



**TRANSCRIPT  
OF PROCEEDINGS**

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**PRODUCTIVITY COMMISSION**

**DRAFT REPORT ON THE AUSTRALIAN PIGMEAT INDUSTRY**

**DR N. BYRON, Presiding Commissioner  
MR G. EDWARDS**

**TRANSCRIPT OF PROCEEDINGS**

**AT PERTH ON FRIDAY, 28 JANUARY 2005, AT 9.07 AM**

**Continued from 25/1/05 in Melbourne**

**DR BYRON:** Good morning, ladies and gentlemen. Welcome to the public hearings for the Productivity Commission's inquiry into the Australian pigmeat industry following the release of our draft report about six weeks ago. My name is Neil Byron. 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 for the Productivity Commission on this inquiry.

The inquiry started with a reference from the Australian government treasurer that we received on 31 August last year. The Commission is required to report on the competitive situation of and the outlook for the Australian pigment industry, including both production and processing, and secondly, whether government or industry are necessary to enhance the competitiveness of the industry and, if so, what measures would be necessary and appropriate. I'd like to put on record that we're extremely grateful to many organisations and individuals who have already participated in this inquiry. We visited piggeries, abattoirs and industry associations in most States, even in the very short time period available.

The purpose of this hearing today is to facilitate public scrutiny of the Commission's work and to get your comment and feedback on the draft report. Hearings have already been held in Melbourne on Tuesday this week. Following this hearing here today similar hearings will be held next week in Brisbane, Sydney and Adelaide and an additional hearing in Melbourne the Monday after that, 7 February. We'll then be working towards completing the final report which has to be with the government by the due date of 18 March, having considered all of the evidence that's been presented in these hearings in submissions as well as all other relevant information.

All participants in this inquiry automatically receive a copy of the final report once it's been released by the Australian government, which may be up to 25 parliamentary sitting days after the completion of our inquiry. We always like to conduct all our hearings in a reasonably informal manner but I remind you that we are taking a full transcript for the record and so comments from the floor are not particularly helpful or useable. But at the end of every day's proceedings I always provide an opportunity for anybody in the room who wants to come forward and make a statement on the public record to do so. So anybody, everybody has an opportunity to say their piece.

Participants are no longer required to take an oath but the Productivity Commission Act "requires people to be truthful in their remarks". Participants are welcome to comment on issues raised in other submissions or by any other speakers here today. The transcript is made available to participants for checking and validation and then will be available on the Commission's web site as soon as that checking has been done after the hearings. Copies can also be purchased using an order form that's available from the staff here today, Andrew and Dave. Submissions

are also available on the web site or by order form.

To comply with the requirements of the Commonwealth's Occupational Health and Safety legislation I have to draw your attention to the fire exits, evacuation procedures and assembly points. In the extremely unlikely event of an emergency requiring evacuation of this building, the exits are straight out the front door that way, and the assembly point is across the road near the sushi joint. The toilets, both ladies and gentlemen, are just out the door and to the right, including disabled facilities. Anybody who requires any other assistance please speak to one of the inquiry team members here today. Finally, if anybody has got a mobile phone with them, if you could turn it off or onto silent mode. Thanks.

That's the formalities out of the way. I would now like to welcome Dr Rob Wilson. If you'd just like to come and sit at any of the microphones there. If you could just sort of introduce yourself and your affiliation for the transcript, summarise the main points that you want to give us take home messages today, and then perhaps we can have a discussion about that. Thanks very much for coming.

**DR WILSON:** Thank you. Good morning and thank you for the opportunity to attend. My name is Dr Rob Wilson. I'm actually not representing anyone today but myself but I do have long affiliations with the pork industry, employed by a large integrated pork company, and I've had roles in the pork industry in terms of administration of R and D and on various representative organisations and boards.

First, I'd just like to start with an apology because I was requested by David to put some points down on what I'm likely to talk about by Monday and of course I didn't even start thinking about it till Wednesday, the holiday. So sorry, David. I did fax him yesterday on a couple of things but it didn't get through anyway. So, really, all I want to do today is just focus on the competitive nature of the industry, just reporting on a couple of studies that provide some other information. Then, really, I just want to go through the overview of your report and just make some comments on some of your findings.

**DR BYRON:** Terrific.

**DR WILSON:** Ask some questions on your interpretation and actually take umbrage at some of the expression that you've used, if that's okay. That's the sort of thing you'd like to - - -

**DR BYRON:** That's what the hearings are for. Thank you.

**DR WILSON:** All right, thank you. There's a company in the UK called Sparks Co Inc and in 2003 they did a large major study of 20 livestock and meat industry groups and they analysed the pork industry in each of the major producing and

consuming countries of the world. They looked at a full range of costs and revenue factors, broad based economic, political and social. They aggregated 34 different factors that, at varying degrees, have influence on the competitiveness of the industry. At that live animal level, in terms of cost of production, they looked at seven factors that reflected the competitiveness drivers. These were weighted to reflect their impacts on the cost of production and the countries then were rated with - as the sort of US study - with the US being the centre point.

After looking at all these 34 factors and then honing in on 15 originally and then another seven, they found that Canada was the only country having an aggregate index score on cost of production above the US. But they found that Australia, Chile and Brazil were three countries identified that had the potential to be a major competitive threat to the North American industry.

So the point is that the industry in Australia has a strong competitive base now and found in this study to be only one of three countries that had the potential to take on both the North American industry in both the US and Canada. But when they further investigated down the supply chain they found, as you'd expect, that very a important component in competitiveness was the size and the efficiency of the processing and the upstream distribution and manufacturing sector, and you've made the point in your study. But in all cases no country was found to be superior to the US in those areas. Canada was closest and then Chile and the EU were the next.

The study, however, notes that the EU must rely on highly restrictive import policies and continual heavy government support to stay close to the other countries. Similarly, another paper by two American economists, Kohl and Morris, and they looked at the North American economic and trade environment and the competitiveness of the US, and they stated that:

Within the context of world trade heavily subsidised countries such as the US and EU make it difficult for producers or countries to provide imports to developing countries to be able to compete on a sustainable manner.

They say that:

In theory we are moving to a free market world but in reality the US and the EU, with their large dependence on agricultural subsidies, along with intellectual and anti-trust trade sanctions, there's a still long way to go.

The bottom line, they state, is that the industry can expect a heavily subsidised US industry. 60 per cent of net income in agriculture was received from government support, and I don't see how that sort of figure corresponds to the four per cent that you quote in the study that the US receives from government support. They conclude that:

If one expects the US to play fair in world trade and negotiations, then they are going to be terribly disappointed.

So I just use those two studies for two things. One - both of them, actually, strongly highlight the heavy support that both the US and the EU receive in their industries, and both of them imply that those sort of issues are not going to change, and I can provide those references if you want them.

**DR BYRON:** Thank you.

**DR WILSON:** Now, going on to the report - and I've just got the overview summary in front of me. Just on the first page on the key points - and I'm going to skip around a bit, I suppose, here on the different things you pick up. A couple of areas through the report I've just highlighted a word which I think - I don't know whether that's intentional or not but it gives an implication which I don't think is warranted or real, and these are the words, for example, in the third dot point in the last sentence:

Competitiveness and profitability appeared to improve during 2004.

Now, it either did or it didn't. The word "appeared" I think implies that, "Oh well, we're not so sure. Maybe it improved a little bit." So I just don't think it's good expression. I mean, this is a report that's meant to be reporting facts. If there was an improvement I would have expected you to say how much that improvement was, perhaps how large the improvement was, whether it's a sustainable improvement, whether it's likely to continue; or, is the industry only just profitable, is it likely to be able to pay back the debt, is it likely to be able to attract capital to improve rather than just say, "Well, it appears as though things have got a bit better."

Further down, a dot point:

Governments could reduce some impediments to industry performance and competitiveness by, for example, seek reductions of overseas trade barriers and review single desk grain.

Then the next little point says:

But this will only make a marginal difference to the pigmeat business and unlikely to offset more significant factors, for example, the drought.

Again, that line tends to underscore a weak and - I think give the impression or gives a signal back to government that there's really not much point giving any support because there are larger that affect the industry because of the drought. So

does that mean you don't do any support? Does it mean any marginal improvement is not going to help the pig industry at all? I just don't think that's terribly well expressed if the implication is there that there's no point giving any support, because things like drought or other issues are going to have a bigger effect anyway.

The next dot point, the case for any specific adjustment is weak. I mean, you haven't given any data for that. I think that's just a value judgment. The last point:

Trade restrictions would harm pigmeat consumers and retail manufacturers may not in the long term be in the interest of pork producers or primary processors -

and again that comes up later. You haven't given any data to substantiate that comment. So if we go into - a bit further into the report, on page 13, "Government assistance influences competitiveness," sentences like:

It is difficult to determine the effects of overseas government assistance on Australian pigmeat prices because it's difficult -

does that mean you don't attempt to do it? I don't think you've given any data that shows what the effects of overseas government assistance have on the retail prices. You've just stated that they might support their industries by 4 per cent or 8 per cent or higher in the UK. I mean, it's just a sentence you've made.

Government assistance to pigmeat industry is relatively low in the Canada and the US.

You're talking about 8 and 4 per cent. By comparison, Australia is only 4 per cent. Some of the studies I mentioned earlier would indicate that their support is significantly higher than that. I couldn't see in the report anywhere - and I presume it's just referred to from another source - just how that 4 per cent of farmgate returns assistance in Australia was calculated. I mean, can I ask you questions? Can you now comment and say how was that 4 per cent calculated? I mean, I'd like to know the background on those sort of figures. Are we here to debate that or am I just going to talk to myself or talk to you?

**DR BYRON:** You can put the question on notice. I'd rather not debate it right now, but I can assure you that it will be addressed or explained in full in the final report.

**DR WILSON:** Okay. Further on, on the subject that says, "Support for producers in overseas countries have benefits as well as costs," and you talk about some overseas assistance programs and the many countries are going to reduce their level of assistance. Again there's very little evidence. It just sounds to me like there's some political rhetoric in this, you know, of these many countries that are going to

reduce their level of links between assistance and production. Are they our competitors? Is that Canada? Is that the US? Is that Denmark? Again, you know, there's no evidence presented. It's just hearsay as far as I can tell. Across the page:

However, lower prices can benefit Australian pigmeat consumers, retailers and manufacturers.

Again, I mean, it's a comment that perhaps in economic theory that you might think that would happen. You haven't presented any evidence that retail prices are going to - or would drop, you know. The question is does retail prices follow pig prices? I mean, you presented a graph where you showed that, but you presented pig prices with fresh pork, and of course the imported meat goes into manufactured meat. So you haven't actually presented any data to show that that sort of fact would happen. It's likely that as pig prices go up and down, retail prices don't move very much at all, and it's margins that are taken further down the chain. So there's very little - well, no evidence that I can see that you've - - -

**DR BYRON:** Sorry, just to clarify, would that apply to most agricultural products?

**DR WILSON:** What's that, sorry?

**DR BYRON:** If live cattle prices go up and down, the price of a retail steak doesn't change very much.

**DR WILSON:** I don't know. I mean, I didn't make the comment; you guys did.

**DR BYRON:** Sorry, carry on. I didn't mean to interrupt you.

**DR WILSON:** Again onto the next page, "The case for industry-specific adjustment assistance is weak." It's a point I made earlier in a sentence that says:

Over recent months, several short-term adverse factors have improved such as feed prices.

I guess has that been recoverable to an extent where, you know, it's of benefit to the industry, for how long that's likely to continue.

The commission found no evidence, however, that the characteristics of the pigmeat businesses are severely impeding adjustment -

and you talk about:

General assistance programs are thus likely to be an appropriate mechanism for assisting adjustment.

But is the improvement that you say appears to have happened - is that likely to enable the industry to go out and attract capital again for, you know, further improvement? That's probably the biggest impediment in terms of any growth or restructuring in the pork industry. Again on page 30, the paragraph, "However, regardless of whether WTO provisions" - and you're talking there about, you know, they're more likely to discourage restructuring and adversely affect consumers and things like that, like my other point. You don't actually demonstrate those links. In the next paragraph you say that:

The government measures should facilitate providing a stable macroeconomic environment -

and you quite rightly point out early that things like exchange rates have significant impact on competitiveness and certainly the other studies have shown that, but you don't demonstrate or, you know, record how governments have been able to - what their success has been in terms of keeping that exchange rate stable. So it's all very well to say the government will keep exchange rates stable, but it doesn't happen in reality.

**MR EDWARDS:** I'm not sure that the government would say its objective is to keep exchange rates stable. I think the government would take the view that with changing economic circumstances here and overseas, it's appropriate that the exchange rate moves.

**DR WILSON:**

The commission's preliminary view is that government measures to facilitate a competitive industry are best aimed at providing a stable macroeconomic environment.

**MR EDWARDS:** That involves more than the exchange rate of course. It covers things like inflation and interest rates.

**DR WILSON:** Yes, and what's the biggest impact on global competitiveness in the pork industry; the biggest, the one biggest? Exchange rates. Again a bit further down:

Many of the difficulties experienced by the industry relate to the ongoing variable nature of international pigmeat markets, climate and currency markets.

Again you haven't teased out what those relative factors do. You haven't teased out what the impact of the large level of imports have done on pig prices.



You've just lumped them in together and said, "These are major factors," which I agree to, "and they have a bigger impact," but you haven't actually presented any data that supports what you're trying to say.

Going on to the specific individual findings, draft finding 3.1, there's that word "appear", "Many pig producers appear to have made a loss in 2002-2003." Now, you got very good data from APL that showed that it wasn't an appearance. There was huge losses in those periods.

**DR BYRON:** Sorry, which data are you referring to?

**DR WILSON:** The Ernst and Young data.

**DR BYRON:** Which is what sort of a sample? I understood it was a very small and self-selected sample.

**DR WILSON:** Yes. Okay. Now, would you think from the level of losses that self-select sample demonstrated, do you think that that's atypical?

**DR BYRON:** I don't know.

**DR WILSON:** You don't know, and from what you've heard round the country and what you'll hear later today, would you still think that we only have appeared to make a loss? I mean, your choice of words I think is - you know, you're making an implication that it's not at all as bad as it seems. We only appear to have lost, you know, significant amounts of money.

Again draft finding 3.3, "Level of assistance to the pigmeat industry in Australia and US are low." I doubt the figures. You talk about, "Many overseas countries are changing and decoupling." Are they our competitors? Who are many countries? Is it really happening? Draft finding 5.2:

Some but not all forms of assistance to overseas grain and pigmeat businesses can lead to lower world and thus Australian pigmeat prices.

