't have expertise on the Danish industry to make that comment really.

MR EDWARDS: Thank you.

DR BYRON: If I was a manufacturer of ham, bacon and smallgoods in Sydney or Melbourne and I had - thinking about the supplies in the second half of the year leading up to Christmas and I knew from experience that the Australian prices were likely to run up and I find out over the Internet that I can order a container load of pigmeat from Canada or Denmark or somewhere else perhaps, that is a bit lower than Australian prices or what I expect the Australian prices to be, it's quite likely that, you know, I place an order for a few containers.

In fact it might even be a good bargaining ploy on my part to go to my Australian suppliers and say, "Listen, mate, I can get meat from Denmark for X. I'm not going to pay you any more than X," whether I actually import any or not. Is it a possibility that that's what's happening; that the importers actually bought meat from Denmark or Canada purely to avoid, you know, the seasonal price spike in the Australian domestic supply?

MR KINGMA: I guess you've asked that question of the producers and those that have imported goods and - - -

DR BYRON: I've asked it of lots of people I think.

MR KINGMA: - - - I certainly haven't, and we will - it doesn't matter from which angle that we jump on this debate, but the response from myself will be yes, as part of our trade agreement, provided that the subsidies don't - and the ability to run those prices is because of artificial circumstances, then if they aren't - and I guess that's what you would try and find out and I'm probably not the person to supply you that information, but it's in that answer that it is our belief that is in fact the case; that there are subsidies and there is inducements offered to enable that to occur. So at that point, yes, the result is that the retailer and the wholesalers and processors have that advantage, but we see it as an inappropriate advantage.

DR BYRON: Depends which side of the table you're on, doesn't it?

MR KINGMA: Under the typical terms of a level playing field that we start out and head down that road together.

DR BYRON: Can I change tack a bit and ask you about the domestic fresh meat market because it does intrigue me a bit that, you know, relatively small quantities of imports - say 30,000 tonnes from Denmark and 30,000 from Canada, compared to Australia's production of nearly 400,000 tonnes - it seems to have so much influence not only on the prices for meat going into ham, bacon and smallgoods, but it has influence on prices of all the domestic fresh meat market as well. But given that, you know, imports can't supply the fresh meat market, do you see sort of great growth prospects there for the Australian producers, you know, to supply more and more of the pigs into a rapidly expanding Australian domestic market for fresh meat?

MR KINGMA: Yes. I think your question was in two parts. One was about how pigs are marketed and how the price of pigmeat in general is derived and the second is the opportunity within the fresh meat market. Is that a fair summary?

DR BYRON: Yes. That's what I meant to say, thanks.

MR KINGMA: In terms of marketing, I agree with you that we market essentially two different products within the industry. We tend to have a fairly universal price for pigmeat and it is something that is part of the industry restructure package, that you would be well aware of. But the industry needs to address that and to some extent is addressing it in terms of how producers are now supplying that fresh pigmeat market. More and more producers are taking a position where they are supplying into that fresh meat market on longer term contracts with a form of stability.

So why it comes about is, unfortunately, quite often the price of pigmeat is measured on a combination of sales around the country, what it perceives has been paid for pigmeat, and saleyards can spike very high. If 10 buyers are looking for 100 pigs each and there was only 500 pigs there, it's spiked because they wish to fill their orders, and conversely it drops away very rapidly. There needs to be a separation between the price - my belief is, there needs to be a separation between the price of fresh meat and the processing sector significantly in the future because that will focus people on the market that they are supplying.

The second part of your question, is there opportunity, I believe there's significant opportunity for pigmeat as part of the Australian - and once again, hopefully the work that the industry is doing with the supermarkets will drive a better consumption on that, and that is changing the way we present our meat, changing the way we market our meat, needs to be addressed and continue to be addressed, and offer that incentive to producers that wish to be part of that process.

DR BYRON: Because the per capita consumption of fresh pigmeat - in fact we're having trouble finding a breakdown of Australian pigmeat consumption between fresh versus ham, bacon and smallgoods. But the total Australian consumption of pigmeat seems to be very low compared to Europe, North America and many other places.

MR KINGMA: It is, yes.

DR BYRON: And would suggest that, you know, there's a fair amount of potential for growth there and that's a market segment that is basically entirely for Australian producers, isn't it, because of the quarantine?

MR KINGMA: Yes, absolutely.

DR BYRON: So that there's a lot of upside there, I would have thought. But I guess my other question was reflecting some confusion about how distinct are the markets for porkers and baconers and how much crossover is there between them. It's not just a function of age and size, is it?

MR KINGMA: It is and it isn't. You are not going to sell a 50-kilo dressed weight pig into the bacon market. It has no commercial value, so yes. But when you get to that line between 70 and 80 kilos dressed, there is some crossover and there is some opportunity within the Australian marketing to examine ways of elevating that weight and, as you pointed out in your report I think, our average carcass weight of the three or four, we were sitting on 73 and there were countries upwards of 80 kilos, without looking at it again, and that makes a significant difference. So it's the ability to market those heavier weights and supply product that gets acceptance within

consumers that will add to our competitive position.

DR BYRON: Do you know if there are quality differences between Australian and Danish methods for making bacon?

MR KINGMA: Given that I only eat Australian bacon from my pigs and given I'm probably not the best judge - but I think you will have processors that will say to you the Danes' ability, because of the volume, to select in fact that exact size is an advantage to them.

DR BYRON: Yes, that's what I was thinking. We spoke to some manufacturers who said, "Look, we buy the Danish stuff even though it's more expensive because of the way it cuts, the way it presents and, you know, the sort of mechanical, technical properties of the product."

MR KINGMA: It's about the size of the carcass.

DR BYRON: I think I read somewhere that the porkers, the younger and smaller pigs, are better tasting for fresh meat or whatever but the bigger and older pigs tend to take the curing processes for ham and bacon better, so that in terms of what a particular piece of meat is best suited for, whether it's to go as a roast or to be made into bacon, is partly a function of the age of the beast. Is that right?

MR KINGMA: It's actually to do with the size, I suspect, more than the age. But the age is a direct function of the size so - and I suspect, and you're really asking a farmer-based person about the processing industry, that I probably don't have an expertise to give a qualified answer to you.

DR BYRON: Sorry, my fault. I guess the reason that I'm going down the track of, you know, what are the prospects for the fresh meat market, somebody - and I think he may be even in the room here today - talked about what happened in New Zealand where imports have taken a fairly large proportion of their manufacturing meat market and so the domestic producers are left with supplying fresh meat and 20 or 30 per cent or whatever they can get of the manufacturing market. There is a possibility, I guess, if imports continue to grow in Australia, that something like that could happen here. Now, I guess what we have to grapple with is what would be the consequences of that and what, if anything, could be done to change it? Is that a scenario that preys on your mind at all?

MR KINGMA: That the?

DR BYRON: That the imports just continue to grow as a percentage of the manufacturing market.

MR KINGMA: Absolutely it plays on my mind. If it didn't play on my mind I probably wouldn't be here today, would I?

DR BYRON: Yes.

MR KINGMA: That's a natural consequence of the - you use the New Zealand experience and, you know, the difficulty is that they have also imported some of the nasty diseases along with it. That concerns me greatly too as an industry in terms of being competitive.

DR BYRON: Yes, sure.

MR EDWARDS: You've referred to a universal price for pigs and that seems to be consistent with argument that has been put to us in a number of submissions, that although the imported product is a small segment of the pigmeat classes sold on the Australian market it's tending to drive the whole Australian pigmeat market price-wise. You said that there needed to be a separation of the price for the fresh and other pigmeat markets. Could you say a bit more on just what you mean by that and how you see - you know, what possibilities you see for that to happen?

MR KINGMA: I think there needs to be a relationship with the people that market the fresh meat and an understanding of the costs of production and an understanding about how each sector makes an income and makes a reasonable income out of the sector. Therefore we need to - as we learn to contract those segments of fresh meat particularly, we need to examine what the supply chain requires, what our costs are, what their costs are, how we best can go forward together and use the opportunities that Neil suggested, and start to enter into agreements as either collective farms or individual farms of supply that targets those specific markets, independent of the processing sector. So I believe the marketing and the pricing structure ought to be a partnership between, you know, the supply chain.

MR EDWARDS: There does seem to be a bit of a difficulty in pricing different parts of a pig on the basis of costs. You said a few minutes ago yourself that you could only produce a whole pig, you couldn't grow a pig with only two legs. So this joint product nature, if you like, of the pig does pose difficulties in pricing on the basis of costs of production. Perhaps more generally we would see that the cost of production focuses just on supply side issues whereas demand is clearly also very important in pricing. I'm just wondering how far we can reasonably and helpfully go in using costs of production as a base for pricing different parts of the pig.

MR KINGMA: I'd prefer to look at it as an opportunity to utilise those cuts that previously you might be - you know, you're talking about a shoulder in a fresh meat

market and utilising those and looking at ways that the industry can present that meat that offers new opportunity to consumers, new opportunity to the retailer, because like us, if we can find ways of utilising those cuts differently then the ability to recoup funds or costs, or however you word it, to generate a price out of the carcass that suits us all is enhanced. So I think there needs to be a recognition of the costs of production as there is in many things that we do.

As a person seeks to negotiate their wage, essentially they look at the cost of living and that's how much of negotiation takes place. So it shouldn't be discounted as one of the factors that we look at, but it shouldn't be the only factor. It should be exploring new ways to present the meat and to generate new demand for alternate parts of the carcass.

MR EDWARDS: Yes. Well, that seems to be in the category of market development rather than allocating costs between parts, doesn't it?