Again, you know, it's just a statement that doesn't seem to get backed up. Draft finding 6.3, you know, is just virtually a rehash of 5.2, and again I think words like "and failed to target those of greatest assistance", you're talking about the assistance "would only discourage and delay ongoing restructuring". Just again another unsubstantiated statement. I mean, how do you know that? Why would you say that? Draft finding 6.4, there's another word:

There does not appear to be a strong case for additional specific adjustment especially given the existence of general assistance programs.

But previously in your report, you state that some of these - I mean, you don't know the value of those generally assisted programs. You say that's a weakness. You haven't been able to determine the value of some of those. So in that sentence, you're saying there does not appear to be a strong case, because the ones that we've already had have been of little value, but you don't know what the value is, but you've already reported elsewhere in the study.

So my summary, I don't think it's a very good report. The expression I think perhaps gives the wrong impression or it's trying to be implicit on a hidden agenda or giving signals that things aren't as bad as they seem. There's very little evidence, there's very little analysis, and I think it's just big on perhaps stated economic theory and some political rhetoric. So I was disappointed. That's all I have to say.

**DR BYRON:** Thanks for your comments. I assume you did go past that page and look at the rest of the report. You were referring only to the overview, and I think you'll find that all of those comments are actually backed up in the report itself, and in the appendices that back up the report.

**DR WILSON:** No. Well, I did go back and specifically look for some of that evidence and it was not apparent to me.

**DR BYRON:** Okay. The other thing I should emphasise I guess, without wanting to appear defensive, is that this is a draft report, and it includes two full pages of requests for information where we found that the data that we'd been provided from all public sources and from all the submissions and evidence so far was severely deficient in enabling us to draw firm conclusions, and the purpose of having another round of hearings and submissions is to try and draw out more hard factual information that will enable all those highly qualified "appears to have" type statements to be firmed up for the final report.

So what we're actually looking for now is hard evidence to be able to firm up all those conditional statements. If you or any of your colleagues can provide us with, you know, the factual information, we'd be very grateful.

**DR WILSON:** I think it's unrealistic to expect to go around the country and talk to farmers to be able to come up with data or more data or new data that hasn't already been presented by, you know, for example, a body like APL. I would expect it would be your job to ferret out a lot of this information and do the modelling. I mean, you've gone to the expense of employing a consultant from the US to talk about government support. Therefore you've got the resources to do some of this yourself. I mean, there is no way in the world anybody in this room can provide some of that data you ask for. I mean, they're going to give personal stories and that has value.

**DR WILSON:** Yes. But for the particular point you made there, I believe it's your responsibility to find some of that information, not rely on it to be given to you, and when you get that information it should be checked, interpreted and not just put carte blanche into a report.

**DR BYRON:** That's exactly what we are trying to do. On that subject of the European Union assistance, we've had, I guess, three or four people working on nothing else but for the last three months, to try and get to the bottom of these stories of great European Union and Danish subsidies to Danish producers. We have actually drilled down a lot deeper than anybody else who has actually looked at this evidence. We've gone back to the OECD for all their published statistics on supports to the European Union pigmeat industry and challenged them on, "Where's the data to support this? Have you got numbers to do that?" They have actually admitted that **some people have** made a few misinterpretations and that will be coming out in the final report.

We've also had a lengthy correspondence and discussions with the people in ABARE who did a major report on the competitiveness of the pig industry just last November and again we've been challenging some of the assumptions on these sorts of things. We have been trying all sorts of ways to get the most reliable information we can and to plug up some of the holes. At the hearing on Tuesday in Melbourne, I showed the CEO of QAF Meat Industries an analysis of the Danish pigmeat industry that had been done by the Irish Food and Agriculture Authority.

**DR WILSON:** Yes, you refer to that in the report.

**DR BYRON:** Yes. The point is that we've been basically turning over every stone we can find to try and get the most accurate, reliable information that we can and unfortunately I still have to say there's a lot of big holes and you're right, that we won't be able to plug all those holes during this 10 days of hearings.

**DR WILSON:** All right. Well, I'm pleased to hear that, because the industry has tried to do this before, get information from other countries and it is difficult. But that again is only part of this study. The biggest deficit I see is that there has been no attempt to measure the impact on the Australian industry. It has just been imports, currency, drought, other macro effects. I mean, that's your problem, boys.

I think you should be teasing out what those individual impacts are, so we can hone in on what this is all about, and this is on the level of imports, the level of imports as well as whether they come from heavily subsidised - and things like that. Then you can make a recommendation to government rather than, you know, your draft findings says - you know, it's a shrug of the shoulders type of report back to government. It's something that they can just drop because you're not recommending

any support. Anyway, I'm only going to repeat myself. I think that my time is up.

**DR BYRON:** Continuing that debate, we've tried to separate the short-term exogenous shocks, the exchange rate, the disease outbreak somewhere, from the fundamental long-term underlying determinants in competitiveness. If we try and put aside all the short-term static and hiccups and look at what's fundamentally underlying and driving this, what we've been repeatedly told is that the three long-term drivers of fundamental competitiveness are about feed grain prices, feed grain conversion efficiency, about economies of scale and both the growing and the processing factors, and about having really efficient supply chains. Now, would you agree that that's really - - -

**DR WILSON:** Yes.

**DR BYRON:** In spite of all the short-term hiccups that come and go, that's really where the fundamentals are.

**DR WILSON:** Yes.

**DR BYRON:** What we're trying to do is to say let's not get distracted by what's happening this week or last week about exchange rates or - you know, we know that there will be droughts and there will be good crop years and all the rest of it. But let's try and get the fundamentals of the future competitiveness of this industry.

**DR WILSON:** Yes, but you stray. You stray by the expression of, "It's been bad but early part of 2004 it's a lot better." I mean, in terms of government that's a signal that they can latch onto straightaway to do nothing: things got better. But you don't say how or why or for how long or how much. You know, was there a major fundamental shift that caused that, or is it just feed grain prices?

**DR BYRON:** Feed grain prices and exchange rates.

**DR WILSON:** So I don't disagree with the broad outline; it's quite right. But your charter is just not to examine those, is it? It's to examine the impact of imports on the industry, its effect on its competitiveness and whether there should be support in one way for a restructure or whatever. I mean, it's up to you.

**DR BYRON:** Yes. As I tried to explain on Tuesday in the Melbourne hearings, the way we tried to write the report is that the level of imports is not a cause of a determinant of competitiveness or non-competitiveness, but rather a result. If the Australian industry or the firms in the Australian industry are pretty close to relatively competitive, the amounts of imports will be relatively small. If we're not, you'd expect the amount of imports to be larger. So the level of imports that we see is a result, not a cause, of competitiveness.

**DR WILSON:** Okay. As I understand, and I actually went through these three dot points with you in September, the PC can examine what effect pork imports are having on the Australian industry - I don't believe you've done that - whether measures such as increased tariffs or quotas would benefit the Australian pigmeat industry. Yes, you've said they won't but I don't think you've substantiated it - whether a safeguard investigation was warranted, and I think you've said no to that one.

**DR BYRON:** Well, I mean, we're not specifically asked to comment on the case or against this - - -

**DR WILSON:** No, I know - exactly the point we debated in September, whether a safeguard investigation was warranted you can comment on.

**DR BYRON:** Good.

**DR WILSON:** All right, thank you for the time. Unfortunately I can't spend much of the day here so I'll miss the other presentations, but I guess I'll pick it up in the transcript and you're welcome to follow up anything with me personally at another time, if you want to.

**DR BYRON:** We probably will.

**DR WILSON:** Thank you.

**DR BYRON:** Thank you very much for coming.

**DR BRENNAN:** Good morning.

**DR BYRON:** Thanks. Would you like to just introduce yourself for the transcript and then take us through your presentation, thank you.

**DR BRENNAN:** My name is Chris Brennan. I'm a pig producer. I am a partner in a 700 sow enterprise at Wongan Hills in WA. I am a veterinarian who consults to the industry and has done since 1986. I am also a director of Australian Pork Ltd but I do not speak in that capacity today - and I am a member of the industry government working group which has been set up by an administered trust. My main focus today is not to talk about trade, is not to talk about feed grain costs. I think there are various avenues and a lot of information which you've undoubtedly received so far, so there's no point in actually reviewing or reinforcing the thrust of that information.

I do want to talk about economies of scale, productivity within the industry and issues associated with labour in the industry. A bit of background: being a pig producer, I went back to the family farm in 1996 to set up a pig production unit which is where we receive half of our production from contractors as weener pigs, half of it from our own breeding unit, and grew the whole lot in one single growing herd. As an investment it has been very poor, to say the least. Obviously with your first production, 1997, it ran straight into 1998-99 in terms of poor pig price years albeit not severe feed grain cost years.

However, profitability wasn't present within the industry. 2000 was fair, 2001 was good, and then subsequently 2002, 2003 and to a degree 2004, until the flow-on effects of cheaper grain prices have been inadequate profitability to justify pig production as an investment. Now, that's in our production system. I mean, we appreciate that not all the issues associated with the profitability of pig production are associated with pig pricing and feed grain costs. I mean, there is some issues with regards to economies of scale certainly and we don't believe in our particular case we have captured those economies of scale to the degree which we could.

However, obviously due to the profitability in that period of time we've been reluctant to expand our business and consequently you're caught between a rock and a hard place, so to speak, in terms of not being big enough to gain the economies and not having the profits to reinvest into it, to achieve those economies, and I assure you that we, as a pig production unit, are very similar to a lot of other units which have the same issue .

During the seven years - we ran a high-health unit but also during that period of time, in conjunction with the high feed grain costs, we had a disease outbreak which was caused by semen coming into our herd which was impossible to control. So that obviously had an effect on the volumes that we produced and consequently, at a period of time when high feed grain costs were present, it was a bit of a problem.

So having said all that, I'm still a major believer in the industry. I believe a lot of people within the industry are passionate about what they do. It is a seven day a week job. But also it is an industry which has a lot of competitive advantages and we really need to, as an industry, restructure, get greater economies of scale, both in the production sector and the processing sector, and I believe we can take a multitude of costs out of the system.

Economies of scale, I mean, obviously economies of scale are great if you're making money. They're actually highly negative if there's very high feed grain prices, so it just multiplies your losses. In terms of why it's important for pig production, for obvious reasons pure economics, also logistics, getting scale makes it easier for trucking and transporting of pigs et cetera. It also allows you to have leverage in terms of purchasing inputs and probably importantly from the labour side, you can create a career hierarchy within your business and that's one of the major situations lacking within the industry, is career hierarchy and creating positions of - well, creating a hierarchy within a business so that people can desire to achieve a greater income and a greater role within the business.

However, scale and productivity are both important. There are many larger units which actually have economically - well, some are run very well and like in any business some are not run so well and depending on the financial backing of that business determines the longevity of that business within an industry.

Referring back to the Ernst and Young report, from memory - I mean, the numbers involve 29 of the largest 40 or 50 pig production units in Australia, and I would suggest that that is a reasonable snapshot of the industry in terms of size. I forget the percentage of pig production involved, but it certainly was significant, and from the equity losses within the businesses during that period of time from 2002 to the middle of 2004, you can see that there was a major equity loss within the industry.

Just looking at examples of economies of scale, I've made a presumption here that pig production unit in Australia or in WA needs a thousand sows as a minimum requirement to access scale economies in terms of buying power, selling power and also logistic issues in terms of trucking of pigs et cetera. I've compared what I believe is standard performance - eg what you've generally quoted within your numbers within the report - and I'm comparing that to good production performance which is actually out there in the industry. I've assumed a relatively high capital cost of \$5000 a sow, and I've had no input in for initial working capital or land costs, believing that at some stage the unit would shut down and therefore you'd get your initial working capital back - presumption - and the land costs, it's just too difficult to extrapolate what specific land cost in a specific area is.

In the good production example, I've used 24 pigs weaned per sow per year as the benchmark. That's based on PORTEC which is the veterinary business that I'm a partner in, the top 25 per cent of the herds within that farm comparison, and the average farm size is 640 sows. The top 25 per cent average just under 24 pigs weaned per sow per year, which compared to the PigStats figures et cetera that are quoted or pig check figures quoted in your document of I think at 21, that sort of range. So I can provide you with the spreadsheets which support this.

So taking the capital investment, \$5 million; pigs weaned, 21 versus 24; post-weaning death loss of 5 per cent versus 3 per cent in a good herd; average sale weight, 105 versus 115 where, you know, putting into greater weight strategy in terms of the industry restructuring plan; grower feed conversion improved, even though 10 kilos heavier; breakeven - I've used trim 1, and my figures show that breakeven on a standard unit is around the \$2.29, and in a well-run unit it's \$2.03 based on average grower feed costs of \$300 per ton.

Now, for every \$10 per ton difference, it changes your return on investment by approximately 1 per cent. So looking at a specific return on investment figure - and I've used here 15 per cent as being the minimum that would be required within a biological business and depreciating business in terms of facility, being pig production, to achieve your 15 per cent return on investment, in an average standard, run-of-the-mill Australian pig farm or WA pig farm, you're looking at needing a price of \$2.77 with quality concrete, steel, environmentally controlled facilities versus good production of \$2.33. The good production I believe is now becoming the standard production.

So, you know, what I'm trying to say here, that there are scale issues, there are certainly efficiency issues, and there is - in terms of efficiency, there are quite a few units within this state that we know of that are part of our business that are doing it fairly efficiently. I can't specifically comment from the rest of Australia because, I mean, apart from the fact of your data that you've used, which doesn't actually line up totally - and I mean, when we're dealing with quality businesses, I believe that the future really in any industry is always in the top 25 per cent of the business. Unless the other 75 are prepared to restructure or go through, you know, a major change to actually get them benchmarked to the top level, I believe that in terms of global competitiveness, yes, we're reasonably competitive in terms of the efficiency factor as long as individual units have a degree of scale.

My belief is many herds live off depreciation and they have done certainly over a long period of time. What we've found, we've seen within the industry, is a strong move to straw-based housing in quite a significantly cheaper construction which are able to be rapidly depreciated because of their greenhouse-type construction. However, because they're rapidly depreciated, they're actually - well, they deteriorate quickly I suppose, and therefore generally speaking, they're not as efficient to operate



in terms of feed conversion.

When I look around the industry - I'm not talking about my unit here - a lot of the units are actually old. They need significant reinvestment, and obviously there's been inadequate profit over a significant period of time for people to have the incentive to reinvest into scale or into efficiency within the industry.

I am concerned about the productivity, and especially so with my vet hat on, the welfare aspects of some of the older systems, and as I said previously, the recent investment within this industry has been in straw-based systems which I believe, having myself done the same thing, raise some occupational health and safety issues. It's very much young people's work, and the issue with that is it's not attractive for young people either, because the pay is not good, and it's a dusty, wet - potentially wet environment. So we're not creating an environment to facilitate bringing people into the industry apart from, in some respects, people that cannot get jobs in other agricultural or mining industries, especially in this state. So the basis of it all is there needs to be incentive to invest in quality facilities to enable best practice.