MR KINGMA: Sure, yes.

MR EDWARDS: But that obviously is a good thing if it can be done economically.

MR KINGMA: Yes.

DR BYRON: Can I just come back to the sort of long-term underlying competitiveness. There's a lot of sort of short-term, you know, food prices, disease outbreaks, droughts and stuff, but if you look at the fundamentals that drive the long-term competitiveness of Australian producers of pigmeat versus other producers in the rest of the world, what we've been told is that that long-term competitiveness is basically all about three things: the feed prices and feed conversion efficiency, the economies of scale in both the growing and the processing side, and thirdly about having, you know, really efficient supply chains of the kind you were just talking about, going all the way from the grain production through to the retailing or wholesaling at least of the meat product.

You saw the bit in the report by Clair Nixon, the American consultant we got, he said, look, you know, it's - unless Australia can get, you know, access to large quantities of relatively low-price grain, unless you can get the economies of scale, and they talk about single processing units, and in the US they're the same size as the entire Australian industry put together, you know, we're always going to be a sort of a marginal producer who can compete well in niche markets, but we're never going to be sort of a big global player. Do you have any reaction to that?

MR KINGMA: To that comment?

DR BYRON: Yes.

MR KINGMA: Certainly obviously I agree about the costs of grains and it was one of the things that I spoke about initially, but it is a significant part. The most significant part of our industry cost structure is the cost of grain and the concern that we have about the way that the grain is priced in Australia, and, yes, we essentially are the users of the - I was going to say the offal of the grain industry, the outer spec or the - and therefore the supply varies significantly from year to year. It's therefore wise for the industry to push for research in that area, which it has done so successfully, and it is part of the industry going forward to consider those costs.

Where we compete well is we compete well on the health of our herd, and that does have a significant impact on the cost compared to those. So it's not all on the bad side of the ledger and the Australian industry has significantly in recent years shifted towards producing or having a supply chain that concentrates the kill and the processing of the pigmeat. So I don't have all doom and gloom about our ability. It will not be on the scale of the American industry because we don't have the scale of the fee ever to do that, but we have the opportunity to be good competitors, given some of the things that we've spoken about today.

DR BYRON: But that suggests sort of niche markets placing high-quality Australian product - - -

MR KINGMA: Sure.

DR BYRON: - - - in markets where people will pay for that. The Brazilians are going to be able to produce huge commodities of bulk commodity-grade stuff and supply that at, you know, much lower prices than even the Americans and Canadians, I imagine, but it won't be in the premium markets. So does that suggest - you know, it's very hard to come up with a yes-no answer to is the Australian pigmeat industry internationally competitive, because I think the answer is that, you know, some of it is and some of it isn't, and in some markets we're terrific and some markets we're not. In some products we're, you know, as good as anybody else in the world and some where we're less. So you can't come up with a yes-no, black or white answer to that. But, you know, the opportunity does seem to be there for capturing the prices for the quality and, as you say, the clean and green premium that we have.

MR KINGMA: I don't disagree with that.

DR BYRON: The impression that I got from the piggeries that we've visited is - without exception, they all seem to be incredibly well run both in a sort of a technical, you know, animal husbandry production sort of sense and also as

incredibly sophisticated businesses. People know exactly where every penny of expenditure is going to and every penny of revenue is coming from and, you know, I've been incredibly impressed that, like a really well-oiled Swiss watch, they're going beautifully.

But then suddenly some bomb goes off somewhere. This very finely balanced equilibrium is disturbed by, you know, a disease outbreak somewhere or a price spike or extra containers of unexpected import stuff arrive in Sydney, and suddenly the managers have got to sort of rejig everything to accommodate this unexpected thing that's happened and upset the balance. Firstly, is that impression plausible, sensible and, if it is, are we likely to expect, as the Australian industry becomes more integrated with the global pigmeat market, that more of these sort of surprises are going to happen to us? In this case, you might always be a bit off balance. There's always something going off, you know; a mad cow outbreak in Canada affects the sales of pork from the US to Japan. It's got nothing to do with you sitting on your farm, but it is going to affect the prices that you get.

MR KINGMA: Are you trying to cheer me up or ask a question?

DR BYRON: I'll ask the question.

MR KINGMA: Your assessment of how our industry works I think is accurate. I think the industry has a highly skilled workforce, highly understands the issue of production and the costs of production, and it's a very unique industry where accountants and vets and all sorts of range of professionals find themselves drifting towards, because there's a high range of skills required to run within the industry, and coupled with that - and this is its uniqueness - is that then you have guys that have to have the ability to actually work hard and work in those - working in rural communities and work and tend to these animals seven days a week.

So it is a unique industry. It is a very responsive industry. In the 17 years that I've been with it, I've noted enormous change, and the ability of the industry to take on change is one of the most encouraging and satisfying things of being involved in the industry, because if someone presents good information and good technology, the industry has an enormous ability to take it on and to go with it, and that's a nice part of being with the industry.

Coupled with those outside influences makes it a difficult industry, and it has been most difficult in the last five-year period to be involved in the industry because of the variations, and as you quite correctly point out, an outbreak of mad cow disease or the Nipah virus in Malaysia or any number of things have impacts on things I can't control as a producer. Yet they impact on us greatly, and I guess to a certain extent that's why we look to these hearings to examine the industry and to

examine the impacts and to bring out some of the rationale behind what is real and what can be done and what can't be done.

DR BYRON: But I mean all the technical comparisons that we've seen show that on the - in terms of what happens within the piggery itself, Australians are as good as anybody else in the world. They're right up there, but in terms of, you know, delivering the final product, the international competitiveness - I don't think anybody has suggested that we're technologically inferior or technically inferior.

MR KINGMA: No.

DR BYRON: The question comes back to say the economies of scale, the feed price and conversion efficiency and getting the supply chain right. It seems to me when we look at, say, Denmark, their piggeries on average are no bigger than ours and their grain prices are not much different from ours, but they do seem to have exploited all the economies of scale in terms of the processing, and they seem to have their supply chains very, very finely worked out.

What I'm trying to get at is, you know, how do we learn from that and how does the Australian industry continue to improve, and it seems to me in my position of profound ignorance that the piggeries themselves, as I say, seem to me to be incredibly well managed, but it's what happens outside the piggery that you can't control that is going to determine how well or how badly you do.

MR KINGMA: I think you may be correct, that in the past, farmers have taken a step back and said, "Well, I've produced the goods. I've got it ready for market," and we are being very much price takers as a result of that, and I guess that's why I made my comments earlier, that we've got to step outside that and we've got to become smarter and we need to enter into these, and certainly parts of the industry are saying to do that significantly, and enter into arrangements with the supply chain, that we become part of it, we become part of the risk of the supply chain I guess in terms of if the people don't consume, we haven't sold our meat. But we also become party to trying to develop product and trying to develop carcass specification that meet those demands.

We're never going to - just the nature of the pig industry and the nature of how we're allowed to develop our piggeries, we're never going to be able to put them in the Australian industry in the location the size of Gippsland and get all the, you know, economies of production that you suggest because we won't be able to get enough grain, we won't get the permits to start with and nor should we, you know. We need to address that and go forward with what things that we do well. I would encourage you to save some of your questions for the other gentlemen later on in the day.

DR BYRON: Okay. I'll take that hint. Are there any final comments that you'd like to make before we let you out of the hot seat?

MR KINGMA: No.

DR BYRON: Can I just say thank you very much for coming and thank you very much for the input and the comments.

MR KINGMA: No. It's a pleasure. It's a pleasure. Thank you.

DR BYRON: Thank you. It must be time for morning tea, and after that we'll have the representatives from QAF Meat Industries. Thank you.

DR BYRON: Thank you very much, ladies and gentlemen. If we can resume the hearings. Next we've got the representatives from QAF Meat Industries. If you could just each introduce yourselves in your own voices so that the transcripts will recognise which is which later on and then usual thing, you know, if you want to summarise the main points that you want to make and then we can talk about it for a while. Thanks very much for coming.

MR SMITH: My name is Nigel Smith. I'm the managing director of QAF Meat Industries.

DR LUXFORD: My name is Brian Luxford and I'm general manager of Technical Services at QAF Meat Industries.

MR SMITH: The way we will do this report is, sir, that I'll be mostly delivering it but we'll be tick-tacking with Brian through the process in order to emphasise certain points. Our process will be to comment and respond to the draft findings in the report. Just to introduce our submission, certainly our industry still faces the key issues which prompted the setting out of this inquiry in the first instance, that is the significance of imports coming into this country. They continue to flow in at ever-increasing levels and, in fact, the moving annual total of imports to December 04 is nearly 14 per cent or 13.8 per cent on the 03 volumes. Another factor that has occurred in that last two months, and disturbingly, is that the United States, which is the second-largest pig producer in the world, has also started to commence imports into this country, albeit at very low levels of something like 380 tonnes into the country in the latter part of 2004. However, that is certainly disturbing to our industry.

The point that we will be wanting to be stressed throughout our submission is that the Productivity Commission, as far as we're concerned, failed to adequately analyse relationships between imports and the competitiveness of the Australian industry. If you look through all the draft findings, we couldn't really find one of the draft findings where the draft report of the PC's findings discuss the competitive nature of the imports. It was really about other issues. So I think that's a concern that we had in the draft findings.

Just turning to the specific draft findings, if you look at draft finding 3.2, which talks about the competitiveness of the Australian pig producer:

> The domestic market and some of the international markets declined between 2002 and 2003 -

this is the draft finding I'm reading -

> in part due to movements of exiguous factors such as exchange rates and feed prices. But the exchange rate and feed price movements during 2004 boosted the short-term competitiveness of Australian pig producers and some international and domestic markets, enabling some recovery of profitability. Fluctuations in competitiveness is likely to continue.

I mean, our response to that is that whilst both feed prices and exchange rates have affected competitors - we're not saying that that's not an issue - but the significant increase in the volume of importer products and also the timing of the arrival into this country, as far as we've concerned, has more significance than those other factors.

In our submission, if you look at figure 3 of our original submission shows that even at normalised feed prices our company - and I'm talking about our company in this instance, QAF - has recorded acceptable returns in only about three of the last seven years, which we attribute largely to the effects of imports on pig meat and price. Data presented in APL's first submission to the commission shows that over this period Canadian imports share of leg production has risen from 19 per cent to 68 per cent and the Danish middles have increased from a negligible level to 56 per cent of Australian production of middles for manufacturing bacon. These levels are significant, they're huge and we're a bit surprised that the commission relates only to 33 per cent of values recorded in the Productivity Commission draft report page 10 - sorry, page 19.

Our submission really demonstrates that the level of tssion relates only to 33 per cent of values recorded in the Productivity Commission draft report page 10 - sorry, page 19.

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don't have, they can use those support structures to defray some of those gate pricing activities that we can't. We don't have that ability to do that. Obviously there's certainly other factors that impact the Japanese market; things like exchange rates, particularly exchange rate where you have a set gate pricing system really does come into play enormously. So if exchange rates do go the wrong way, you're not in a position to be able to negotiate that offer at all because the gate price is set in Japanese yen and that's it.

So we would agree that there is an ongoing role for Australia which you recommend. We would agree with that, and we agree that that's part of the problem out there for us to capture some of these international markets. Draft finding 5.2, the finding states that:

> Some, but not all, forms of assistance in overseas grain and pigmeat business can lead to lower world and thus Australian pigmeat prices. While adversely affecting pig producers and primary processors in Australia, they'd benefit Australian pigmeat consumers, retailers and manufacturers.

Our response to that is - and I think this is one that's certainly been taken up by the press; certainly been taken up by the leaders of the industry - is that - and whilst you have responded to it today, we still have great difficulty that while all forms of assistance may lead to lower world prices, they will eventually restrict the potential for high prices which will affect the true cost of production. In the majority of years, Danes have a higher farm cost of production as shown in the reports. However, with their current assistant packages, they still remain profitable at product prices at which Australian producers are losing money. That's a reality. It really is a reality that whilst those support structures are there, it certainly hurts.

The second point to this where the finding deserves - the important deserves comment is we believe it's a dangerous precedent to justify that where countries have these internal support structures, subsidies - call them what you like, but that's good for consumers in this country. If the Australian government is out there in the world saying, "Look, we should dismantle all of these," and we agree totally that they should be dismantled, but whilst they are still present, I think it's dangerous to suggest that, yes, consumers will benefit from that, that will potentially be at the expense of our pig industry and potentially other agricultural industries. Should there be a situation where for argument's sake if beef was allowed into this country or if other agricultural commodities were allowed into this country, if the disease status of other countries was such that it was able to get beef into this country, I could not believe for one moment that the suggestion that, yes, this beef is subsidised, but, look, it's good for consumers and to hell with the beef producers of Australia.

I'm not suggesting you're saying that in your submission - sorry, in the draft report, but certainly that's a conclusion that one can draw from the draft findings in that whilst consumers will benefit, that's potentially a good thing, even though it may well be at the expense of that agricultural industry producing that raw material.

MR EDWARDS: If I could just interject there, that doesn't seem to me to be a reasonable interpretation of the report to suggest that we are discounting the adverse effects on producers. I think that's recognised quite clearly, pointing to the gains to consumers is simply filling in the picture. If we did not point out that consumers gain from actions of overseas countries, which as you have recognised our government has opposed and is trying to change, if it did not recognise that our consumers are in fact benefiting from that, we'd be painting a very partial picture.

DR LUXFORD: I think the problem is though, Geoff, is that the way it reads is that the conclusion that we've come up with - and we're not the only ones who have come up with it - is that you're basically saying, "Well, fair enough. One part of the economy is going to hurt, but it's balanced off by the consumers," and if we add in - and this is where I suppose we are again differing, is that the consumers are really benefiting from a subsidy from another country, that that's all right. If you put those two things together, then the way that statement reads is a lot of people would think that that's not maybe good policy.

So I suppose that's where we're coming from, but it's the interpretation - and I agree with you that, yes, one loss, one win. But if you put a few other things together with it, yes, it just doesn't sound fair I suppose to us.

MR EDWARDS: If car prices are cheaper in Australia because of subsidies provided to car exports in a foreign country from which we import, you know, is it a bad thing that our consumers gain the benefit there?

DR LUXFORD: I suppose it depends if you're a car worker in Australia.

DR BYRON: That's exactly what they've said to us in this room, all clothing, textile and - - -

DR LUXFORD: Yes.

DR BYRON: - - - footwear workers in Australia, Australians buy cheaper clothes because China has low labour costs.

DR LUXFORD: But that's not subsidy. They have a comparative advantage in labour and that's fair enough. That's the world of trade and we understand that. What we're upset about is that if their comparative advantage is not a true one, but a

contrived artificial one.

DR BYRON: Which is why we've been trying for the last four months to get to the bottom of whether or not there are significant subsidies, particularly for Denmark, and in spite of everybody's vehement assertions that there are, we haven't been able to find them.

DR LUXFORD: But you report them in the draft findings. If we look at page - what is it - yes, 217:

> Export subsidies, budgetary outlay and quantity reduction commitments. Cost to government 20 million euros, provide support for the pig production industry in the European union.

DR BYRON: We haven't been able - - -

DR LUXFORD:

> Program is likely to have an impact on the pig production sector.

The only thing you haven't done is quantified it. Now, I'm not sure whether that's because you haven't got the time to be able to do that, and then I remember in our - - -

DR BYRON: Basically it's minuscule. What we would have - - -

DR LUXFORD: That's not what it says.

DR BYRON: No. What we would have to find to be consistent with this figure that the Danes are getting 20, 25 per cent is something like about 20 billion euros; not 20 million, but 20 billion, okay? There is nothing that we can find of that sort of magnitude. What we have found is a mistake in the way people have interpreted this producers' subsidy equivalent estimate that was done by the OECD for the whole of the EU, not for Denmark, and nearly all of that producers' subsidy equivalent calculation is one line called market support which is import quotas tariff protection. That does not apply to an exporting country like Denmark.

So, you know, Denmark doesn't get 21 per cent assistance through controls on imports because it's a major exporter. People have misinterpreted and taken out of context those OECD figures and, you know, we thought, like everybody else, when you see a figure that says for the European Union there's this 24, 25 per cent producers' subsidy equivalent, and you say, "There's the subsidy." Then we drill down deeper and try and find it and what it is and how it's paid and where it comes

from and who it goes to, you find out that it's not actually there. That was something of a surprise to us and it was something of a surprise to people in ABARE and the people in the OECD who prepared the numbers.

But you are basically arguing that the only reason why imports of pigmeat into Australia are increasing is because other countries have these very substantial subsidies. Now, Canada is really not much different to Australia except for the income support scheme which we've talked about.

In Denmark, again if you correct for this 20 per cent market support figure the subsidies in Denmark are very similar to Australia and Canada and for exactly the same sorts of things, you know, marketing and research and extension and diesel fuel rebates, and that sort of thing - very much the same as Australia. So we've been actually trying to find where is this 20 billion euros worth of subsidy to the Danish export market and, you know, we can find all these little things that are relatively minor but nothing of the magnitude that you were talking about.

MR SMITH: I understand it's difficult to determine that. Certainly what we do know, and we do have factual information on it, the cost of production at the piggery level in Denmark is approximately, in Australian terms, $2.40 per kilo and certainly in Australia our average cost of production is in the order of probably $2.10, $2.15. You were discussing before, well, maybe they got enormous advantages post the farm gate, that is, in the processing sector. We would certainly argue that this industry and certainly our company and certainly some of the companies that have established in the last five years some very efficient slaughter facilities in Australia - and our slaughter facility alone kills in round figures a million pigs per year. It's world standard. In fact I would argue that our slaughter cost compared to Denmark, whose labour costs are on a per unit basis, are approximately double ours in Australia, and that's a fact. So we've got a situation whereby we're something like 20 per cent - - -

DR LUXFORD: 80, yes, 80 per cent of slaughter costs is a variable cost of labour. So, you know, even though we can't find out exactly how many kroner it does cost to kill a pig in Denmark. It's just the simple maths are that if 80 per cent of your costs are labour and you're paying twice as much as we are, and you're using the same technology - which we are, everybody uses the same basically slaughter lines - then their slaughter costs have got to be, you know, at best no better than ours and most likely they've got to be more.

MR EDWARDS: But to the extent that we accept those figures, and I'm not arguing with them at all, they presumably are an average across the whole pig carcass so it's talking about average costs per kilogram of pig for something and there's many different cuts in the average figure there. But that figure, that average

cost of production figure, does not tell us anything about the price which Denmark firms can profitably export one particular cut to Australia or elsewhere. We know that different cuts place different demand and we can't take an average cost of production for producing the whole pig to tell us the non-subsidised export price, if you like, for a particular pigmeat cut.