Profits obviously will encourage investment. I mean, that's driven obviously a lot by demand and more specially local demand. My belief, there is an opportunity - and I'm not trying to overstate this case, but I do believe there's an opportunity for government to assist the industry to restructure quickly through the avenue of accelerating depreciation for new investment in existing holdings over a defined time period.

So as an example, looking at, you know, concrete traditionally in the industry as a depreciation has a 20-year period where it's depreciated over. If there was an ability for entities to reinvest in their business with quality facilities, best practice facilities - for example, depreciating those facilities over six years or the concrete in those facilities over six years, and only had a period of three to four years for that to occur, I believe we could actually get very good facilities for the pigs, very good facilities for the people, and consequently we would have a much greater or much more sustainable industry.

Consequently if we can get our production costs down, it helps everyone, because at the moment within the industry, because of scale, because of efficiency, there's a lot of angst basically between processor and producer; producer because of scale and some degree efficiency, but mostly lack of scale, needs a price to be sustainable, and obviously the processor needs a price to be sustainable from their perspective in terms of - you know, with regards to imports and competition within the marketplace from people that are utilising imports for this processing of the smallgoods sector.

So as a concept, the idea of accelerating depreciation for a fixed time period,

but only to be replacing existing production, I think it would be dangerous to actually expand production in the short to medium term until demand - well, the driver should be demand, albeit if people can reduce their costs of production, they will invariably expand to improve their economies of scale. But my suggestion here or conceptual suggestion is that it should only be available for existing production facilities - well, for the existing production that is now in the system or in the industry.

**MR EDWARDS:** Would you anticipate a few problems, both of a philosophical and a practical nature for a government that tried to implement accelerated depreciation only for replacement investment?

**DR BRENNAN:** I mean, in essence, if you're starting again - I mean, I'm differentiating from R and M - repairs and maintenance - versus construction and new facilities. I mean, you've got the same production. It's just that, you know, for us to be world's best practice, we need to lift the bar on the quality of facilities that are out in the industry. Now, people will decide themselves, as an investor, whether they go down that track to be competitive or alternatively they look at, you know, closing it down over a period of time, their business.

**MR EDWARDS:** You appreciate I'm sure that this sounds like a suggestion that would benefit those who are in the industry, but not those who might wish to come into the industry.

**DR BRENNAN:** Fair call, but I haven't noticed too many of those in recent times.

**MR EDWARDS:** But of course the general position of our government is that it doesn't want to pick winners. In particular it doesn't want to pick existing members of an industry, whether it be the pig industry or any other, as those players who are going to be significant and who deserve assistance while ruling out assistance for new entrants.

**DR BRENNAN:** But what is the assistance? The assistance is that it's just fast-tracking a depreciation allowance. I mean, the same effect over time - the effect with regard to the government is the same over time in terms of their revenue.

**MR EDWARDS:** But the same tax savings given earlier represents the subsidy. That's well recognised.

**DR BRENNAN:** Okay. Well, there's accelerated depreciation, there's a new investment. I mean, there's various ways - I mean, if there's significant profits within the industry it will restructure and it will occur itself. I'm saying to you that because of bias within the industry in terms of the limited scale, economies of scale, for a vast number of units. I mean, QAF certainly has economies of scale on a global basis. Then you come down to sort of QAF, what, 55,000 sows and then you're coming

down to the 10 to 12,000 sows. Then you quickly get under 5000 and you quickly get down under 2000 and then you fairly quickly get under a thousand. Now, the issue is you've got to get a lot more of those 500 to a thousands, over a thousand. And some of the family farm ones from 250 to 500, okay, to get the scale within the system. So the supply chain becomes more efficient. You know, we'll sustain - as producers we will invest in the industry if we're getting a return. It's straight economics. I mean - - -

**DR BYRON:** That's what I was going to say. It seems to me that the way it works in most other industries is that people who see, you know, good prospects, if they can expand and lower their costs, will go to the bank and get the capital and accrue the benefits. What you're saying is that because of the recent history of the marginal profitability it's very hard for existing producers to go to their banks and raise the capital for expansion.

**DR BRENNAN:** Totally, totally. And I think what you've got to realise - myself in this example and I'm sure there are others in this room. I mean, the term "punch drunk" probably best describes our mindsets over the last six years, or five years, apart from 2001. I mean, it's a tough business. It's a low margin business. Now, I'm saying people - you can turn the corner and say, "Well, it's the government's fault, the drought's fault," and accept all that, your comments that you've made. I mean, the trade issues are really, for me as example, they're decisions that - you make an investment decision in 1995 or 1996 and then the rules change subsequent to that. Okay? Now, for me that leaves me a bit sour in terms of when any of the rules change but in life rules change all the time, I suppose.

However, I'm just looking and saying, "Well, in terms of the industry, what is possible to fast-track this restructuring? We were here - I mean, the industry was here in 1998 at a Productivity Commission hearing. We're here again in 2004. I mean, you just can't keep going and going and going. I mean, the scale of a lot of the businesses hasn't changed to a large extent. The number of units greater than a thousand sows I would suggest wouldn't have increased significantly since 1998. Now, why is that? (a) the profits, confidence, volatility, whatever. But the thing is there is a - it needs to be driven from somewhere in terms of improved efficiency in the supply chain.

**DR BYRON:** But the people who are - as you say, we're talking about these same things in 98. From memory, shortly after that, because of Nipah virus in Malaysia and foot and mouth in Taiwan or whatever, most of the pig producers in Australia had, according to the statistics, a couple of the most profitable years on record, and as a result did they go out and re-equip and expand the facilities or did they just say, "Oh, thank god the problem has gone away. We can go back to the way we were." So - - -

**DR BRENNAN:** I can't really comment because I was recovering from 98, 99.

**DR BYRON:** Well, that may well be the reason that what looks on paper as being a couple of fantastic years, after the combination of high grain prices and low pig prices, people were not expanding or upgrading their facilities at that time because they were just trying to restore equity that they'd run down during the awful period. That may well be what's happening at the moment.

**DR BRENNAN:** I think for most, considering the equity reductions that - in terms of the Ernst and Young report that APL commissioned, they would need more than one good year, highly profitable year, to restore a level of equity in their balance sheets which would be - well, to where they were previously. It's easy to go backwards. You go forwards with after-tax dollars. Just a couple of points on labour. Agriculture is the lowest paid industry on average weekly earnings in terms of - yes?

**DR BYRON:** Yes, I'm listening.

**DR BRENNAN:** Locally here we have 4.5% unemployment rate. It's getting more and more difficult to attract quality people to the industry. Conditions and facilities, relatively adequate compared to other industries, eg mining, especially in this state. I mean, my belief in terms of adding to this whole concept of whether it be accelerated depreciation, investment allowance, whatever, that the industry needs investments in facilities and automation to reduce their reliance on labour. Now, at the end of the day, if we're all making money, we would reinvest in facilities and automation because we don't, obviously, want to see our good people leave, plus we want to be able to pay our good people more. And that's basically all I'm wanting to say in terms of - - -

**DR BYRON:** Thanks. Do you mind if we ask you some questions about that?

**DR BRENNAN:** Go for it, yes.

**DR BYRON:** Just on the problem of getting the financial backing to be able to expand, would it be correct to say that the banks have been wary of lending to piggeries because they see the high volatility of returns that - is it the level or the volatility that scares them? Because we've also seen financial reports that said, for example, in 2000, 2001, the top 25 per cent of pig producers in Australia made 40 per cent plus return on investment. So, I mean, if the banks looked at that they might be very inclined to lend money to enable medium-sized producers to become larger, more efficient and more productive. I'm trying to figure out where exactly is the problem in getting these economies of scale and productivity gains that you're talking about.

**DR BRENNAN:** I think there's - well, there's a number of issues. (1), the obvious thing is that a piggery is not worth anything and, in essence, the stock in it for some banks isn't worth anything either. In terms of risk management for a bank, there's that biological risk which they don't understand, and they just hope that their client understands it. The client obviously wears the capital risk. The marketing risk is really an area where they have no control. So consequently that's why you're getting more and more - well, there's contractors, people becoming contractors for virtually integrated companies and, secondarily, there's a greater use of long-term marketing contracts. That area is growing within the industry. So that will actually reduce the risk profile significantly.

Biologically, in terms of biological risk and disease, we're one of the healthiest countries in the world, albeit even herds like my own, which is a very high health status, every now and then runs into problems, unforeseen, uncontrollable sort of problems. Banks love hardcore assets to lend piggery money against, eg land. I tend to say that there is a degree where, like in any agricultural business, there's a varying degree of financial acumen within the sector - within any business sector; it doesn't have to be agriculture. Consequently the knowledge of economics and financials varies. So that's another area where people struggle a bit.

**DR BYRON:** But the impression that I've got from the places that we visited is that most of the production units we've been to, I've been incredibly impressed that they're very skilfully managed, from both an animal husbandry and a financial sort of sense; that people know where his dollar or his cent is coming from and going to. So in terms of what happens within the boundaries of that property, that enterprise, if people know to four decimal places what's going on - but then there's some other totally off-the-planet thing happens outside that just is a huge sort of shock to the system and you have to go through and recalculate and optimise again and you've only just sorted that out and then another bomb goes off over there somewhere else and you've got adjust it again. So people are always trying to react optimally inside their own property, their own business, to god knows what is happening outside.

You know, if there's an outbreak of mad cow disease in Canada and it suddenly increases the shipments of pork from the US to Japan, then some producer in WA gets a kick in the pants as a result. It's not because of anything he's done or not done in his business; it's just - - -

**DR BRENNAN:** Yes. And that's a volatility issue. You could say, on the other hand, tomorrow foot and mouth disease is reported in the USA. So consequently, all of a sudden, we're getting \$4 a kilo. Meanwhile that may not be good for the industry but we'll take it. Coming back to the banks, I think the volatility issue is a major one. We've had 12 months apart whereby you're actually getting \$1.65 and you're \$3.30. Now, how can you run a business on that basis? Plus the opportunities for grain price risk management are pretty low. I mean, there's wheat but the

predominant grain is barley, and local barley prices don't actually mimic global barley prices that well.

**DR BYRON:** Yes. So you can't hedge.

**DR BRENNAN:** Well, you can hedge to a degree. I mean, in terms of lupins you can hedge with soy, you can hedge with wheat but, as you know, a lot of the times there's not total alignment with those relative to local Australian pricing.

**DR BYRON:** I guess where I was going with that is that it seems to me that you could make a case that with the result of greater integration of Australian pigmeat industry with global markets, both as an exporter and as an importer, Australian producers are becoming much more exposed to shocks that go off somewhere else. To a certain extent when Australia was relatively isolated and producing for the Australian market and there wasn't much exports and there wasn't much imports things were much more self-contained, but as we've become more engaged in global markets there are more of these external shocks that are going to give us a jolt and perhaps one of the consequences of that is that producers are going to have to have much deeper pockets or much stronger financial backing because the shocks may be bigger or they might be more unexpected or more frequent.

So is that consistent with a movement away from the sort of family farm sort of model to sort of corporate farming, and has that got implications that we should be aware of, because a lot of the structural adjustment assistance that exists in Australia is for family farms, not for, you know, big corporate agribusiness. So, you know, I'm just trying to follow through the logical implications of us being more engaged in international markets.

**DR BRENNAN:** I think you're right to a degree. It's amazing however how much the family farm can buffer itself in bad times, which absolutely staggers me. We run our business more as a corporate style property, but I think your best defence, if you're a pig producer, is to actually have the lowest cost of production or alternatively get the highest price that you can for your product or both. To get your lowest cost of production down, you need to have scale, and consequently, we need to shift - family farms will decide themselves in terms of the profitability and the investment they have in pig production whether to continue, grow or get out.

In a corporate sense, you need scale. No question what that scale needs to be. Today - I've played hypotheticals there with a thousand. I believe it's a thousand minimum or it could possibly be more. But your best form of defence is to have a very low cost of production and also have your risks covered in terms of market price and feed price the best you can, and as far out as you can.

**DR BYRON:** Just picking up on getting the best prices you can, a few people have

suggested to us that we'll never be able to provide vast quantities of low price of the bulk commodity grades. The Brazilians can flood the market with very cheap stuff, and what Australian pigmeat producers should be aiming for are basically premium markets; people who appreciate clean and green and low use of antibiotics and all those sorts of things, and it's almost a niche marketing strategy for Australian producers to place their product either in the domestic market or in Japan, Singapore, Hong Kong or wherever, where people will actually pay premium prices for a premium product and forget about trying to compete in the bulk low price stuff. Any reaction to that?

**DR BRENNAN:** You could say the same thing about Canada and America, but relative to Brazil also. I think there's - I believe we're never going to be able to compete with Brazil just because, you know, of a number of issues in terms of feed price and efficiencies et cetera, but in terms of health status, we certainly do, and they are able to export to some countries and certainly not others in terms of health status.

I do own a brand and have a supply contract into a local supermarket chain, and for what it's worth locally relating to the warm fuzzies et cetera to whether it be the supermarket chain or the consumer or getting that message across to both has been very difficult. In actual fact we have never actually achieved a premium for a, what we call, welfare friendly reared/antibiotic free/reared on straw, nice picture pork.

**DR BYRON:** Happy pigs.

**DR BRENNAN:** Happy pigs. The retail sector have a belief that they just want to get the cheapest. They believe Australian consumers are the most price-sensitive consumers in the world, and their role is to actually - if they're Coles, is to actually supply food at a cheaper price than Woolies, but at a same or greater margin, and that's fine. That's the rules, but in terms of niche branding of product, it's very difficult to get a premium for a product going through - well, certainly the two major supermarkets.

**DR BYRON:** Don't answer this if it's not within your area of familiarity or whatever, but what I've been trying to explore further with a few people is what would happen if the price of imported pigmeat was for whatever reason tomorrow to go up by 10 cents a kilo? Would we expect manufacturers in Australia to start ordering less imports and, you know, buying more Australian-produced meat? How long would it be before we'd see some sort of shift in where Australian-produced pigmeat is going between fresh and manufacturing? If the price of imports went up by 10 cents tomorrow, how long would it be before the price of Australian pork went up by 9 cents a kilo? Have you any ideas on that?

**DR BRENNAN:** I don't think there's a great correlation with it. In terms of people

that - the large users are using it and will continue to use it and because it's part of their system, and I believe that, you know, you'd have to talk to the Primos of this world or whatever to ascertain the price relativities or where the price differential comes into play with regard to their purchasing decisions, plus at the same time, when they go to that line, they'll create such demand in the local marketplace which will push up the price anyway because they're using such large volumes now. Then coming back into the local marketplace would create a strong drive up.