MR SMITH: What we know though is that the cost of production of producing that pig is approximately 12 to 15 per cent. Australia is more efficient by the tune of 12 to 15 per cent. We would argue that the killing costs again would be, at worst, the same and I would argue that we would be better. I then have a freight component to get it from Denmark to Australia and they're talking about the middle part of the pig which is internationally the most valuable part of the pig. The pig is basically three components: shoulder, middle and leg. Sure, there are other bits and pieces; there's trims and the fats et cetera. But by and large there's three pork components and the middle part of the pig in most countries is the most valuable part of the pig. Yet they could put that product into this country cheaper than we can produce it for them.

Now, one would argue as far as I'm concerned, what they're getting for their legs and what they're getting for the shoulders, they've got to be Houdini and whilst I haven't got the figures in front of me, and it's very, very difficult to get at, I struggle to comprehend how they can get out of that pig - get that middle into Australia and then put other values on the shoulder and the leg to recover the value of the pig, comparing to Australia, given that we know that they're at least 15 per cent behind us in terms of the cost of production to produce a carcass in the first instance. I would certainly estimate that we're, in terms of killing, probably 10 per cent cheaper than they are and then they've got the freight component and probably - not probably, it's around 50 cents a kilo, between 40 and 50 cents a kilo to get it from one side of the earth to the other.

So I mean, adding all of those negatives up for them, that they're behind us, to say that they're going to get huge premiums for shoulders and legs is one heck of an ask. I know that hasn't answered your question definitively but in terms of what actual evidence we can get and put together, it shows us a very murky picture in terms of how the heck are they getting those middles into this country for that price without some sort of support structure? Okay, we haven't determined what that support structure is. We certainly hear anecdotally that 25 per cent of their farm income is through supports and subsidies. Now, you're suggesting that's incorrect and that ABARE and all the other economists are incorrect. Now, I can't argue yea or nay to that because I don't have the evidence.

DR BYRON: I think you grasp at straws that way.

MR EDWARDS: There's evidence perhaps that Australia is one of the higher price

markets available to the Danes. So it's perhaps rather easier for them to get some of those cuts, the middles, into Australia than into other countries.

DR LUXFORD: What we're still saying is that they're pricing the pig - that middle is coming in at a lower price than what we require to be able to balance the pig out and, as Nigel said, it's just hard to see how they're getting the compensation in the leg and the shoulder prices because we know they're exporting a large amount of frozen leg probably into Japan at not very good prices. So we're not quite sure how they're doing it but when you put it all together it's difficult to sort of see how they can stay in business unless somebody is priming the pot a little bit.

DR BYRON: The information that we've got for European trade statistics is that the particular commodity classification, in an eight-digit level, that represents most of Danish pigmeat exports and it's also most of what comes into Australia, is that the highest price they get for that category of pigmeat is in Japan and one of the next highest is when they send it to Australia, and that is substantially higher than the prices that they get if they ship exactly that same type of pigmeat to most other countries including most of the other European Union 14 countries, so that if there was a subsidy that was jacking up the European pigmeat domestic price, you know, the Danes would be sending their meat there rather than to Australia.

The reason they're selling it to Australia, it appears to be not that they're selling below cost but they're actually selling into what, from their angle, is a premium market. They seem to be getting better prices for those middles in Australia than they do in just about any other market except Japan.

DR LUXFORD: But I suppose what we're potentially arguing, that it may not be actually subsidising the price but the other subsidies that we all can't seem to find have been allowing the producers to be able to sell at a price that despite their costs they can still stay in business. So I can sell my pig for $2 a kilo but if somebody is giving me 50 cents a kilo in other forms then I stay in business. So I think we're discussing it from two different points of view.

DR BYRON: Yes.

DR LUXFORD: Because we just find it difficult that when you look at the information we can get, we can't see how they do it.

DR BYRON: Yes, I understand that.

DR LUXFORD: I think the other thing too, your 20 billion dollars, that puts the - - -

DR BYRON: Euros.

DR LUXFORD: Yes, 20 billion euros puts the - how many euros to a dollar, Australian dollar?

DR BYRON: The Australian dollar is worth about 60 cents euro.

DR LUXFORD: Yes. Well, that makes the Danish industry at 80 billion euros.

MR SMITH: Are we talking the Danish industry or the EU industry?

DR LUXFORD: It might be the EU.

DR BYRON: Sorry, that might have been EU.

DR LUXFORD: Yes, because the Danes are - so we don't have to find that much. How many sows in Denmark? Sorry, I should know these things.

DR BYRON: The thing is, the OECD figures that everybody keeps coming back to are prepared for the whole of Europe - the 15, sorry, not the 25, the old 15-country EU - and then there may be country-specific assistance on top of that. Now, what applies to the European Union as a whole is this import tower which turns out to be a furphy because the European Union as a whole is the second-largest exporter in the world of pigmeat and so as an exporter, tariff protection is a non-issue. The other country-specific assistance, there's very little there that seems substantial or unusual.

What you're saying makes sense and I completely believe the figures you're quoting to us on production costs and so on. But in effect you're saying, "Well, you know, we don't know where it is but there must be a subsidy there somewhere," and what we're saying is, well, we can't find it either and all the places that we've looked, it turns out to be - you know, we haven't been able to find anything that would account for anything like that differential.

MR SMITH: Well, why do economists from all around the world continually throw darts at their use, saying that it's one of the heaviest supported and subsidised agricultural economies in the world? We hear all the time and nobody ever disputes that 25 per cent of their farm income is provided by support structures. Now, the other thing that Brian was trying to say is that so long as they've got that, they can sell their pig at $1.80, $2 a kilo and still get out of it. We're trying to find what that is. You're saying you can't find it but there's a whole heap of economists that said it's there. Now, whether they're supplying one-line and throw-away comments just for the sake of it, I'd be surprised that leading economists around the world would be making those comments without some sort of supportive information.

MR EDWARDS: Certainly it's very clear that there's very high assistance for EU agriculture. But it's one thing to accept that, it's another thing to accept - that's in aggregate across agriculture fairly generally. It's another thing to accept that in one particular EU country, Denmark, there is substantial assistance for the pig industry and more particularly, given the Australian perspective, it's a very different thing to accept that there's substantial assistance for Danish exports. The agricultural economists, you quite rightly say, have criticised for ages the protectionist policies of the EU and other countries but they have criticised mainly - not entirely but mainly - the domestic support programs of the EU which produces selling in the domestic market and certainly does not help Australia export to those countries. But the domestic support does not make the countries more competitive in their export markets.

DR BYRON: It may simply be that because of scrutiny by WTO everybody is becoming much more sophisticated in - - -

MR SMITH: Hiding it.

DR BYRON: You said that, not me.

MR SMITH: I was happy to say that and I think that's probably - Neil, I think that's probably a fair comment, that they are becoming very sophisticated, because when we do the sums we just can't make it add up and like you, we're having difficulty defining specifically where the support structures are. I mean, like the Canadian Income Stabilisation Scheme it's fairly open, it's fairly transparent; it's fairly easy to see and it's a price stabilisation scheme that, you know, I'd kill for in our business, let me tell you, particularly over the last couple of years. It would have been fantastic. But I believe that that's not a very smart system to have. I think that is a system that potentially keeps the inefficient producer alive, and I'm not too sure whether that's a smart thing. I think those guys have either got to shape up or ship out, and those sorts of systems, to me, are bad for the industry. But unfortunately we are being impacted by that in this country because we don't have those sorts of support structures.

DR BYRON: But I imagine that there are features of the Australian industry that Canadians would die for too; it's not entirely one-way.

DR LUXFORD: Well, I don't know. What government assistance would the Canadians like? We'll give them theirs, and if they can go ours - - -

MR SMITH: We're happy to match them up.

DR LUXFORD: Yes, and that's all we want to do.

MR SMITH: It's all we want to do.

DR BYRON: There's a very long - and this comes back to the conversation before about consumers: if some other country in the world wants to spend their taxpayers' money to subsidise producers of some certain product so that consumers in Australia can get it cheaply, how much should we complain? In that it's a transfer from European, American or Canadian taxpayers to Australian consumers, to a certain extent we're the beneficiaries of that.

DR LUXFORD: How do you compensate the Australian industry?

DR BYRON: It's not obvious that putting on a large tariff or quota is the best way of responding to that.

MR SMITH: You're almost making the assumption there that that's - yes, the consumer will benefit, and I agree totally. That's the reality of life that would occur, but our federal government is telling us that they want to stop that, they don't like that at all, because that's damaging industries around the world and - obviously it has to be parochial as well - they're obviously damaging Australian industries, because potentially at some stage they will be removed, and then the real price will be established. I think it's unfair on Australian industries, or any industry in any country that's having to accept imports coming in from a country where clearly it's heavily supported. Sure, the consumers will benefit from that, but the like producers within that country are going to be decimated by it.

I know you asked this question of Aeger, but when you compare Australia to Denmark in terms of producing pigs, in terms of all the natural resources, the land masses, the source of grain, the disease status, the climate, the environment, for fear of being a big vulgar, they've got a lot of sows on a very small land mass. One could argue that environmentally they're potentially vandals. Are we looking at that? We have this magnificent landscape to do that, and we are efficient. We know we're efficient. We're an industry that's rationalised enormously. So from that perspective I think it's implicit on any government to make certain that those industries that have the capability of feeding Australia but also feeding the rest of the world are really well catered for and looked after, make certain that they're not going to be impacted by unfair tactics by other countries.

Certainly talking textiles, okay, we're never going to compete with the Chinese labour cost. At the end of the day that's the reality. We're not complaining about those sorts of things. What we're complaining about is the support structures that they have that we don't enjoy. So I certainly believe this country has an enormous

future in the pig industry, but not whilst we have imports coming in that we believe very firmly have support structures around them that we don't enjoy.

DR LUXFORD: I think just to go to that point of yours about whether tariffs and quotas would help, the thing that the Canadians have a certainty - the thing that we don't have at the moment is certainty. If there is a period of time given to the industry where we know that there is some certainty in the supply equation, and that would be by somehow capping the imports to a certain level, it does give our industry that time. For the governments to try to dismantle the practices that we've been talking about, for the industry to have the confidence in investing in technology to allow us to improve our competitiveness, it gives time for those producers that - as you say, there are good producers and maybe not so good producers in any industry. The big problem with those not so good producers at the moment is that they're really facing the risk of losing everything, because a pig farm with no pigs is worth nothing. You can't do anything else with them, and a lot of their capital has been swallowed up over the last couple of years just trying to stay afloat.

If we can as an industry have the time to restructure and to take advantage of government initiatives in world trade and our own initiatives in R and D and other facets of supply chain management, you've got a chance for the industry to become more in equilibrium with this new phase we're in in terms of becoming interwoven with the global market. But at the moment if we don't have that sort of certainty and we have another economic shock like a drought, then what you could find is that there are a lot of players who'll just go out because they just won't have the reserves to be able to keep going.

DR BYRON: Yes. That comes through very strongly in both your submissions, the idea that putting some sort of control on the volume or price of imports coming in would give respite, a breather, time for the Australian industry to restructure. I guess the difficult question that the government is going to have to work out is whether giving that sort of a break would actually encourage people to make the necessary structural adjustment changes, or whether it takes the pressure off and people stop adjusting because now they're safe for a while, or whether it might even encourage some people to go on the wrong direction in terms of adding new capacity or investing in new resources when they should actually be retreating.

We've had this argument that the industry needs a breather and time to adjust in just about every industry that we've looked at, and it's always that difficult balance of, "Will the industry keep adjusting if the pressure is off?"

DR LUXFORD: One comment on that would be - and it's been highlighted here - that the industry is fairly sophisticated. The people are in there for a business, and I think everybody is going to realise that the government regulations are that this can

only be a temporary situation. So over that time you're either going to be able to see that you can get your business in such a shape that once the brakes come off again you're going to be able to survive - and again I think there are people out there that will say, "Rightio, I'm too small or I have other disadvantages that once the brakes come off again I'm stiff going to be in the same position as I am in now." However, you've probably got a chance to get out then, I think, to realise some of your assets. Maybe those assets are then passed on to another player that can get those economies of scale. But I agree with you - and I think we have, and we've demonstrated as Nigel says, rationalised. We don't keep hiding.

MR SMITH: I think that's an important point. Certainly some politicians have actually asked me that question, and my response is exactly what Brian said. I don't know of any other agricultural industry that has rationalised like this industry has, and brilliantly done. As you're going round the units and seeing the high levels of professionalism around this industry, it really is a fantastic industry to be in in terms of the people that are in it and in terms of the investments there. So I've no doubt in my mind that a respite would certainly give the appropriate time for people to get the CRC up, get the implementation of that, give some dignity to the people to say, "Look, I'm just not going to be able to compete. I don't have the internal structure such as the QAF's or the Aeger Kingma's farm or some of the really high-class producers. I'm going to get out." I've no doubt in my mind that will certainly happen.

Let me tell you, I would be very surprised if anybody got the chequebook out and started to say, "I'll now undertake a major capital expansion program." You can rest assured that we as a producer producing nearly 20 per cent of Australian's pork will not be digging one hole in the ground to increase capacity, because it's something that we also need to be mindful of: at the end of the day this would only be a temporary measure. We need to make certain that everything is in place.

Hopefully that time period gives the Australian government time to again convince other countries - to say, "Hey, remove your internal support structures that are affecting our guys." Over that time more of that will go. Hopefully the Canadian price stabilisation scheme would be gone in three years' time. That would be an enormous boost to us. There's no doubt about that as far as we're concerned. We would see as a consequence of that the potential for the Canadian producing industry to probably reduce significantly. I've got no doubt, and a lot of the Canadians would admit, that that price stabilisation scheme is supporting a large number - or there's probably another use of the word, but a significant number - of inefficient producers.

DR BYRON: That's probably why it's there.

MR SMITH: I think that discussion in the last five or 10 minutes has certainly

responded to draft finding 6.3:

> While new restrictions on pigmeat imports in Australia may provide short-term benefits to pig producers, they would adversely affect Australian pigmeat consumers -

and secondly that:

> They would also discourage or delay ongoing restructuring and fail to target those in greatest need of assistance.

We believe some form of restriction would allow this industry to get back on its feet again and implement the CRC programs and other programs that this industry has got in place. I think, as the commission has seen going around, this is a very professional industry. It has had the history of rationalisation, it's had a history of getting itself up on its feet again, and it's done it very well indeed. So I think governments could be very comforted by the fact that this industry just isn't going to take that time period to sit back, relax and say, "Well, now I can stroke my tummy for three years and go in the Pacific," because this industry won't be doing that. I'm confident to say that.

DR BYRON: No, but if the government did decide to go down that path, you'd want to be fairly certain that at the end of the two or three years, or whatever it was, and when, as you say, the brakes came off, we were in a much better relative position than we are today and that you don't have to go through the same thing again and again and again.

MR SMITH: Yes, I agree totally. I have no issue with that. I'm confident that the strategies that the industry has got in place and the strategies that individual producers have got in place would bear enormous fruit, and I'm confident that at the end of a three-year program this industry would be really able to compete. It's always going to have difficulty if countries continue to subsidise. At the end of the day, to compete with a subsidy is jolly difficult. It really is very difficult indeed, but if we're confident that our government is continually fighting that battle, as they will fight that battle - they've said that they will continue to fight that battle, and if it gives us time for them to fight that battle as well, well, I think we're in a much better position to go on to the future with a respite for two to three years.

I guess again that really draws us to a conclusion in terms of, you know, we believe that there is a strong case for the commission to recommend a safeguard inquiry to take place. I understand this is not a safeguard inquiry, but we certainly believe that one of the outcomes of the commission's findings could be certainly to make that recommendation. We would strongly endorse that that occur. I guess

moving on to some of the - if I may, Neil, some of the questions that were asked of Aeger. I'm happy to - - -

DR BYRON: Please.

MR SMITH: - - - just comment on.

DR BYRON: Saves me asking them again.

MR SMITH: And then to take further questions from yourself as well. One was a question you asked about the health status in terms of our risk management, you know: What are the issues about that going forward? Do you think we're adequately protected, I think or something like that. Now, we strongly believe that we're not, and as you're aware there is a judicial case occurring right at this point in time, but when imports were originally established back in the early 90s, there was a condition called PRRS or porcine reproductive respiratory syndrome which was present at that point in time in Canada.

What happened at that point in time - and it was an emerging disease. It was a disease that was certainly ravaging most of the world. Australia didn't have it then, it still doesn't have it now, but it's not to say it won't get it. What was established at that point in time, there was a protocol put in place to combat that particular condition, and that protocol was cooking to certain temperatures. So whenever a kilo of pigmeat comes into this country, when it hits a licensed processor's premises, it must be cooked to certain temperatures for certain periods of time. There's certain equations and time temperature relationships that need to be adhered to. I think it's 60 degrees for 35 minutes or 70 degrees for 25 minutes, and under those circumstances, trial work has been done that under those circumstances, the PRRS condition is killed.

Whilst we argue that those cookings should be done in country of origin rather than actually potentially transmit or transfer the disease into this country via this unprocessed pork, there is always a risk, as occurred once, when there was - they were transhipping some unprocessed product from Sydney to Brisbane, the truck had an accident and half of its cargo was dispatched in a river, and the consequence of that obviously was that this product was never going to be processed and therefore

commercial decision is to say, "We've got a mountain of legs that nobody else seems to want at the moment and, you know, the price has fallen at this time of year. Oh, the Australians are paying X. That seems to be the best price. Let's send it there." I mean, it doesn't have to be a conspiracy theory. It's just sort of global markets looking for the best place to put the product.

MR SMITH: Or one could argue that - again - this is where it becomes a potential dumping issue - that they'd want to be very careful about the - I find it very difficult to believe that they actually paid the freight to get the product here, packaged it, that they couldn't have actually sold it domestically. If you took the freight off it it's going to come down to, goodness me, you know, almost carcass price type pricing. This is boneless, packaged, deboned, defatted leg. I'm staggered that they couldn't have at least got that price domestically.

DR BYRON: Well, that reminds me - and we're going to wind up soon. But I was reading the QAF Annual Report, as I often do, and you talk about how the ending in 2003 was terrible because of the drought and all those other things that we've gone into, but I was also intrigued that your company talks quite a lot about the amount of meat that was destined for export markets but didn't find export markets and therefore came back onto the Australian market and how that was actually depressing prices. Now, today and in your submission you're basically arguing that, you know, the only problem facing the industry is this flood of cheap subsidised imports, but in the QAF Annual Report it talks about the price depressing effect of the Australian produced meat that didn't find a home offshore.

MR SMITH: Yes, that's - - -

DR BYRON: Now, are those the same story or are they a different story?

MR SMITH: No, there's no doubt that certainly had an impact. We're not saying that imports is the only thing that affects the survivability or the profitability in this country. I'm not saying that at all. Never have said that it's only imports. But as far as we're concerned, the imports are the major impactor of the poor performance in the last three to five years. There are certainly important - there's no doubt the drought obviously had an impact, and the reason, obviously, for the product coming - well, what happened was that - again, this was the fact of the Japanese situation where you've got a gate pricing system when the Japanese yen went from 60 yen to 80 yen. Now, you know, that's a huge hike and you're selling price doesn't change. Now, there's not that margin in this business. I'd love to think there was.