**DR BYRON:** I'm trying to sort of follow through - as you were saying about, you know, the big retailers are trying to sell product to consumers at low prices with the best margins they can get, so they're putting pressure on the wholesalers to put pressure on - and so on, and little fleas have smaller fleas upon their backs and bite them, and so on. So if the manufacturer is trying to provide his ham, bacon, and smallgoods at the best price he can because he's got to compete with other manufacturers, and so he's looking around the world to see, you know, where can he get the raw materials that he needs at the lowest possible price to make himself competitive, and he finds that for whatever reason, he can get meat from Canada or the US or Denmark cheaper than he can by buying from the producer down the road, and he reacts accordingly, that suggests that the Australian primary producer is going to be very much affected by the price at which imports in other countries are available.

**DR BRENNAN:** Agree.

**DR BYRON:** We're sort of much more exposed to world prices now than we used to be before, and those world prices go up and down for all sorts of reasons that have nothing to do with us.

**DR BRENNAN:** Hence your comment about deeper pockets. That's a fair call. I also think there's a couple of other issues which, you know, I mentioned before about foot and mouth disease in North America for instance and whether it, say, encompassed Canada and USA. I mean, depending on who you are as a processor and how much of your risk - in terms of your risk profile, how much you're actually importing of your product use versus using local, that area - and because of the volatility of the disease in the world, that's a dangerous scenario for any business to have levels of imports running at a level which is too high now. I can't comment about what's too high, but certainly in some businesses, they use very high levels.

Secondly, John Hatton's comments in the PC submission with regard to utilisation of product and grade A and issues he has with local market versus imported product and the quality and specification, they're relevant issues and they're issues which, both in the production sector and the processing sector in terms of supply of fresh meat, we need as an industry to get better at, because we are in a global marketplace.



Thirdly, the issue of the supermarkets potentially with time, whether it be American or Canadian or whatever, there is a potential for processors that use imported product to be bypassed and product to be accessed by the supermarkets directly from Canada or America in a prepackaged form. That is a - what that does to Australian - I mean, the consumer gets a cheaper product, but it doesn't do anything for our manufacturing sector in terms of Australia. So there's some issues there which actually potentially can send jobs further overseas which have a potential danger. I'm not sure of the actual dynamics but, you know, if America was awash with bloody bacon and they wanted it dumped, get rid of, and it was in a cryovac pack, they would, no question.

**DR BYRON:** One of the things that surprised us is that apparently the price that Denmark gets when they export bacon is very, very similar to the price they get when they export raw middles to Australia, which suggests that - - -

**DR BRENNAN:** Why wouldn't you import the meat.

**DR BYRON:** Yes, exactly - that it may not be very long before they start selling us cryovac packs of bacon rather than middles to Australian manufacturers.

**DR BRENNAN:** And whether that's a relevant thing in terms of the way government views the industry and the value of the industry, too.

**DR BYRON:** Geoff, was there anything - we won't keep you much longer.

**DR BRENNAN:** No, you're right.

**MR EDWARDS:** You've stressed the need for the industry to continue to adjust, and of course we all appreciate that there's been a huge adjustment within the industry. I think the number of pig producers nationally has gone from something like 40,000 at the start of the 1970s to a bit over 2000 now, and we know that a lot of those smaller producers in earlier times were associated with dairy farms using skim milk. But we also know there's been a significant increase, and taking that longer term perspective in the proportion of pigmeat produced on very large farms, I suppose I find myself wondering whether you see adjustment in the industry in future depending on individual decisions taken by individual producers, and perhaps as you've acknowledged, especially the 25 per cent or so of the bigger players.

So should we see the development of the industry in the future being the outcome of decisions made by enterprising pig producers, including perhaps a few potential people not in the industry or do we see it more as being an industry-determined thing, sort of planning, if you like, for the pig industry as a whole? Do you have a view on that?

**DR BRENNAN:** I think there's two views - well, three points: one, like any agricultural industry, there's older players in it. So consequently there will be an attrition of the older producer in terms of age. Whatever scale they are doesn't matter. Desire and age will determine they want to give it up. Secondly, I think the major role really is with the processing - well, the processor who you supply pigs to, they're able to identify the producers that they want to see increase in size to give them the quality that they desire, and they have the confidence in those producers to be able to produce efficiently at a level which enables them to be able to access product over time more cheaply because it's got to be a win-win scenario - them to foster growth of individual businesses that will then enable them to procure product at a cheaper price, but at the same time both businesses becoming stronger. The third point, because it's a free enterprise system I don't really see there's, you know - it is free enterprise. I don't really see a role for government apart from providing funding - what's the right term for get out funding?

**DR BYRON:** Structural adjustment?

**DR BRENNAN:** Structural adjustment funding for entities that decide to close down a unit or - you know, or through financial duress in essence.

**DR BYRON:** One of the problems with that sort of get-out money is that you need to have some way to make sure that they don't take the money and then go across the road and start again, and then get bought out a second time. As you say, the thing about most agricultural industries is that there are very few barriers to people getting out of the industry if they want to or new people coming into it if they want to. So if you're paying people to leave the industry but you've got others coming in all the time, it's like pouring water into a bucket with no bottom.

**DR BRENNAN:** I think you're sort of alluding to the fact of where the chicken industry is now is where potentially the pig industry may go to over time. I think certainly that happened very speedily - the chicken industry - relative to what I believe the pig industry will evolve to be in terms of scale. I mean, I suppose you compare American pig industry and American poultry industry. I mean, it's certainly even now still more densely integrated - the chicken industry versus the pig industry - for whatever reason. I don't know, but over time it will become more integrated like the chicken industry.

But you'll - I have these discussions for whatever it's worth. I mean, there's no science involved with this. There will still be a number of producers in this state but there'll be more contractors and there may only be 15 or 20 actual producers - people that own pigs - in this state relative to possibly now in terms of real producers in the range of 120. And, you know, in terms of - if you want scale and economies of scale, one of the things that's going to drive this - I mean, that's what's going to

happen.

**DR BYRON:** But those sorts of changes have been happening already over the last 10 years or so - - -

**DR BRENNAN:** (indistinct)

**DR BYRON:** - - - but your Coles and Woolworths, et cetera, have got their inner circle of core suppliers and strong supply chain things, and the Primos and the Hans and Don Smallgoods and all the rest of it. So you're seeing this sort of integration between manufacturing, processing, and with equity and long-term contracts and all that sort of thing. So a lot of that normal commercial business relationship is driving this restructuring anyway, isn't it - even if governments just sort of stand there and watch it and wonder what on earth is happening. But it's not being run out of bureaucracy, is it? It's just normal commercial business, people trying to get the best deal and optimise their supply chains.

**DR BRENNAN:** Yes, I think so. Yes, I agree with you, but I just see that the industry as a whole - and I'm not denying the QAFs or the CHMs or whatever, what they're doing. But I mean, if we said there was 80, 90, 100 thousand sows that were lined up like that, it's still only a third of production. Now, in essence they're the larger units, but we've got to get the other 200,000 or 100-150 thousand lined up in that as well.

**DR BYRON:** Okay. Well, Geoff, unless there's - - -

**MR EDWARDS:** I wonder if I could ask one more question, with your indulgence.

**DR BRENNAN:** Yes, go for it.

**MR EDWARDS:** Given your expertise in the veterinary area, would you like to offer your view on the adequacy of the currency quarantine arrangements. Or to put it a little differently, do you think it's just a matter of time before we have a serious disease problem from which we're free in Australia at present?

**DR BRENNAN:** I suppose I brought up the situation with saying my belief is that some time in the next 10 years FMD will be occurring in North America, just because of the flow of goods and services and people through the regions of the world just occurring - or maybe by terrorism too. Look, I didn't anticipate having a pseudo-exotic disease in my pig unit three years ago. It just happened, and it's something that happened. It's gone away, you know - it was a four-month issue which - - -

**MR EDWARDS:** What disease was that?

**DR BRENNAN:** It was a congenital tremors outbreak, which was just transferred through semen. No health risk to people or meat or anything, but - and not a trade barrier issue either, but certainly the - just the whole movement of goods, services and people around the world and the degree to which - I mean, if you go back 25 years and even taking Australia out of it, compare your recorded disease issues country-to-country then versus now and conversely the effect that has on trade. You talk about volatility, because one of the great trade barriers is disease and, you know, we're very lucky.

I think anything that we do which doesn't minimise the risk of having a disease outbreak of PRRS or PMWS or whatever in this country is - how would you say it? I'm trying to find the right word. It's a major competitive advantage viewed by external operators and - both internally and externally, is our health status. Other countries look at us and shake our heads and say, "Why?" I mean, the whole issue of allowing continued imports of product from Canada and the US with regards to the risk of PMWS, when (a) you don't have the disease, (b) you don't know what actually causes it - I mean, it's just sort of like externally and internally everybody shakes their head and says, "Well, why would you?"

I mean, that's the guts of it. If you don't know what causes it and you believe you're minimising the risk by doing X or Y, but there's no guarantees and nothing is 100 per cent, it's a risk-minimisation game. To actually have a situation where you've got a 95 per cent plus chance of the disease occurring in your country in the next 10 years, well, it just seems a little bit crazy.

**MR EDWARDS:** Thank you.

**DR BRENNAN:** No worries.

**DR BYRON:** Thank you very much for all the trouble you've gone to in preparing the overhead presentation too.

**DR BRENNAN:** It wasn't too much effort.

**DR BYRON:** Mr Bradley is sick today, isn't he, so Mr Edwards? Is Mr Edwards here? Okay, I suggest we take morning tea break now and we'll adjourn, and resume afterwards with Mr Edwards.

**DR BYRON:** Mr Edwards, if you'd just take a seat anywhere you like. Thank you very much for sending us the submission the other day.

**MR D. EDWARDS:** That's all right. It was a bit rough.

**DR BYRON:** And thanks for coming. Do you want to just talk us through the main points that you - - -

**MR D. EDWARDS:** Basically, my submission was based on being a family farmer and operator, just seeing the erosion of equity that we've had, especially in the last three years - sorry, two and a half because we've only been going about that time. The biggest problems we face is that our income is based solely around the pigs. That's it. Bottom line. Any change in price affects us greatly - our income - and same in feed prices, our increase in costs, and we've also seen huge increase in costs in associated products such as vaccines and other medication.

Probably the biggest one was 2003 and 2002, harvest was an absolute disaster and we saw increase in price of feed \$110 a tonne, and that was just on average. It was very hard and the price of pigs just went absolutely through the floor, even though we're only a breeding unit and we have a standing contract which is worked on the bacon schedule to a processor. With our grow-out unit I think at one stage we were making somewhere between \$46 to \$48 a pig, depending on weight. When your cost of production is around about \$52 an animal it's very hard to make ends meet. So we had to take a lot of cost-cutting measures. Basically, staff went. We couldn't afford to employ staff. So it's just my wife and I running the unit and it's seven days a week, 14 hours a day, predominantly - and it's an older-type unit and it takes a fair bit of maintenance.

Also, with increasing occupational health and safety standards and animal welfare standards, you want to have to make - you've got to try and keep those standards up because it's also part of your quality assurance program to make sure that you're abiding by those standards.

My view on imports - well, I don't like them because it's affecting my bottom line. The chances of those diseases getting into Australia - well, recently we've just had congenital tremors break-out and we've had blood tests and done all that on pigs and stuff, on our sows and piglets. It can be caused by a Circo virus, and the guy that's handling it at the moment is from Murdoch Uni and that also can be linked with PMWS. What they don't know is what triggers it. So, basically, my view is the Circo virus is in the Australian pig herd and it's proven but Circo virus is also linked with these diseases that we're trying to keep out, and what's going to take the trigger off, if it's going to take something like these diseases coming in to trigger it off, why import it? Why import - you know, why bring these diseases in. It clearly states there's a 95 per cent chance of it coming into Australia within the next 10 years.

Why not do our best to prevent it?

It's affecting our - if it comes in it's going to affect our cost of production. The latest information I got the other day is 2001 when they did the costings in the UK it added 14 pence to every kilo of meat produced. At current exchange rates that's around about 32 cents a kilo. So if we've got to bear that cost all of a sudden, especially in my situation, we're unprofitable. So, basically, it does affect us. It affects us greatly, and just trying to say that we do everything in our situation to prevent diseases that are already in Australia - like, we've also got microplasma. It's a type of pneumonia. We have a segregation system where the animals come in, they're segregated. That failed and it went through our herd and it cost us dearly. We had ongoing vaccine costs of about 24 grand a year just in vaccine and, you know, if we have to have additional vaccines for these herds or whatever, PMWS that comes in, what's the total cost to my bottom line?

I have to run a business profitably, because that's what it is first and foremost. It's a business. So like it or lump it, it's - I hate being dictated to in price but I think fair's fair. But the consumer has also got to realise that they can't get everything for nothing.

**DR BYRON:** When you and your wife decided to start this up, can you tell us a bit about what you expected that would be the production and the returns and that sort of thing?

**MR D. EDWARDS:** My understanding was, on previous farm experience, that most farmers work on around about a 5 to 6 per cent return of capital. Most pig enterprises work on about 3 to 4. It wasn't going to be an overnight thing. It was going to be a long-term thing, and we wanted to farm a little bit more land as well but the piggery was going to be our core business. But we wanted to diversify our income as we went along but as things have turned out we're still making up ground from 2003. Also, it's affected us in our borrowing capacity. Like, I've been doing with the bank manager and the accountant for the last two weeks, and basically the banks don't want to know us because we had to take a second mortgage out on our house in town, which we own, to pay accounts.

It's demoralising to see your equity that you've built up prior to taking on this business which you thought was going to make you money, have a long-term commitment, see it all eroded away due to outside factors. We run without an overdraft and it makes it very, very hard when it comes to paying accounts, basically because we can't get - no-one will offer us security against livestock. We've just been talking to one of the stock companies in the last couple of days and we're getting an overdraft for about \$20,000, which is not a hell of a lot but it will get us through. Basically because don't have any other security. Our farm is leased and, you know, we only can borrow against what we can.

**DR BYRON:** I was just wondering whether you might have been influenced by some figures that were floating around a couple of years ago about very high potential returns being made out of piggeries, and some of the extension brochures that I saw seemed to offer very, very glowing descriptions of - and you just happened to maybe get in at the wrong time when pig prices were down and grain prices were going through the roof because of the drought.

**MR D. EDWARDS:** We took over in 2002 and we had three months of really good times. I'm being frank because we thought, you know, "When is it going to end?" - and it was going to. It was going to bottom out. My experience has been that I've started out just working as a lackey in other piggeries and I was fortunate enough to work with some very astute people. So my experience was seven years prior of just general stockmanship and seeing how the business runs. Plus I went selling farm machinery for a while.