So it was one of, well, we were haemorrhaging in that market and so had to come back. And we weren't the only ones; there was two or three other processors who were supplying product into the Japanese market that had to pull back on it.

DR BYRON: Isn't that consistent with a story that as we become more plugged in, interlinked, to the global economy pigmeat and even connection through other meats, if world prices go down we will see (a) it's harder to sell Australian product in places like Japan, and (b) if the Australian prices is attractive relative to the now lower world price you'll see more imports coming into Australia? I'll come now back to your first opening point that we didn't talk very much about - imports is one of the determinates of competitiveness. That's right because we see the volume of imports coming in as a result, not the driver, it's the consequence of how competitive we are vis-a-vis the rest of the world. If we're really competitive then the amount of imports coming in is likely to be very small. If we're not quite then you'll see imports coming up.

So that we see the amount of import as the consequence rather than the driver, and that's why we've talked about it in that way. Does that make sense? You were talking about the amount of imports as one of the things that affects our competitiveness. We're saying, "No, it's a result of how competitive we are vis-a-vis other countries."

MR SMITH: Well, what we're saying is that the imports that come into this country have support and subsidy structures around them that we don't enjoy. I mean, what we're saying is that if we're able to match those off with a - be it a duty, be whatever it is, at the end of the day we would have no grounds for complaint at all, and what would potentially happen is that under those circumstances, as far as we're concerned, we would certainly see - and we draw the example with the Danes, that if we make the assumption that 25 per cent of their farm income is through support structures and subsidies et cetera, if there was a duty imposed to match that then we would see a corresponding increase of approximately 25 cents per kilogram of standing carcass when they're pigs. Now, on that basis we would have no problems with that at all and we could compete with that well.

I'm not suggesting that imports would all of a sudden cease. There would certainly still be a level of imports but there's no doubt I would see that level of imports reduce quite significantly because it would mean that that support structure has been removed and we would become more competitive. At the end of the day the processor by and large is going to be buying his raw material from the cheapest possible source, to a certain extent. He's not going to do it totally on that because he's got some other risk factors. He will always have a supply line, both internationally and both domestically, but what we would argue strongly that it would probably come back more like, rather than 60 to 70 per cent of his raw material coming internationally, it may well be reversed and they will be 30 to 35 per cent comes internationally. And we would be very comfortable in competing with that.

MR EDWARDS: If I could just chip in here. Yes, we accept that our farming industries are harmed by unneighbourly foreign agricultural policies. Yes, our government is trying and has long tried quite hard to address those unneighbourly foreign policies. But I think our government accepts the message from economics that if world prices are depressed by those unfriendly foreign policies - well, call it cheating, if you like, but remember that we've done quite a bit of cheating ourselves in our dairy industry, our sugar industry and, go back a little more, our wheat industry. I think our government accepts, as economists explain, that, even though our producers are harmed by those nasty foreign policies, we will hurt our country overall if we adopt compensatory policies, if you like, to offset partly or entirely the effect on our producers of those foreign policies.

So, if you like, this is one way it's being put. If we protect an Australian industry that's harmed by the foreign policies we are really shooting ourselves in the foot. We may well help the farmers, but we're not helping our country, because that world price, no matter how it's caused, whether it's caused in a clean international market or whether it's produced in a distorted international market, is the economic reality for our country, just as, if you like, gravity is a reality that we have to accept.

There's an extension to this point. Of course, on fairness grounds it seems to make sense, and a lot of people find the argument plausible, because it's very unfair that these foreign countries don't behave in a more civil way. But the extension of this argument is that the case for us doing something to help our industry is in fact weaker, if you take the overall national view, for an import-competing industry, or a net importing industry, like pigmeat, than it is for an export industry like dairy or grain. The reason for that is that, in the case of the export industry, the farmer loss is larger relative to the domestic consumer gain from the unfriendly foreign policies than it is for an import industry like pigmeat. If you like, the gain to Australian consumers when foreigners do nasty things is larger, relative to the loss to Australian pig producers, than is the case for dairy or grains.

So I think our government probably has a bit of a problem in accepting this, no matter how empathetic they are to the unfortunate farmers. Yes, it's very rough that you cop this, but as our children tell us, life is unfair. Anyone going into an Australian agricultural industry does so in the knowledge that the Europeans and perhaps the North Americans, and certainly the Japanese, are going to play it pretty rough policy-wise, and that's something to be factored into the commercial decisions.

DR LUXFORD: I understand the economic theory, but I'd go to the point where I think we can put a business case together to say that if the industry is given a period of time for a number of the initiatives that it's put up to come to fruition, we will be in the case you've put, where actually we'd probably end up being a net exporter.

We've shown in the past that under certain circumstances we can quite happily export. So I don't think we're arguing for the government to prop up something that's going to be unsustainable forever, that unless we have this equivalent sort of support such as the Canadian stabilisation - and here we're only asking to try to stabilise supply for a short period of time. We believe that given just some assistance in terms of a period to be able to take advantage of the initiatives, both on the cost side but also on the demand - it's been pointed out that pigmeat does have the opportunity to increase its per capita consumption and we think we've got some quite exciting initiatives. But again they're not going to happen overnight.

So the world of economics is nice and the theory works over medium terms, over the 10-year periods, but commercial realities can be as short as six months. So what we'd like to be able to do is just be given a relatively short period of time, three, maybe five years - three years at least - to be able to get into a position where, under all the rules of economics, we'll stand up. I think that's the argument.

We're not asking for something that the rest of the world doesn't utilise. The World Trade Organisation has the ability and the mechanisms to do this, and it's just that, for some odd reason, our government doesn't seem to want to take advantage of it. I find it really strange, because all you're doing is getting rid of an industry that has massive flow-ons. The amount of grain - we've just finished the best part of 200,000 tonnes of grain in our local area. You think of the flow-on that is. We employ 1000 people just directly in our own business, and you really are running the risk of that just disappearing.

MR EDWARDS: Nigel has pointed out the very impressive adjustment in the industry over the last 30 or 40 years, and I share the admiration he expressed for that. As we all know, that adjustment took various forms. It's probably true that tens of thousands of pig farmers - sideline dairy farmers, if you like, adding a bit of value to their skim milk - left the industry in that time. So a lot of little people went out, but also a number of very large, very professionally managed, enterprises were established in that period.

I find myself wondering, do you think that most of that adjustment that occurred in the last three or four decades in the pig industry occurred as a result of government programs of various sorts? Or course, we've had general adjustment programs, we've had in some periods specific pig industry programs. But do you think that most of the adjustment that has occurred occurred as a result of the assistance programs or as a result of individual producers backing the judgment?

MR SMITH: I think it's a combination of both. The assistance programs that have been given to the industry at the end of the day haven't been massive at all. They've come more in the areas of some capital grants programs, some additional granting of

research moneys, some granting of setting up the Confederation of Australian Pork Exporters and some additional $5 million for some people to exit the industry with a bit of difficulty. Under no circumstances have we ever had the assistance program of attempting in some shape or form to offset the subsidy level for the imported product coming into this country. That's the area that we're most concerned with, as far as we're concerned.

We accept the fact that, at the end of the day, the rationalisation that's occurred in the industry has been primarily the result of the industry itself, as opposed to governments putting in certain circumstances. I think where your question is leading to: "If you've done it yourself in the past without government assistance, why the hell do you want any more?" But the assistance in the past has been very much more in the area of - I guess the activity was going to occur anyway - taking some pain out of those organisations who are prepared to get up and be proactive, particularly in the export market. I think if you look at the last program that the Australian government assisted in, that was I think the $26 million program where there was $11 million in capital grants, there was 10 in additional research funding and 5 in the exit programs, and there was one small one prior to that, which was the Confederation of Pork Exporters, which I think was $4 million. So all up it was around about $30 million.

What that did was to allow companies such as the operation in South Australia, the Big River Pork Consortium, to get its operation up and going. I'm not arguing that it was the only reason: it would have got up anyway, but what it did do was certainly assist that group in terms of getting that up a little bit more efficiently. Certainly in our operation we've enjoyed some of that additional research money, and we also were able to be the beneficiary of some of the capital works programs in terms of our abattoir and boning room. At the end of the day we were in place doing that anyway, but it certainly gave us the assistance to penetrate a few more export markets and assist in that development. But to answer your question, no, by and large industry has done it.

But I think in this instance we're not saying that that's the sort of support we want. In fact, I would argue that this industry doesn't want another $25 million worth of capital grants or a combination of say capital grants. I guess one should never knock back money in the first instance - I qualify it with that - but hypothetically, if the government said, "Do you think another $26 million grants program, as we did last time, that is, split between some capital grants, some research and exiting with some dignity - what you think about that, Nigel?" the response to you would be, "No, I don't think that would achieve that much at all." At the end of the day there would be some nice beneficiaries out there, but in terms of making this industry and this business much more competitive, no would be my answer to that.

But if I was asked what would be the things that would suit me, it would

certainly be to give us some respite against these subsidised imports coming into this country. That's the one that really, as far as we're concerned, hurts us most. It's one that's really created the death of the hog cycle, and one comment I will make: I've read the report but I can't find in the draft findings that you agree also that the imports have been the death of the typical hog cycle in Australia. That's certainly what's happened. So we need some respite from that in order to ensure that (a) it gives government time to hopefully assist in the process of these other countries decoupling these assistance programs - and that would be terrific - and also give us time to get the CRC program in place, because I think the new research initiatives we've got in there and the strategies that the industry has got in place to get the supply chain even more efficient than it currently is would be the biggest benefit we could have. But in terms of a 25 million handout, no.