So you get to know the ins and outs of farming, what it's worth, and you talk to some very bright people in the farming industry. But I got back into pigs and I really enjoy what I do - you know, running a business, but sometimes you wonder whether there's any light at the end of the tunnel, especially when you think, "Okay, I'm making a future for myself and my children and for my wife and family, et cetera," building up assets, and you see someone trading your life's work, what's going to turn out to be your life's work, away for the sake of the consumer to get cheaper meat, cheaper product.

**DR BYRON:** Yes. Geoff, do you want to - have anything - - -

**MR EDWARDS:** Well, we appreciate that it's obviously very difficult. You presumably looked ahead and made some judgments about things that might happen. Have you actually prepared a business plan to help you think about options for the future?

**MR D. EDWARDS:** My wife and I, we sit down probably once a month and we plan. Actually, we sit down Monday morning at the breakfast table and we have a plan, we have a weekly plan. Then once a month we sit down and we do a monthly plan, do a quarterly plan and a yearly plan. The yearly plan we finished the other day and we have a wish list on it. All right? And it's like everything. We have to keep upgrading. We have an old unit and we have to upgrade to make standards, minimum standards, and those standards take a lot of money. Basically, we have to be in it for the long term to get a return on that money and that's what we prepared to do, but I don't want to say that I'm walking around with eyes closed saying, "Okay, things are going to be good," because it's not going to be good.

My question is, how long is it before we're going to see fresh meat imported into this

country? And then what? Because we're all bugged. You know, going from niche markets it's fair enough. You know, that's nice. But that's always what Australia has been about. It's niche markets. We could have been able to compete. We're talking about this restructure program of the industry. Finally, growers seem to have their hands on the ground saying, "We're okay. We're prepared to do our restructure." The processors are sitting there saying, "Well, okay. This is what we think of the restructure." It's going to take us a lot of capital cost to do it.

We've got to change all our machinery and so forth, and I'm sitting there thinking - going, well, that's fine, but what about other standards we've got to meet? We've got to change our production systems to meet minimum welfare standards, occupational health and safety standards like everyone else, and that takes a lot of money and it's a lot of cash, and unfortunately, you know, I don't have a lot of cash and a lot of money. So I have to plan for the future.

The way I see it is that I think the industry has got a bright future, but I don't see that it's going to be profitable first and foremost. I have to have money in the bank each year. It's no good me making a tax loss and making a loss.

**MR EDWARDS:** Just focusing on the environmental side for a moment, generally of course the picture is that the environmental requirements to be met are becoming stricter. Is that a significant issue for you?

**MR D. EDWARDS:** Yes. We have to upgrade our effluent system, and probably the cheapest way to get out of that is actually to go for straw-based shelters basically because I'm wondering how long before we aren't allowed to put effluent in the ground. We've got to seal our dams and stuff, same as European. We're probably a little bit more fortunate that we're not legislated to, like the Europeans are. I've got a friend in Holland, and they just can't believe some of the things that we do, like digging a hole and having a dead pit at the back of the farm, bone pit. It costs them. They have a dead sow, it costs them \$20 an animal - 20 euros to get that animal carted away and destroyed. That's another production cost that they have to put up with.

**MR EDWARDS:** So they possibly complain about your lenient treatment in disposing of dead animals.

**MR D. EDWARDS:** Yes.

**MR EDWARDS:** They possibly see it as unfair competition for them.

**MR D. EDWARDS:** No. Probably my point is that we see their legislation, they're legislated to what they can and can't do, and through our quality assurance that we aren't legislated to, but we say, "Okay, this is what we're going to do," so we aren't



legislated against. We're being proactive, and I think that's a good thing because I think it's one of probably the best things that quality assurance has done, is made farmers be proactive in their standards. You can't just, like, tip the effluent down the drain. You have it running up the paddock into a creek or somewhere. It's just not, you know - I don't think it's good for the environment anyway.

**MR EDWARDS:** I think there's general agreement that some of the things that have gone in the past just can't continue, but obviously there are different approaches to handling these problems, and some approaches will impact less heavily on people like you than others.

**MR D. EDWARDS:** Yes. I think the technology is there to do it as well. When I first started, there's a lot more building materials being used and different types of building materials and ways of doing things from when I first started. I think that's applicable to my place because it's mainly concrete and steel.

**DR BYRON:** I said before that maybe it was extremely bad luck that just three months after you started your piggery unit, the prices went the wrong way.

**MR D. EDWARDS:** Yes.

**DR BYRON:** Is that starting to recover a bit and how do you see the next, you know, two or three years or - - -

**MR D. EDWARDS:** I know my situation with the people that we contract to, we swapped processors, and the previous processor we were with had huge peaks and troughs, where this time we don't have huge peaks and troughs. We have more of a flat line. Pretty much we have I suppose an unofficial floor in the price, and I think that's a good thing because everyone realises, well, okay, even though you can't - having a floor in the price makes I think - at least you know where it's going to bottom out. At the moment we're only probably 15 cents above the floor, but talking to some of the other guys, you know, they're a lot higher than what we are, but the price of the fall has dropped and at least you can budget. We've been with these guys for just over a year now and probably we have a little bit more profitability than what we did.

**DR BYRON:** But having those sort of longer term contractual arrangements with the floor and the ceiling, it must give you some stability and some more confidence in planning.

**MR D. EDWARDS:** At least you can plan, and that's probably one of the biggest critical things that I see in the industry, is the lack of planning from both producers and processors. Everyone is only just looking after their own business enterprises. Everyone is only working to their own agenda, because one of my sort of ideas is,

okay, what about we run a futures sort of program - you know, pork futures or something like that, like they do in the US.

Maybe we're small enough, but if you can contract a small amount of product to the processor and they know they've got that X amount of product of that particular line coming in, is there a better price? Maybe we can make a little bit of margin on it because every other commodity seems to have a futures program, except the Pork Institute. Either (a) we're too small or (b) we don't really care.

**DR BYRON:** Yes. Did you have anything else, Geoff?

**MR EDWARDS:** Clearly the size of the market is a significant factor in establishing a futures market. I'm not absolutely sure if you're referring to a formal futures market like the ones that exist, say, in Chicago or if you have in mind some other arrangement.

**MR D. EDWARDS:** No, because I don't think the industry is big enough to sustain that type of thing, but I think even if you come up with an arrangement with a processor because if the processor can say, "Well, I know I'm going to get X amount of pigs locked in for this price at this particular grading," or whatever, he can go to his supplier and say, "Well, this is what I can do."

**DR BYRON:** But - - -

**MR EDWARDS:** So you're talking about one-to-one contractual arrangements.

**MR D. EDWARDS:** I think so, because - well, you look at the size of the US and their pork futures and how much is traded. There's no way we can compete.

**MR EDWARDS:** Sure.

**MR D. EDWARDS:** Even with grain and wool, because there's huge amounts of - but I think on a one-to-one situation, yes, it would probably be worth testing the waters because if it's a win-win situation for the processor and the producer, even if it's only on a small amount that's traded, there's got to be a win somewhere along the line.

**MR EDWARDS:** Clearly it does have to be satisfactory to both parties. A contract that leads to continuing gains for one side and losses to the other is very unlikely to stick.

**MR D. EDWARDS:** Yes, well, that's right. If you're going to lose money on forward trading, you wouldn't forward trade.

**DR BYRON:** Okay. Well, I think - is there anything else that you wanted to say to summarise.

**MR D. EDWARDS:** I suppose, yes. I see the Australian pork industry as being - if we don't have some satisfaction out of this inquiry and that, I think there's going to be a lot of negativity about the industry because I think it's an industry that can grow and sustain itself, and it's worth jobs and it's worth something to the economy. The amount of people that we employ is probably not very significant, but if you have a look across the whole processing sector, everything that we do - employ and turn over a lot of money as an industry as a whole. So we have to - even from a grassroots level, we have to be viable. There has to be an industry here.

I know that some of the bigger farms, they're employing 10, 12 people, and that's a lot of employment, and plus from a local point of view, you employ someone in a small town - the town where I come from or is now, there's a unit there and they turn over a lot of money in the town, not only in wages; in business, buying grain and what have you. The local economies need that money. So the industry as a whole, you know - we have to survive.

**DR BYRON:** Yes. We are trying to get as much information as we can to look at the impacts on the rural economies in country towns right across Australia, the sort of changes that are already happening, and changes that some people see happening over the next few years. But it's not obvious - what's the best way for governments to do something about that, assuming that they want to, or some people argue that there isn't even much that governments can do to change what's happening in terms of people moving to the coast and that sort of thing. I think your point is well taken that industry is seen to have an important role in the rural areas.

**MR D. EDWARDS:** We've advertised for somebody to give us a hand because we just can't do the work any more, and the background of people we've had advertising that we've got with no experience, a lot of them are like ex-shearers who want to stay - they've got mortgages and that in the town and that sort of thing. They're there, but their body just can't handle the sort of work that they're doing any more, and shearing sheep is bloody hard work. The average shearing age I think it's something around 48, and as has already been pointed out, we have to compete with the mining industry and that sort of thing, because who wants to bend over a bloody sheep all day when you can go drive a truck or drive a dump truck for the same sort of money and you've got an airconditioned office.

**DR BYRON:** It's not just the pigmeat industry that's facing that problem. I think there's lots of other - - -

**MR D. EDWARDS:** It's right across rural - - -

**DR BYRON:** - - - agricultural.

**MR D. EDWARDS:** It's right across rural Australia, but probably another point I missed out on is that coming back to our own enterprise, not only financially it's draining, it's also emotionally and personally it's draining, because we don't have any time off and we have a young family, three kids. School holidays have just been and gone and what have we done? Worked. But unfortunately it's the sacrifices you make.

**DR BYRON:** Thank you very much for taking the time to come here today and tell us about that.

**MR D. EDWARDS:** That's all right.

**DR BYRON:** Next up we've got Mr Dodoff. Thanks for coming, sit anywhere you like and - - -

**MR DODOFF:** I've looked forward to this meeting, good to see some fellow producers here and interested parties, and hopefully the two people down here that are going to make these recommendations to the government, hopefully that they really want a pig industry to be viable and to continue in Australia, or otherwise you're just here to give us a wake. For those of you who don't know me, my name is Chris Dodoff. I'm from the West Australian pig producers - the West Australian Stud Breeders Association. I'm their spokesman, though some of you might have read my comments in the Australian papers down there.

**DR BYRON:** Sorry, we haven't seen them, so please feel free to tell us all about it.

**MR DODOFF:** Look, I'll just send you some copies or something, you know. They were in the Farm Weekly down there and so on. But first of all, let me ask you a question. Which one's the doctor?

**DR BYRON:** Me.

**MR DODOFF:** Sorry, okay. I just had "Neil" down. Does the federal government want a pig industry here in Australia that's viable?

**DR BYRON:** I don't know. I'm not qualified to speak for the Commonwealth government and it's really not up to me to make that sort of decision. What we're asked to do is to look at the factors that are influencing the competitiveness and the outlook for the industry, and we'll get the best evidence that we can collect and whichever way that evidence takes, that's what we'll report to the government and they will either accept it or ignore it. So it's our job to collect and weigh up the evidence but not to make the final decision, unfortunately.

**MR DODOFF:** Well, I'm glad of that because when people go and get evidence, when police officers and so on go and get evidence, they go out in the field and look at what's happening out in the field. May I invite you to perhaps tour some of the smaller piggeries and get some hands-on experience of what they're going through to appreciate what's been presented here and what will be presented by me, so that you will have some practical understanding rather than hearing a few words and so on being said here.

**DR BYRON:** We've been on a number of small, medium and large piggeries in most states. I can't say in WA but in most of the other states we have and both Geoff and I have got a pretty long background in primary industries in Australia.

**MR DODOFF:** Have you kept pigs yourself?

**DR BYRON:** No, I haven't.

**MR DODOFF:** I see.

**DR BYRON:** But my brother and my brother-in-law have.

**MR DODOFF:** Are they happy with what's happening in the industry today?

**DR BYRON:** They both got out of it. I haven't asked them.

**MR DODOFF:** Okay.

**DR BYRON:** So why don't you - - -

**MR DODOFF:** Why don't I say my piece?

**DR BYRON:** Say your piece, thank you very much.

**MR DODOFF:** Okay. Well, this is Coles' weekly specials. I think it's this week's or last week's; I forget now. I just happened to pick it up actually, "Coles pork loin or butterfly steaks, 15.95 a kilo. Save \$4 and 1 cent a kilo." It makes it, say, \$20 a kilo for butterfly steaks and if they get about 10 kilos or something of them on the pig or whatever it is, you know, there's \$200 just for that without the rest of the pig and the producer at the markets - I'm only talking at the markets now, I don't know what the contractor ones get. But at the markets down there anything from, you know \$1.55 a kilo or \$1.30 a kilo for pork.

So where are these benefits? Who's making all this money? Certainly not the producer when Coles can - \$20, and there they've got Coles topside roast beef \$11 a kilo. So my question or my point is this: this so-called cheap import that the multinationals are importing into this country of all this pigmeat, I don't know if that was imported or not, but I'm just - price comparison.

**DR BYRON:** I don't think it could be under the quarantine.

**MR DODOFF:** Well, no, that's right. So under the - what's the word? I haven't seen any cheap bacon or anything like that in the shops. It's still about 12, 13, 14 dollars a kilo or even more, yes. So, you know, where's all this cheap benefit to the consumer, and at the end of the day I'm also a consumer. So what I'm saying is that in your statement down there - this is the media release from Australian Pork and it's draft found in 5.2 and it basically says this. Effectively what it says is, "It's okay for our trading competitors to undercut our costs of production through subsidies and other forms of support, so long as it results in lower retail prices for consumers.

There will be no future for any Australian farmer if this reasoning is universally adopted," Dr Higgins said.

The thing is, where are these results of cheaper prices for consumers? The multinationals buy it in at their particular price. The consumer doesn't get it. The milk prices haven't come down, if you want to compare another industry and all it has done is destroyed the dairy industry and now we're starting on a new industry of the pig farmer. So my argument is the fact that if you want to do something, if the federal government is serious about doing something for the Australian pig industry, if it costs us \$2.15 here, right, to produce that product why doesn't the government, the federal government, give us a subsidy towards that production cost, like the Danish government gives its farmers, to be able to undercut us?

At the end of the day when they talk about the balance of payments and so on, the trade balance of payments, the more that's imported here how can we then argue the fact that, well, you know, we've got to do something about the balance of payments when we are creating our own problem ourselves, but the government is creating the problem by allowing imports in this country of pigmeat, to the detriment of our own producers? So if they want to help us as pig producers why don't they give us at least \$2.15, the cost of that production, and then whatever we sell our pork for or our meat is our profit?

**DR BYRON:** Perhaps I can explain by saying our job in the commission is not to ask what is in the best interests of Australian pig producers but rather what's likely to be in the best interests of everybody in Australia. If we were doing an inquiry like this into, say, the car industry you know that Holden, Ford and Mitsubishi would say, "Oh, there should be 100 per cent import duty on cars like there used to be 30 years ago, because then we would be able to employ more people and make more profits and that's a good thing." Now, the fact that as a result of the removal of that import duty Australians now have a much wider selection of much cheaper cars and even the Australian-made cars are a hell of a lot better than they used to be, is the impact of asking not what's best for one particular group of producers but what's best for the whole country.

So the government hasn't asked us to find out what would make pig producers happy, any more than they asked us what would make Mitsubishi happy. They've asked us to look at what would be the implications for both producers and consumers and taxpayers, everybody else, of various things that could be done with regard to pigmeat and perhaps controls on imports. Now, there's no doubt that if the government was to say, "Okay, from now on there's either a limit of X thousand tonnes or we're going to put an import duty of a dollar a kilo on all imported pork," the profitability of most piggeries in Australia would shoot up overnight.

**MR DODOFF:** Exactly.

**DR BYRON:** Exactly. But that doesn't necessarily mean that it's the right thing to do.

**MR DODOFF:** Why? Why isn't it the right thing to do?

**DR BYRON:** Because somebody is going to pay for that.

**MR DODOFF:** Well, let me put it to you like this: when the Australian industry was - all right, take for example Chamberlain Industries, right? When John Deere took it over, within 10 years or so of them taking it over they closed the factory down and that factory had all the satellite little companies that made the components for that organisation and some big, small, medium-sized companies went down the gurgler when John Deere closed up that factory and everything now is imported into Australia. We don't have a manufacturing base there any more. Is that good for our country? Where are we going to get jobs for our young people?

Why is the Chinese economy booming? Because they're building the infrastructure. They're - what's the word - building the infrastructure and also because of their cheap labour. Do we want to go back into the horse and buggy day or do we want our standard of living? So, you know, if we're just going to say, well, okay, the whole country is going to benefit by these cheap imports but too bad if we've already had to lose 38,000 pig farmers, too bad for them, how are they supposed to survive? You know, what are they supposed to do now in their society?

**DR BYRON:** Sorry, I thought that was a rhetorical question. I didn't realise you wanted an answer .

**MR DODOFF:** No, I'm asking you how - well, okay, what are they supposed to do in society, these 38,000 farmers, pig farmers who have gone out of the industry?

**DR BYRON:** Presumably that was a voluntary decision that each of them made, looking at the opportunities and the prospects.

**MR DODOFF:** But it was forced upon them because even your own statement here in one of these findings, I'll find it in a second, said that from 1999 midway to 2002 they were profitable. Suddenly in 2002, halfway through 2002 and 2003, a flood of overseas meat came into the country. Our price went down to compete with the cheap imports and so they went broke. Is that fair for our own industry, that we should be helping the Danish people or someone else, who themselves are subsidised? How is that benefiting the whole of society?

**MR EDWARDS:** Could I ask if you would accept that in all countries the number of farmers and the number of farms falls as incomes rise and this partly reflects the



increase in productivity. It partly reflects changes in the pattern of demand so that increasingly, as incomes rise, people want to spend increases in their income on services of a whole range rather than on food or manufactured goods. Do you see this as - - -

**MR DODOFF:** No, I don't see that because I don't understand what you're saying. How does 38,000 farmers - you mean to say that they didn't want to see an increase in their incomes? I don't understand your point. Maybe someone else could here. They might explain it to me better.

**MR EDWARDS:** Probably everyone likes to see an increase in their income.

**MR DODOFF:** Yes.

**MR EDWARDS:** But the reality is that, you know, throughout our lifetimes, the number of farmers in Australia has been falling, as it has in the United States and in Europe.

**MR DODOFF:** I accept that. I understand that one. But 38,000 farmers, pig farmers, to exit the industry in such a short time?

**MR EDWARDS:** No, there's always scope for argument over whether it might have been slower or faster.

**MR DODOFF:** What about the big multinationals? What about the big piggery down at Nyabing owned by Millen Feeds or someone. A few years ago when all this crash happened, they just closed it up, went out. Then a few years ago, within the last two years or three at the most, some bloke decided to start it up again, spent hundreds of thousands of dollars. They had the Nyabing Shire down there grading and building and all this, upgrading the infrastructure. It's gone now. Do you think that they enjoyed spending all that money there just for the hell of it or do you think that they thought that they were - you know, "The big multinational went broke, but I'm going to make some money in my way," and they've gone now.

Have a look at some of these big piggeries that have gone, closed up. Do you think that, you know, they didn't have the resources or anything like that or did they just sit down and said, "Look, why should I waste my money losing it here, when these policies of the government are out to destroy me?"

**MR EDWARDS:** Of course we all know that people sometimes are in positions that they would prefer not to be in. I'm not going to comment on whether policies of the government are out to destroy people. One thing that you may be interested in, we have spent quite a bit of time looking at assistance provided to pig producers in foreign countries, and as you're well aware, it's claimed that the difficulties

confronting Australian pig producers have been caused mainly by increased imports, especially from Canada and Denmark.

We've looked very hard to try and get into the detail of assistance provided to the pig industry in various countries, in particular in Denmark. The result of our efforts is that we have not been able to find substantial assistance for pig farmers in Denmark. Sure there is significant assistance for the pig industry in the EU as a whole, but it's Denmark, not other EU countries, that are exporting to Australia. To the extent that we have found assistance for the pig farmers of Denmark, it's mainly domestic support measures, not assistance that encourages or makes it easier for Denmark to export.

In fact we have found that pigmeat prices typically are higher in Australia than they are in Denmark, which suggests that the Danes might see good commercial sense in selling some of their pigs to Australia rather than within their own country or perhaps rather than exporting them elsewhere in the EU.

**MR DODOFF:** Well, two things. First of all, those 38,000 farmers, you said it's not here to inquire into the government policies, but it was government policies I believe that drove that 38,000 farmers to make up their minds and said, "Look, what's the point? I'm making a loss here. I'll stop producing pigs." If the government policies were that they wanted a pig industry, there'd be 138,000 farmers because they could all make some money. Do you see my point? Why did they leave? Were they all bad pig farmers?

**MR EDWARDS:** I'm sure they were not.

**MR DODOFF:** There you go. That's right. They weren't. Some of those were big company-owned piggeries.

**DR BYRON:** But most of those people left in the period before a single kilo of imported frozen meat was allowed into Australia. That reduction from 40,000 to 2 and a half thousand is since 1971. Now, the imports only started in, what, 95, 96, and at that stage, they'd already come down from 40,000 to roughly about 5000.

**MR DODOFF:** How many producers left in the last four years, say? Have you got some figures there?

**DR BYRON:** A few hundred.

**MR DODOFF:** Right. So if these - - -

**DR BYRON:** Probably 35 of that 38 thousand that you're taking about was under the old quarantine regime where imported frozen pigmeat was not allowed at all. So

you can't blame the change in quarantine for the fact that many of those people left, and if you look at just about any other industry in Australia or in North America or in Europe, you'll find that there's been a substantial reduction in the number of primary producers in every sector.

**MR DODOFF:** I accept that. I'm not arguing about that.

**DR BYRON:** None of this is because there is any government policy that's out to destroy anyone or any sector or any industry.

**MR DODOFF:** Is that right?

**DR BYRON:** It's a process that appears to have been happening for probably the last hundred years.

**MR DODOFF:** How come we don't have a textile industry now? How come all our clothes are made in China, Fiji, Indonesia? How come our milk is not any cheaper? How come our dairy farmers are saying, you know - we're no better off now than - we're worse off now than we were before all this deregulation and so on. If all these policies that the government is pursuing are for the good of Australian agriculture, Australian farmers and Australian agriculture should be up the top there, the highest paid, as it were, not down the bottom where nobody wants to go into agriculture today.

If the government was pursuing policies that were beneficial for all agriculture, and as the old saying goes, if the farmer has got money, the whole country has got money. But today just seems to be, you know, it's not the government's problem. That seems to be the thing, and we're trying to sort of just say, "How can we, the government, put the blame on someone else and blame high grain prices, blame the imports, blame this and blame that," rather than the real problem; the government's - what's the word? The government is not interested in agriculture as per se.

Have a look at all the industries that have gone, that are collapsing, and what industries are the ones that are making money? The multinationals at the expense of the small producer and small processor. Here you've got in your Australian pig key points there:

Many abattoirs and processing plants have closed. A few have become much larger, more specialised and export orientated. Over the past six years, Australia has become increasingly integrated into world pig markets. Pigmeat imports increased from 40 million to 219 million while exports increased from 56 to 195 million.

So you've got 447 per cent increase in imports of pigmeat between those

six years, and your exports have only gone up by 240 per cent or something. It's almost like half - you're getting twice as much imports as you are getting exports. So how is that benefiting our industry?

**DR BYRON:** Why do you think that would be? Why do you think that happened?

**MR DODOFF:** For a start, all these pig farmers have gone out. If there was a heap of them, there would be a lot more export.

**DR BYRON:** But production overall has increased. In spite of the reduction in numbers, the total production tonnage of pork meat produced each year has continued to go up.

**MR DODOFF:** Yes, but at what cost though? At what cost? At a loss to the producer. Doesn't the producer count? Doesn't these people here count? Don't their bank accounts count? Mine does. I want to make sure that my bank account is in the black. You've got a nice healthy wage cheque. You're not dependent upon all the weather and everything else like we are. Like I said at the beginning, I would love you to swap places with me for a year, and I can go around and say, "Look, there's no problem in the pig industry. You just have to be more efficient, more this, you know, and blame it on the grain prices and stuff like that." I blame it on government policies. Your recommendation, what you say from what all these people here have said will have some effect on the government down there, because if you tell them the government's policies are no good, surely they're going to listen when their report is made public.

**DR BYRON:** Perhaps.

**MR DODOFF:** I would like to think that you're here to support the Australian pig industry, because at the end of the day, even the - - -

**DR BYRON:** I have to tell you we're not. We're not here to support any particular industry or group or state or ethnic group or anybody else. We're here to look at the overall evidence about the performance and the competitiveness of this particular industry. We're not here to decide whether it deserves more support or less support than the dairy industry or the tobacco industry or the banking industry or the steel industry. We're not here to deliver something. I don't have a bucket full of money and a big chequebook. We're here to look at how competitive is the industry and what is its likely future.

**MR DODOFF:** Its future is what the government wants. If the government wants a pig industry, it will have a future. If it doesn't, it will be bye-bye. I mean, look, this business that you're not here, you haven't got a bucketful of money and all this, you know, it's funny how when Kodak was going to close down their processing

thing in Victoria there, where did Bob Hawke find 6 million or whatever to support Kodak, an international company, to provide jobs because the election was coming? Then after a few years, what happened to Kodak? It's gone now. They're not making their films here, they're making them overseas.

Are we going to support Australians or are we here to really say, "Look, you know, the pig industry - they're not a strong enough voice in agriculture as such." I just have a few more points here.

**DR BYRON:** Good.

**MR DODOFF:** The fact that, okay, what imports do is that every time the imports come into Australia, if they're lower, the price is lower, our price that we get at the markets and so on is lowered as well, proportionately to compete with the imports. So therefore it's less money to the producer and it affects his balance account at the end of the day. I haven't seen any cheap pigmeat in the shops as far as, you know, bacon and so on goes. So with all these cheap imports and so on, who is benefiting from the import of pigmeat into Australia? It's the multinationals. In draft 5.1, you've got this statement there:

There is an ongoing role for the Australian government in international negotiations to seek reductions in overseas trade barriers faced by Australian pig exporters.

All right? Then the next draft finding:

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

Well, my comment is, are we going to sacrifice the domestic production of our own pigmeat for the sake of or to benefit a few consumers? It's not the consumers that are benefiting. The only ones that I've got underlined here, "They benefit Australian pigmeat retailers and manufacturers." They buy it for next to nothing from cheap overseas imports and they sell it at the same price here in Australia like with our locally produced stuff. They only benefit retailers and manufacturers. I don't see too many consumers out there saying how cheap milk is. I don't see too many consumers out there saying, "Oh, look, bacon is so cheap."

So who's getting all the benefit out of these imports here, if it's cheaper to buy it from overseas as the bloke from Watsonia said there at one of the WAPPA meetings? He said it was cheaper for us to buy the product from overseas than for us

to pay our producers here to produce the same stuff. So what's he saying? In a few years' time, well, why should we buy pork from you people when I can get the same stuff from overseas, whatever I want, at a cheaper price. But is he going to pass those cheaper savings to the consumer? I don't think so.

**DR BYRON:** Would you agree that pork prices over the last few years have been much cheaper than lamb and beef prices?

**MR DODOFF:** Yes, they have been cheap.

**DR BYRON:** Do you think consumers have benefited from that - from being able to - - -

**MR DODOFF:** When you go shopping, what do you normally like to buy first? You like to buy lamb or beef. You buy pork as sort of a last resort or on a special occasion or something.

**DR BYRON:** Why is that?

**MR DODOFF:** Just what we like. I like personally myself lamb - what the preference is.

**DR BYRON:** No, I'm just surprised that the Australian consumption of pigmeat is so low compared to Europe, North America, Japan - you know, almost any other country that you compare us with.

**MR DODOFF:** Yes.

**DR BYRON:** I wonder whether that's partly because for 100 years lamb and beef were cheap and pork was expensive - - -

**MR DODOFF:** Well, I don't know.

**DR BYRON:** - - - and people just haven't made the adjustment that now pork is very very good value but people haven't caught up to that.

**MR DODOFF:** Well, I suppose \$20 a kilo must be good value for those on \$100,000 a year salary packages.

**DR BYRON:** I've been paying \$4.97 for my pork roasts.

**MR DODOFF:** Well, Coles have got it on special here - pork ham portion, \$7.47 a kilo, save 52 cents a kilo. So how much would they have paid the producer for that ham by the time they made it into ham to sell it at that price?

**DR BYRON:** I think we're going to have to move on shortly, so is there a last couple of points.

**MR DODOFF:** Okay, well, the thing is - the other point is that they were talking about grain prices being so dear because of the drought and all this. Well, that's just normal supply and demand, if you want to use that term. But tell me something, with so many pig farmers gone out of the industry how come meat meal is so dear? Where is the demand for meat meal? If so many farmers have gone out of the industry, how come meat meal is so dear when you go to buy it? How come the costs of making that feed down there - the ingredients to make that feed are so expensive?