MR EDWARDS: You have indeed seen where my question was leading. Prof Warren Musgrave some years ago did a study of rural adjustment, and he was looking at agriculture generally, not the pig industry specifically. His conclusion was that the great majority, the overwhelming majority, of adjustment in agriculture was taken quite independently of government programs, with individuals adjusting to opportunities they saw. So I do find myself looking forward and thinking of the pig industry, whether we might do better relying on that, you know, response of enterprising individual producers - and from our talks with the industry, it's very clear to us that there are very many smart people out there running these businesses. Would it perhaps be better to let these people respond to the opportunities as they assess them rather than to look to new government programs which inevitably are somewhat, you know, rigid, and they have administration costs and always you hear stories of rough justice in the administration of them. Some people seem to do well in accessing money and others seem to miss out when it's not clear why.

DR LUXFORD: I suppose we're not asking for money, and I suppose - you know, I believe in the free market and eventually you either are able to operate under those conditions or you're not in the market. What I find a bit distressing is that through no fault of their own - and again it will be a timing issue - is that we cop another economic shock and that just wipes people out. So I think - I really do think we will adjust and we will get more competitive and we will be able to operate under the new world, but all we're suggesting is that with some sort of assistance in giving a little bit of stability, then that process is going to be more efficient; that it's not going to be - you're going to end up with a result that the government didn't intend; that if you do give the chances for market forces to operate, but just some stability, some certainty because it is just very difficult to make investment decisions under the scenarios we're running at the moment.

MR SMITH: One of the concerns that we have at the moment is particularly with the emergence of the US potential, and we don't know what they're going to do at

this point in time. They may well take an attitude and they certainly - there has been some spruikers in the US who have certainly been pretty vocal in their commentary on it, you know, they want a chunk of what they see as this massive Australian market. At the end of the day it's not a massive market, but I'm a bit fearful that what the US are capable of doing is going out there and saying, "Okay. We're going to take some off the Canadians, we're going to take some off the Danes, and by the way, chaps, here's some new prices. Get excited about these," and that's a concern that the growing sector in this country has at this point in time in terms of what the US operators may well do. So that is a concern to us; it really is.

Again just strengthening Brian's argument, you know, we just need time to adjust to all of that, and again, Geoff, it's not about, you know, $25 million grant. This is about at least matching the support structures of imports or, as under the WTO, if you see that there's all of a sudden a new major potential importer into this country, such as the US is capable of doing, that could potentially wipe out this industry or do enormous damage to it - I don't think the industry will ever be wiped out, but to do enormous damage to it, there provisions under - I think it's article 19 of the WTO that allows, you know, a period of support, as the US did on Australian lamb. That was a classic case.

They used article 19 of that one, and they didn't use it on the fact that they were actually being hurt, they used it on the basis of threat of being hurt, and under the WTO you can argue that you're going to be threatened here that, you know, you want some programs in place - that is import restrictions put in place; this is not about grant money, this is about import restrictions - that's what the US did on the Australian lamb industry. So they're very quick to do things as well, and I think at times Australia tends to be a bit of a white knight of the world, which fundamentally I don't have any issue with that, but at the end of the day, it needs to be careful about trying to be the white knight and telling the world what it should be doing in terms of decoupling all of the stabilisation programs that it at the end of the day is very careful it doesn't hurt and damage some terrific industries in this country.

MR EDWARDS: Am I right in thinking that ultimately the US decision on Australian lamb was overthrown?

MR SMITH: Eventually it was, yes, but they had - I think it was at least two, two and a half years of breathing space. One could argue whether they had a good argument or not; I'm not saying that the US lamb industry had a good argument at all. In fact I'd probably argue that they didn't. What I'm saying is that there were provisions in there - as far as I'm concerned, our Australian pig industry has a terrific argument; far greater and far better than the US lamb industry where the consumption of lamb in the US is three-fifths of not much.

DR BYRON: It might be a bit difficult for Australia to mount an argument that we spent two and a half years demolishing, in the case of the Americans on lamb, to turn around and then do the same thing ourselves.

MR SMITH: I think so long as you can argue a point and put a case up, we believe we have a very strong case, and I'd argue it on its merits under the articles of section 19 under the safeguard provisions.

DR BYRON: Yes, that can be done. Okay. I think we're going to have to wrap it up now. We've spent a bit longer than we intended, but I think it's been extremely valuable. Do either of you want to make any sort of closing, wrap-up comments?

MR SMITH: I think we've exhausted our thoughts on this.

DR LUXFORD: There's only so many ways we can say it.

MR SMITH: That's right.

DR BYRON: You've said it most of them.

MR SMITH: We've said it most of them actually. Again, just thank the commission for its time and opportunity to raise it.

DR BYRON: Thank you very much. I think we'll now adjourn and we'll resume at 1.30 with Ridley AgriProducts. Thank you.

(Luncheon adjournment)

DR BYRON: Thank you very much, ladies and gentlemen. I'd like to resume the public hearings of the commission's Inquiry into the Australian Pigmeat Industry. Next we've got the representative of Ridley AgriProducts. Robert, if you could just introduce yourself for the transcript and then tell us what you've got to say, and then maybe we can talk about it for 15, 20 minutes after that.

MR PARKES: No problem at all. Robert Parkes, national technical manager for Ridley AgriProducts. I'll give a little bit more of an idea on Ridley now, work through it, just so everyone understands. Basically Ridley Corporation is a 100 per cent Australian-owned public company and is a global producer of animal feed and salt, with a sales turnover of slightly over $A1 billion. Our business is conducted through three operation divisions: Ridley AgriProducts, Cheetham Salt and Ridley Inc in North America. Ridley AgriProducts is the largest stockfeed producer in Australia, with a number of major brands and 22 manufacturing sites across the country, as we've detailed in a figure that we provide in the submission.

The principal activities of the Ridley group are stockfeed manufacturing, the marketing, production of crude salt, salt refining and marketing, manufacturing of animal health products, manufacturing of consumer pet food products, and a provision for rural products and services. The company has achieved its business success with a high standing in its market through a combination of factors. In Australia Ridley AgriProducts employs 560 people nationally. In Australia the business has 22 manufacturing sites, producing 25 to 30 per cent of the total national compound feed production of approximately 4 to 5 million tonnes. We supply animal feed to all Australian industries, including poultry, pig, dairy and beef.

A large number of the manufacturing sites across Australia provide us with a ready access to the Australian pig feed market sector and also to sources of raw materials. These factors ensure that pig feed customers are offered cost-effective products specific for their individual requirements, and manufacturing sites across the country help us in this need. In Queensland we have sites at Atherton, Clifton, Dalby, Wondai, Rockhampton, Toowoomba, Wacol and Narangba, which is an agriculture site. In New South Wales we have plants at Tamworth and Taree, and also Corowa. In South Australia we have sites at Murray Bridge and Wasleys and, in Victoria, Bendigo, Cohuna, Dandenong, Maffra, Mooroopna, Pakenham, St Arnaud and Terang, while we have a small supplement business in Northam.

In terms of the Australian pig industry, we produce approximately 400,000 tonnes of pig feed annually, which on industry averages represents the equivalent of about 77,000 sows, based on the data in table 2.1 of the draft report and allowing for the sows owned by vertically integrated producers. Ridley therefore feeds approximately 33 per cent of the available pigs within the areas serviced by our mills, and is accordingly a significant player in the pork production chain.

Despite the restructuring of the pig industry in recent times, Ridley's pig feed tonnes have not fallen markedly, for two reasons: firstly, the larger commercial producers who have remained in the industry, albeit at lower returns, dominate our customer base; secondly, margins have eroded due to the competitive activity of stockfeed and overcapacity in some regions. RAP does feed many smaller producers and, like the home mixers, many of these producers have stopped producing pork, so our customer numbers have fallen.

Export markets require larger pigs than domestic markets, and therefore, with a shift to smaller pigs, there has also been a corresponding drop in the demand for pig feed across the industry. As has been identified in the draft report, the profitability of pig producers has been extremely volatile in recent years, and factors influencing this have generally been identified. Feed cost is the most significant of the production costs, and RAP has been following this volatility by comparing expected costs of production with typical returns on investment, as identified in figure 2 that we've provided in our submission. Quite clearly, this graph identifies the massive swing on return investment pig producers have been facing in recent years.

The industry knows, and the draft report identifies, that improvement in feed conversion ratios and animal performance are needed to improve the profitability of pork production. With the uncertainty in returns and volatility associated with the returns, investment in new equipment and repairs and maintenance of existing equipment is relatively low, and consequently the improvements in performance that can be achieved with our existing knowledge are not being realised. The outcomes from a successful bid for the pork CRC will make significant improvements in animal performance. However, these outcomes are some years away.

While the draft report also identifies export as a growth opportunity, there is often a long lead time and practical limitations in producing products suitable for particular markets. A classic example was the requirement for one of our processors recently for only castrated males and females. Many producers that we deal with altered their production systems to meet this requirement, but within a couple of months market conditions had changed and a different specification was required overnight. Pigs take five to six months to reach market weight, and if a different slaughter weight and/or back fat percentage is required, it may be up to two years before a producer is capable of meeting the new standards through a combination of genetics, husbandry and nutrition.

In some cases market specifications are so tight, and penalties for not meeting the specifications so severe, that many producers can't meet the market requirements. Until Australian producers are paid on a lean meat yield basis, as is the case in other countries, the current payment system of weight and P2 will be a major inhibitor of

many of the nutrition and genetic advantages available to pig producers.