**DR BYRON:** I think the answer that we had to that question from Ridley AgriProducts at the Melbourne hearings the other day was that even though they had lost a number of small producers as customers, the big producers have more than made up for that. So they observe a mix, a change in the type of people who are their customers - that they are now selling more pig feed to larger corporate type piggeries because many of the smaller ones have gone out of the industry. But it may well be that it's still as you say supply and demand, that there's a - - -

**MR DODOFF:** But where's the demand coming from? You know, they're still slaughtering thousands of sheep at these abattoirs and so on and pigs and so on, and you've got less farmers now, and you're saying that the bigger producers are buying it and all this. I put it to you that they're just ripping off their - the cost of the ingredients to make up that is such that, what's the word, these people set their own prices and if you don't like it, well, tough.

**DR BYRON:** So there's no alternative suppliers?

**MR DODOFF:** That's right. Well, Watsonia doesn't kill its own pigs now. It all goes through this one abattoir down here and a few other ones that are around the place.

**DR BYRON:** No, but in terms of grain supplies I would have thought that there were - - -

**MR DODOFF:** I wasn't talking about grain. Grain is not the issue.

**DR BYRON:** Okay.

**MR DODOFF:** I'm more concerned about the meat meal - that's a big component of the actual cost per ton - and the other ingredients that make it up. Not the grain. The grain is not the issue with me.

**DR BYRON:** Yes, okay, I've got you.

**MR DODOFF:** The other thing is, as I understand - I could be wrong here but you might be able to help me or some of you people down here - going back about it might have been about eight years ago or something, did the federal government offer some sort of money to exit the money for pig producers?

**DR BYRON:** They did.

**MR DODOFF:** They did? How much was it in those days?

**DR BYRON:** I don't remember off the top of my head but it was - - -

**MR DODOFF:** I thought it was about 40 or 50 thousand.

**DR BYRON:** I don't know at the moment.

**MR DODOFF:** No, but, well - - -

**DR BYRON:** What are you leading to there?

**MR DODOFF:** What I'm leading to is in drafting finding 6.4:

There does not appear to be a strong case for additional specific adjustment assistance to the Australian pigmeat industry, especially given the existence of general assistance programs and so on.

My argument is, well, going back those few years - only just a handful of years if I remember rightly - they were offering 40,000 or 50,000 for people who wanted to exit the industry, and fair enough. Well, why not give those people who want to exit the industry - since you can't help the industry any other way - why not give them an exit payment and there won't be any of this - you know, those who want to exit the industry, we'll give them a payment and say, "Here, if you want to get out of the pig industry we'll give you say \$100,000 to leave the industry." Instead of having hearings here and hearings down there and costing us all this money, why not just one-off payment to these producers that want to leave the industry? It doesn't have to be 100,000. If they want to be a bit more generous they can.

**DR BYRON:** That scheme was in 1999 to 2002, and it says, "We were told that 90 applications were received and 74 were approved." The maximum was \$45,000.

**MR DODOFF:** That's right, yes, \$45,000.



**DR BYRON:** It's interesting that there are very few schemes like that for most other industries. If you - - -

**MR DODOFF:** The sugar industry got some help.

**DR BYRON:** Yes. Can you think of any others?

**MR DODOFF:** Well, not offhand, but if the government is genuine about helping - helping - why don't they, for those who want to leave - you know, for those who want to leave, pay them out, as it were. At least that way they would have some sort of - what's the word - recovery of their costs for their infrastructure and so on. Otherwise - I'm sure there's much more the government could do to help. When they are helping the pig farmer they're helping the consumer as well. We're protecting our own industry against disease, we're trying to keep our own gene flock - what's the word, have the genes in the country. Once the gene goes where are you going to get pigs from then? You know, if you've got to get restocking again from some of these other countries where they've got these terrible diseases.

I think you should be able to put a strong case on the behalf of us pig farmers down here that as a pigmeat consumer you yourself want the best meat you can possibly get, and you're not going to get better than Australian-produced pork and bacon that's got flavour and taste. Well, basically that's all I've had to say. I trust I've been given a fair and square hearing down here. It would be terrible to have wasted my time and your time and - especially your time down here, because I'm sure you'd rather be doing other things than listen to us with our problems and so on, wouldn't you?

**DR BYRON:** No, I find it - - -

**MR DODOFF:** Wouldn't you love to come and visit our piggery?

**DR BYRON:** I would, actually, but - - -

**MR DODOFF:** How long are you here for?

**DR BYRON:** Maybe next time, but if that's a standing invitation I would like to take you up on that some time, seriously.

**MR DODOFF:** Well, you'd better give me your address so I can make sure - - -

**DR BYRON:** I'm not sure it will be today.

**MR DODOFF:** No.

**DR BYRON:** Well, thank you very much for coming and sharing your thoughts on

this with us, and I can undertake to fully consider everything you've said, along with what everybody else tells us. So thank you.

**MR DODOFF:** Thank you.

**DR BYRON:** Is Mr Jones here? Thanks for coming, Mr Jones. If you'd like to just sit down, introduce yourself for the transcript perhaps, and take it away.

**MR JONES:** Thank you, chairman. Thank you for the opportunity to be present here, to the members or representatives of the public who are here. I'm a mixed farmer from the Corackerup area in the southern part of the state. Various types of grain, cattle, sheep and pigs. I have only nine points on my little list here which I wish to bring forward to you, and I'll endeavour to move through them fairly fast. The points that I raise are points that have been raised within the industry in recent times, and some of them are points that you have raised in your own Productivity Commission draft report.

The first point that I raise here is clear identification of Australian-grown product and clear identification of import product on all products available for the local market. I believe that is fairly straightforward and it is really just a case of identification. It is not a cost to our state or federal governments. It is a piece of legislation. I don't think I need to enlarge on that point, though I can make the comment that I believe there are some consumers who will just buy the cheapest that is there, and there are some consumers that will change product every week simply because they want to try it. But there are a significant proportion of consumers within Australia that will buy an Australian product if the quality is there and the price is comparable, and that's what it's about on that point.

**DR BYRON:** So you're after government regulation for mandatory disclosure of country of origin.

**MR JONES:** Correct.

**DR BYRON:** So that - I mean, I've been looking at supermarkets ever since we started this inquiry. You can pick up a packet of bacon and it can say, "Made in Australia," but it can also say, "Made in Australia from both imported and Australian ingredients." So it might be Danish bacon but you could still say it was made in Australia because the manufacturing process took place. Is that right?

**MR JONES:** I think you need to be, or our government friends need to be, a little more explicit. It is one thing to be made in Australia, one thing to be produced in Australia and then you have what you might call the compound product, a mixture of both imported and local. And it is my opinion that there needs to be clear labelling as to Australian-grown produce.

**DR BYRON:** Well, there is this home-grown initiative that was started just last week or something, wasn't it?

**MR JONES:** Yes.

**DR BYRON:** Yes.

**MR JONES:** It's facing the right way. There has been much comment regarding the single desk grains. The opinion that I have and our business has is that the current situation within Australia is not causing an impediment for the feed grain purchasers of this country. I enlarge on that by stating that, as most of the - well, in fact, all of the grain is produced on what you call the grain-growing area. It's not produced on the seashores or out in the pastoral area. And the consumption of the grain, if we're looking at the feed industry, is also in the similar type area and also going to the coastal fringe.

But under the local consumption versus export there is basically free trade between states, within states. If I want to buy wheat I can. If I want to buy barley I can. Oats, fair enough, if you want - maize and that sort of thing you've got to get to a certain spot in the eastern states. But the advantages that you have from buying grain in Australia at the moment for feed are virtually available to all consumers of that grain if they want it. I can sell grain off of my property for approximately \$35 a tonne cheaper and that grain is in the port. There is approximately \$17 handling charge to get it there and then there's the throughput through the CPH cost which, depending which cereal, is somewhere in the \$17, \$18 to \$20 a tonne.

This year we sold good quality grain and we purchased some so-called poorer quality of mixed grain, and the saving was quite respectable and it was worth chasing. But on most years we have a weather damaged type grain, we have a mixed-type grain, wheat that is sown on barley and you've got a bit of barley in with it. That type of thing is cheaper. I believe the opportunity is there now, and by removing the single desk on grain we would be no better.

A third point I raise, it is mentioned that we can increase our carcass weights and have some savings here. Firstly, I acknowledge that there is a saving across the processing works there because the slaughter charges are per animal. It is unlikely that there is going to be a major net improvement in our net returns under the current market conditions. As far as on the farm is concerned, there is a small saving in overheads on the breeding side because you're keeping the pigs longer and growing them larger, but there is a bit more larger finishing space required for the finishing animal. There is no difference in the transport. Basically, the transport is per kilogram. So we're still paying the same amount, whether we've got a hundred pigs on a truck or 120, and I do not see a major improvement there.

The other point against that is that at the moment, under the contract that we are with, with one of the major suppliers of this state, the money is not there. It's fairly simple. Presumably they are paying us some money on the fact that the market is where the money is, and by producing a larger pig we would be taking a less price

per kg and a less price per animal.

**DR BYRON:** Sorry, if I could just clarify that one. Are you basically saying, "Look, there are pros and cons of different carcass weights and buyers and sellers in the industry will sort this out for themselves?" You know, why should the government care whether the average carcass weight is 75, 85, 95 or whatever? Isn't it something that people in the industry will sort out through contracts?

**MR JONES:** It is an industry thing through the marketing of product and of the quality of product at that particular weight range, dressed. Presumably there must be a cut-off point on the weight range. At the moment we've got a clear cut-off at the pork level in the high 40 kgs and we have another cut-off in the bacon level. Presumably that is what our clients want, whether it be overseas or local, and maybe through marketing we've got to change that. It's not a government policy to change it but it is being raised as one of the things that may be desirable for the industry. Well, at the moment, to my bank account the doors are not open.

**DR BYRON:** Thanks.

**MR JONES:** The fourth point I make is one of the probably difficult ones to understand but I believe it is one of the most significant. It is the lack of political understanding re the difference between the level playing field and the free trade. I believe the level playing field is something that we as an industry have got to take in our stride and we've got to handle it. It is when we have a situation where what is now being called free trade - and we're noticing is particularly with products coming into Australia. We're not noticing it so much with products going out of Australia but there is a significant difference.

A level playing field is that the producer in one country is operating under a similar environment to the producer in another country. We have a situation where some countries - Canada, to a small extent, the European countries, to a larger extent - very much have some assistance in one way or another in their production. That means that they are not operating on a level playing field here. One way of recognising this - and it is mentioned on some of the papers here and I'll just quote you some figures very quickly. It is presumed that the European Union has an assistance of percentage of approximately 24 per cent. That's the figure that is quoted there. Whereas Australia has got an assistance of about 4 per cent, Canada 7%, USA 4%. To get back to the level playing field those assistances need to be the same for the exporting country as what they are for us as the home producing country. I may touch on that point a little further on and may do it a little better than what I've just done it.

I move on to the next point I make. There is comments made on your submissions on page 163 to 179 regarding adjustment assistance programs to

agriculture in Western Australia. I just take the opportunity very briefly to indicate that perhaps that adjustment, that assistance to agriculture in Australia is not actually four per cent; it is a figure that is again lower than that. I'll just get some very brief comments on that. The figures that are supplied there are the five-year averages and advantage to the agricultural producing sector. Sure, it is an advantage, but when the five-year average is taken, the Australian Taxation Office is not missing out. They're just missing out on the good years but they're catching up on the average.

A diesel fuel rebate is mentioned. Perhaps the people that supplied the figures to the statistician forgot to mention that the price of diesel within Australia is in actual taxed over and above the standard barrel price here, and then we get a rebate on that and we're back to the status quo. It's not a situation where we're given a subsidy. We are charged a fee and then it is returned. We look at the exceptional circumstances. Not very much of that came through to the pig industry. The intention was there. Nevertheless it existed, it was available but the criteria was such that very little of it came through. And, basically, if it is looked at in the environment which I come from, it is those people that had spent fairly heavily on machinery in the year or two before and couldn't quite meet those repayments that had the increasing debt structure that were the bulk recipients of that exceptional circumstance.

It's also mentioned that the farm management deposits are an assistance to agriculture. Sure, they are and we appreciate it, but as far as the Taxation Office is concerned, they need to mention not only the fact that when money is put into the farm management deposits, sure, the Taxation Office is losing. But they need to mention also that when the money comes out of those farm management deposits they get taxes paid. They need to be talking the net figure, not the gross figure.

**DR BYRON:** I think they are, and it's included in the official budget estimates as a tax expense, the difference - and taking into account the difference in the marginal tax rates. Sorry, go on.

**MR JONES:** Thank you. A comment is made that most small producers are not specialist producers. Very briefly, I guess if you're referring to a small producer as 20 sows, right, you're correct. But if you're referring to a small producer as 250 sows or 500 sows, I would venture to say - and I'm only operating in one very small section of Western Australia and with one, call it, processor - I have been quite amazed over the years that the small, efficient farming operation has in actual fact performed as well as or even better than, as far as the end product is concerned, from the large multinationals or the very large corporate ones.

We ourselves - and I'm not blowing bags or saying that we're good or not - we know we can do better. There's no doubt of that. But on the award nights, which our processor is having, we have topped the small producer category four years out of

nine, and in the remaining five years we're running second or third. I look around at the other people that I have come to know over the years and they are pretty efficient. They know what they're doing and they are virtually getting the maximum that the market will pay.

My next point was compare the production support estimates of Australia and of import suppliers, which also coincides with that one earlier, and it will be by what I quite very well indeed, I believe, that the figures that are supplied are the same as - I believe they are the same as mentioned, and it's mentioned in your report there as well and I can quote you the pages but obviously you're more familiar than I. But Australia four per cent - and I believe that's optimistic - Canada 7%, the European Union 24%, USA 4%. If we follow the Danish situation at the moment through, calculated back to the American dollar and then calculated back to the Australian dollar to try and work out just what it is, it appears to be somewhere around 40 cents at the producer level per kg on a dressed weight basis. That 40 cents added onto the current price being paid here in Western Australia would make a very substantial difference to the net figure at the end of anyone's operation.

**MR EDWARDS:** I'm not sure how you get that Danish calculation. Are you assuming that the average assistance for the Danish producers is equal to the average for the EU as a whole?

**MR JONES:** No. The figures that I'm quoting there have come from the report on the Danish assistance as printed in your report here, and then I've got further information on converting it back to an Australian dollar. It appeared, from my understanding of your report, that the assistance available to the Danish producer in the production of pigmeat equated to approximately 40 cents per dollar, dressed weight, as far as we're concerned here.

**DR BYRON:** I think we might be clarifying that later this afternoon when we talk to WAPPA.

**MR JONES:** Right, thank you.

**DR BYRON:** But I think it might be a lot more complicated than that.

**MR JONES:** It is complicated, I acknowledge that one, and it is very hard for you to get an exact figure; I can acknowledge that as well. I also acknowledge that the 4 per cent recommended as the figure for Australia is probably too high too. Moving to point 8, "Wholesale prices: lamb, beef, pigmeat, comparisons for the Australian market," at the moment in this current year on our schedule I have seen the bacon price and the top of the matrix, \$2.31, to the current figure of \$2.70. Obviously the \$2.30, \$2.31 was not an easy one to take but \$2.70 is a more suitable figure.