As a nutrition provider, Ridley AgriProducts is acutely aware of the raw material costs and the external factors that influence these. The draft report appropriately identifies many of the factors that have contributed to high feed costs experienced in 2003, such as single desk marketing of grains and quarantine issues with imported grains. Future issues, such as grain for ethanol production, are also a major concern for our industry. In a report by Prof Clair Nixon included in the draft report, Prof Nixon identifies:

> If Australia wants to be a big pig exporter, it needs to look closely at its grains program. It is all about low-cost feed.

This view is well understood by RAP and pig producers, and is why RAP and the industry have been involved in initiatives such as the Premium Grains for Livestock Program, now in its seventh year, and the pork CRC, as well as conducting our own research and development into methods of improving feed utilisation in conjunction with our Ridley colleagues in North America.

As a result of these programs, a dedicated feeds grain industry and rapid tool to assess feed grain quality are gradually emerging. However, until Australia has rapid and cost-effective processes for moving the raw materials from where they are produced to where they are needed, such as ships from WA to the eastern states and standardises rail gauges between New South Wales and Queensland, freight will continue to be a high and prohibitive cost component of effective raw material utilisation.

The draft report makes a few references to the different feeding systems between North America and Australia and how these differences can largely explain why Australian producers have such large costs of production. There appear to be some misunderstanding and misconceptions in the draft report with this concept and, if allowed to perpetuate, they will not allow the commissioner to make an appropriate recommendation from the report.

While corn and soy can be considered feed grains, they are very high-energy ingredients, and when pigs in Australia are fed US diets the pigs are very fat and would not meet the profitable grades; hence the call for lean mean payment schedules and value adding of pork products. Furthermore, pigs fed corn-based diets have soft, yellow fat which is undesirable for Australian consumers. In box 1 of the draft report, Overview section on page 21, reference is also made to corn having a higher feed conversion ratio than that of Australian grains. Depending on the measurements used, this may be the case, but the comment may distort the argument, as the real value of a grain on animal performance is a combination of feed

conversion ratio, rate or gain and final carcass composition, and on that basis many of the Australian grains would be superior to corn. There is no doubt still that a dedicated feeds grain industry in Australian would significantly improve the profitability of the animal industries. Thank you for your time.

DR BYRON: That's very much appreciated, thanks, and particularly pointing out some of the subtleties of the feed business that we really hadn't appreciated. When you faxed this to us yesterday, the graph figure 2 didn't - - -

MR PARKES: The colours didn't come out, obviously.

DR BYRON: Yes, and it's a bit hard to read in black and white, but I'm hopeful that you'll be able to give us an easier-to-read version.

MR PARKES: Yes, we can get one. Even on the version that I've got here, on the colour printer, it hasn't come out as well, so we'll have to try and maybe blow that up a little bit or something so that you can identify the breakdown, especially between the smaller piggeries and the larger piggeries.

DR BYRON: That does look very interesting.

MR EDWARDS: In fact, it might be helpful if you were able to make available to us the data used in preparing that figure.

MR PARKES: I'll make some inquiries for you, yes, for sure.

DR BYRON: The comments that you made about the problems with infrastructure and transport and being able to move grains around are ones that have been made before, particularly shipping between WA and the eastern states. That's come up a number of times, although in South Australia they seem to think that it's not a good idea that all those New South Wales producers get South Australian grain, because it's no longer as cheap then to the South Australian pig farmers. So I guess there are - - -

MR PARKES: It cuts both ways.

DR BYRON: It does cut both ways a bit. But, yes, I think that's an important point. The one about the payment system, payment on P2 and weight; that's come up over and over again, just about every visit we've been on, except when we talk to some of the manufacturers. I think Coles too, when we spoke to them, said, "No, that's just a furphy." But where do you think the big payoffs would be in changing the payment system and going to objective lean meant assessment? How do you think that would really benefit the industry?

MR PARKES: From the nutritional point of view, it allows you to feed the pigs for the actual cut of meat that the customer wants. At the moment I guess the point we're trying to make, with our submission certainly, is that the current grading system doesn't actually give you a true indication of the quality of that particular carcass or that pig. So going to lean meat yield will certainly give you a lot more opportunity to actually value the particular carcass appropriately.

DR BYRON: Then you can use genetics, husbandry and feed mix - - -

MR PARKES: Nutrition, exactly, yes, and environment.

DR BYRON: - - - to produce exactly the product that the customers want?

MR PARKES: Yes, exactly right. It gives you more flexibility. The P2 in particular is not a particularly good representation of quality.

DR BYRON: It's easy to measure, but that's about the only thing it's got going for it?

MR PARKES: Exactly, from that perspective, yes.

MR EDWARDS: I wonder, Robert, if you could spell out a little the Premium Grain for Livestock Program.

MR PARKES: Yes. Basically that's a program that's been funded by a whole range of animal industries in the GRDC. As I said, they're in the seventh year now. Basically its aim is to actually identify those contributing factors of grains that influence animal production, so we've looked at things like being able to generate a quick test for energy, which is clearly the most important from a cost point of view with grains, looking at all the different types of grains in terms of how appropriate they are for production, even to the point where they most important from a cost point of view
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in Australia, but it also has an impact at a level across most of the year, most of the seasons.

M**R EDWARDS:** Do you think that the arrangements for restricting grain imports are excessive? Is it unreasonably difficult for people, especially away from the ports, to make use of imported grains?

MR PARKES: Yes. Well, I would certainly support any initiative to try and keep Australia free of any exotic disease or weeds. But I think as an example here in Australia where there's obviously situations with lupin anthracnose around the country and yet here in Victoria a couple of seasons ago that particular problem was managed when grain that had been identified with lupin anthracnose was actually coming into the state and being appropriately manufactured. It had to obviously be treated and certainly the various feed mills around, not just say Ridley Feed Mills but a lot of feed mills in Victoria were then authorised to use that grain and certainly, to the best of my knowledge, unless somebody from Plant Health Victoria could tell me different, there's been no serious concerns associated with that.

So I think there's obviously a process that has been identified that can work. Now, if it can work for a strange disease that we don't want to be spreading around there's every reason to suggest it could work for other grain sources, whether that be imported or whatever. But at the moment a 50-kilometre radius is quite onerous.

DR BYRON: But is there some substitution in between - you know, if poultry producers can get imported grain does that ease some of the pressure on dairy feed lots and piggeries indirectly, or isn't there much substitutability between them?

MR PARKES: No, look, in a lot of respects there is some substitutability, not as great as probably with - the broilers have probably got more ability than some of the other industries. Certainly corn for example on the dairy side would not work at all. On the pig side in Australia, the way we do our business, it would be a bit more problematic than on the poultry side. But there would be some substitution for sure that would help ease it, but then, you know, the last particular example, there wasn't a hell of a lot grain around at all. So there was not much to substitute and that's really where the problems come in, when it's just not there. I guess the other comment there is that the beef feed lot is a major consumer and that sucks up a lot of grain when they're going.

MR EDWARDS: But the pig industry is obviously competing for feed grain with other intensive livestock industries and in some of those, perhaps especially in dairying, there's an increasing tendency to use grain to supplement conventional feeds.

MR PARKES: Yes.

MR EDWARDS: Is the increase in competition, if you like, from dairying for feed grain seen as an issue by the pig industry or do you just accept that as part of the commercial reality?

MR PARKES: Look, I can only speak from our perspective and from our perspective I guess it's commercial reality. I don't personally, in our travelling, see any major issue associated with that. In some respects a lot of the grains that are sought after by the pig industry in larger volumes aren't probably necessarily sought by the dairy industry, triticale being probably an exclusion there; it fits well with both. But obviously the ruminant and the monogastric animal have slightly different requirements. So from the grains point of view I think it's just commercial reality.

DR BYRON: Thank you very much - one more, one more.

MR SMITH: Nigel Smith, QAF Meat Industries. Just on that last question, I agree with our colleague here that it has been difficult to get a grains industry going. Certainly we as a company have been very much at the forefront of trying to get a grains industry going, particularly in our area, and certainly encouraging it Australia-wide. Your comment about the potential of the dairy industry as a competitor for those feed grains, in actual fact it may well be the reverse.

It may well actually assist with the dairy industry coming in to actually really stimulate the grains industry to get going, so there actually could be a positive outcome if that be the case and if there's a lot more outlets for the feedgrains industry, particularly the triticales as mentioned, you know, certainly in our experience with our local farmers, the yield or the return per hectare grain, triticale, whilst the return per tonne is significantly less the return per hectare is significantly higher.

One of the major problems that we have with our grain growers is getting their head around the return per hectare. They tend to be very focused on return per tonne and they sort of see high per tonne returns, as you say, for the flour wheats or the biscuit wheats and get pretty excited by that and say, "Well, my country will grow the same amount of tonnage of that particular grain as opposed to a feed grain," which sort of tends to have, I guess, a non-fancy sort of feel about it. But it's really one of time and, you know, the industry certainly has been one about trying to stimulate a grains industry and I think if anything the dairy industry may well help in the long term. At the moment it probably is a competitor but I think longer term it may well assist the process. Again that's going to take a little bit of time as well but it's certainly starting to move.

DR BYRON: That's a good comment. Thanks, Nigel. Maybe I'd better formally adjourn the inquiry before anybody else thinks of a good comment to make. But we will reconvene in Perth on Friday morning. Thank you very much for coming, ladies and gentlemen.

AT 2.04 PM THE INQUIRY WAS ADJOURNED UNTIL
FRIDAY, 28 JANUARY 2005

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