But we look a little further afield and as a producer of lamb and for the last few years our bottom-line figure has been \$3 plus and more like \$3.40 going up to \$4.70, but \$3.40 is a fairly realistic price and take into consideration that when we are selling product, whether it be pigmeat, lamb or cattle, we're aiming at the top 10 per cent of the market and that's our aiming. We may not always get there but that's where we've got to aim. We look at the cattle, \$3.50, \$3.60, and we look at pigs \$2.70 and that \$2.70 has had approximately a 39 cent increase in the past three, four months.

One would think that the three types of meat are obviously not to be equal but they would be in a similar ballpark. They wouldn't have the same percentage differences and I am suggesting to you that that difference is caused by the importation from assisted countries, not from non-existent countries. In other words, if we had a level playing field that price on the pigmeat side would be increasing at the present time.

The last point which I wish to mention, it's a point which is going to be hard to itemise, but I believe it has some benefits to the industry at the present time but it has also got some limitations and the wording I have got here is:

The industry manipulation by large, vertically integrated producers. These producers in several major cases are both in and outside of Australia. They are importers, they are exporters, they are retailers, they are wholesalers, they are processors. They have volume of trade and they have influence to effect the flow of product from producer to consumer and most financial transactions involved in this trade.

When you look at a business which has a production base, whether it be here in Australia or outside of Australia, they have import and export operations. They are both wholesalers and processors. It is fairly necessary to keep the competition under control because it can make life awkward for them and there's two things they require. One is, it is the margin between production and consumption. That is the figure they are looking at. The actual total consumer price is not a major point by itself. The purchase price is not a major point by itself. It is the flow of product that is important and it is the difference between the two, and they have the ability to regulate that quite significantly.

I realise I'm opening a hornet's nest there but I make that point. On our contract which we have at the present time it has a rise and fall clause in it and if the markets go above a certain figure we can get the average of the producers elsewhere within Australia when those figures - and we will move up to that figure. It is interesting to note that we only move to the average. One would think that there would have to be a large processor within the countryside that would be aiming at something better than the average. If I just aimed at the shire average for my grain



yields you would see the overall shire average falling a little.

We've got to aim above the average so that we get the average plus and unless we're aiming higher we're not going to get there, and I believe the same applies to our processors. Unless we've got a couple of go-getters out there in that processing line and in that marketing side that are prepared to go for that extra 10 per cent or extra 5 per cent rather than just make sure they pay no less than the average, we will not get what the market is capable of paying. There's a couple of summary points I could make there, Mr Chairman, but that's basically my comments. Thank you.

**DR BYRON:** Can I just come back to the comparisons with beef and lamb and so on, just to explore the way that you think prices are determined. We've actually said in the draft report that one of the indicators that the Australian pigmeat industry is internationally competitive is that it competes very well in Australia against beef and lamb and they're both internationally competitive, so therefore pigmeat must be too. It seems to not only be holding its place but consumption per capita of pigmeat has been growing over the years. Beef has been coming down. So that's some hard evidence that if the others are internationally competitive and you're keeping up or doing better than that, then the Australian pigmeat industry is competitive.

That's the sort of the good news. The bad news side is, well, you know, how come we're importing more if we're so internationally competitive, and that's the story we're trying to untangle. I asked somebody earlier this morning if the price of pork coming in from Canada or Denmark was to suddenly go up by 10 cents overnight or something, how long would it be before you started to get higher prices for the pigmeat that you were selling?

I mean, are you constantly being benchmarked because the manufacturers are saying, "Well, I can get Danish meat for X, I'm not going to pay you more than one cent more than that," you know? Is the Australian product forced to price down to be no more than the price that the import is available at? So if the import suddenly shot up by a certain amount, the Australian price would come up to match it. Is that the way it works?

**MR JONES:** It's not as simple as that.

**DR BYRON:** It never is, never is.

**MR JONES:** No. If the price of imports went up, sure, there would be an increase. But if imports only make up 10 per cent of the market, the increase will not be right across the board to the full 10 per cent.

**DR BYRON:** Yes. But see, the other side of that is that people have been saying, "Oh, the reason that the pigmeat prices are so low is because of imports," and you

say, "Well, if we're importing 50,000 tonnes of boned meat," and then if you're saying, "Well, that's 70,000 tonnes bone in or 80,000 something," it's still, you know, compared to the 400,000 tonnes that we grow in Australia - how come that import volume basically sets the price that everybody else gets, when it's only a third or a quarter or something of the total market? It seems to me that it would be amazing to say that that tail is wagging the dog, if you like.

So that's what I'm still sort of grappling with. If it's the import price that's determining what everybody else gets, even for fresh meat that imports don't even compete in, surely if import prices went up then everybody else would come up too.

**MR JONES:** Right. Thank you for the question.

**DR BYRON:** Sorry, it was more of a statement than a question but it was meant to be a question.

**MR JONES:** Right. We go back a few years and Australia, or this part of Australia, we had an oversupply of pigmeat and we were told very clearly we've got to get into the export field, and our marketers did, and I believe they've done a fairly tidy job of it. It has been a fairly rapid expansion there. At the same time it became apparent to the people that trade within the process product that there was some available overseas that could come into the country and that also came in. I believe that the people who retail and wholesale pork products, bacon products, within this part of the countryside, realised very clearly in their own minds that if you keep a local consumer clientele under supplied by, say, one or two per cent of demand, the price will go up. If you keep it oversupplied by one or two per cent the price will sneak downwards.

By the manipulation of the quantities going out, the quantities coming in and the total production here within Australia, it is fairly - well, people are in a position where they can regulate supply and demand and have it so that it's just slightly oversupplied rather than slightly under supplied and there's benefit to many people in having a situation like that, whereas we as producers like to see a situation that's one per cent under supplied and that pushes the price up the other way a little bit, as long as we're not losing market share.

So I think your answer, if it's an answer you're looking for, an opinion you're looking for, is that at this point of time there is slightly more pigmeat in Australia, whether it's imported or grown, than what is being readily consumed and that comes back to our marketing as well, I acknowledge that, and I acknowledge at this point of time there is an opportunity for marketing of pigmeat against lamb and beef. But while it keeps coming in, in such quantities, so that the price is not forced up to the other levels, it will not necessarily go up. Thank you.

**MR EDWARDS:** If I could go back to the level playing field, not to the specific numbers, which hopefully we'll be able to clarify this afternoon, but the general concept that the level playing field is a helpful concept in determining policy in Australia. Now, I understand very well why producers in our agricultural industries consider it very unfair that they are having to compete, both in foreign markets and in some cases, like pig producers here, with some countries that receive more assistance for their product than our farmers do.

But it's one thing to judge the absence of a level playing field unfair. It's another thing to say that it would be smart policy or in the interests of Australians overall, considering not just producers but consumers and taxpayers, for our government to introduce policy measures intended to level out the playing field. Essentially the prices that are relevant to determining the value of the things we produce in Australia, if we're talking about traded commodities as we are for grain and milk products and pigmeat, is the price in world markets, the international price, and it doesn't really matter from an economic point of view.

Sure, it may matter from judgments of fairness but it doesn't matter from an economic view whether that price is determined in a pure international marketplace or if it's determined in a market that's very distorted and corrupted. It's that world price, however it's determined, that gives the economic value to Australia of using resources to produce the grains or the milk or the pigmeat. So the idea that our government should try and come up with policies that would, if you like, correct for the non-level playing field is, I think, an argument that our government would have a lot of trouble with and it's certainly an argument that economists would dismiss out of hand. Yes, it's very unfair, the situation that we have, but if we try and correct for those foreign policies, we're going to make our people overall worse off, not better off. Sure, we may make some of our producer groups better off, but when you allow for the impact on consumers and taxpayers also, as a country, we'll become worse off.

**MR JONES:** Thank you for that question. I think we would have to say - on this occasion, we would have to agree to disagree. I'll give you some examples. We're exporting product into Japan fairly quickly in the agricultural products. They have monthly quotas, they have tariffs. We look at the wool industry. We look at the free trade into America, which has just been signed by our friends in government, and on the American side of the fence, it was up to 18 years on beef, there has been taxes on the wool side - and I haven't got the full details of them, but on the free trade coming into Australia, it's just, "Open the ports, let her in." I guess we agree to disagree there on that point.

There is a level playing field and there is a slightly significantly artificial playing field as well, and that artificial playing field is created by the particular country that wishes to export that produce for the benefit of themselves, so maybe to

keep agricultural production in place so that the people don't go to the cities or go to the coastal fringe or whatever, and they do it for a reason and it is for the sustainability of internal part of that country.

**DR BYRON:** So you reject the argument that it's a slippery slope when you start saying, "Well, if other countries are subsidising, we'll start subsidising, too, to counter that," and then you end up - you know, they put on bigger subsidies, so we have to put on even bigger subsidies, and it ends up we bankrupt each other. Is it a slippery slope?

**MR JONES:** No. It's a slope that's commonsense, and it's not a word - "subsidy". Subsidy is when you give an assistance to an industry to assist that industry for a period of time. It is another thing to create a level playing field, and if for example - and I'll use the Danish exercise - I wouldn't say that we give the Australians a 40 cents a kilogram assistance package. No, we don't pay our producers that type of quantity. There would be a tariff come on which in actual fact is a revenue-earning item or product for the Australian government; a tariff equal to the subsidy given in Denmark.

**DR BYRON:** And it's just paid for by consumers who would then pay 40 cents a kilo more for every kilo of meat that they buy.

**MR JONES:** I would venture to say that the 40 cents of the Danish one, not the whole 40 cents would come across to benefit our side. Yes, the consumers of Australia would pay more on that occasion there, but that would not be an unreasonable situation.

**DR BYRON:** It's not just that they pay more for the imported quantity. It's because the domestic production would then be priced at the same - you would pay more for the - the consumers would pay more for the total quantity, not just the imported 20 or 30 per cent. So you're right in saying that the government collects the tariff revenue, but that amount is actually small compared to the total amount extra that consumers would pay.

That's why you'd have to take an economy-wide point of view. It's not just saying, well, how much will the government collect as opposed to how much the government will pay out or, you know, will more money go into the bank accounts of producers or manufacturers. You have to say who's going to pay for all this?

**MR JONES:** The question is - or the point is a little wider than what you're stating there, too, and it has got two sides to it, and the other side to it is if you're operating on a level playing field and an industry can survive here in Australia, that industry will be of benefit to the people involved in that industry and to the people which supply products to an industry, and it has a substantial rub-off effect. We do not

want a long-term situation where we have an industry that is significantly subsidised within Australia.

But it is quite appropriate and very sound I think to have an industry within Australia that has the ability to stand up in Australia and in its exporting countries on a level playing field. In other words, if we can't produce motor cars in Australia as well as what they can produce them in Malaysia or India, Malaysia or India get the bulk of the product, and if we can't produce pigmeat on our farms on a level playing field as well as other parts of the world - fair enough, we've got to drop and we've got to acknowledge that they've got the environment or the ability to do it better. But here in Australia, we should have that ability to do it. On the genetical side, we're a little bit behind, but not a great deal. On the management side, we're not too bad. We're up in the world top few.

We can do better, we know that, but we're definitely not down into the Third World category, and if Australia is going to want to operate and prosper, it has got to have businesses that are viable within their own right and can stand on a level playing field without tariffs, and the fact that a consumer has got to pay a bit more is one of those things of life. The fact that there is a subsidised country overseas subsidising its particular line of production I don't think necessarily means that the Australian consumer has got to benefit directly from that subsidised production elsewhere.

**MR EDWARDS:** So if further investigation of the Danish situation were to establish clearly that there is no or negligible assistance being provided on Danish exports to Australia, would you then accept that the case for levelling out the playing field for the pig industry here disappears?

**MR JONES:** Correct, yes, but from all the information that's come forward, it would appear from the records coming out of this little book here - 250 pages of it or 20 pages of it - it's fairly clear to me that what is written in there indicates that there is strong grounds for believing that there is some artificial assistance popped into the system.

**MR EDWARDS:** We have found out a bit more since that draft was prepared. So hopefully we're going to be able to present a story that we're more happy with.

**DR BYRON:** I think in view of the time, we're going to have to let you off the hook, Mr Jones, but thank you very much for coming and sharing your considerable expertise and background with us. It's been extremely helpful. Thank you. I think we should now adjourn for lunch and try and get back, if we can, at about 1.40pm. Thank you, ladies and gentlemen.

(Luncheon adjournment)

**DR BYRON:** Russell, if you can make yourself comfortable.

**MR COX:** Chris and Graeme.

**DR BYRON:** The usual procedure, if each of you could just introduce yourself into the microphone in your own voice so that the Hansard people will be able to tell who's talking when they play the tape back, and then if you'd like to take us through the submission which we got the other day - and thank you very much for that, and thanks very much for the effort you've put into both the submissions.

**MR COOLE:** Okay, thanks very much for having us here today. My name is Stuart Coole, president from the West Australian Pork Producers Association. Basically, Russell will do a lot of the presentation for us today and I'll let him sort of - he's done a lot of that organising with it. But, well, one thing: I'd like to congratulate over the presentations so far. I think they've done an excellent job. A lot of them have already left now but they've certainly done a good presentation, and I do hope that it certainly will be taken on board by yourselves and I hope we'll see some fruition from the commission in time to come. Okay, Russell.

**MR COX:** Chris, would you like to introduce yourself?

**MR KEENE:** Yes, my name is Chris Keene, I'm a pig producer in Gingin. I have about 1200 sows and sit on the board to WAPPA, the West Australian Pork Producers' Association. I'm here to support our submission to the Commission.

**MR DENT:** Graeme Dent from (indistinct). We run a mixed farm in operation with 5000 acres, grain, sheep. We also run a 40-sow piggery in part of our operation. I'm also on the board of WAPPA and here to represent the submission as well.

**MR COX:** Russell Cox is my name. I'm the executive officer for the West Australian Pork Producers Association. I'm here to present the submission on behalf of the association and the producers. Over the last seven or eight months the association has gone to considerable time and effort in preparing information for this inquiry, and we're most grateful for the opportunity to present this submission today at this public hearing. We did lobby quite strongly to have the hearing here in Perth and I'd just like to thank everyone else that has taken the time to be here today as well.

We have a number of issues to discuss, but first of all the issue of dry sow stalls. When you were in Perth I think it was back in September, I raised this issue with you and you said if there are any issues that are impacting on the competitiveness of the industry you want to know about them, and one that we see as quite critical is probably changes to the dry sow stall issue. Now, we said that the impact on the cost of production of any proposed changes to the current regulation

on dry sow stalls should be examined and reported on as part of this inquiry.

Now, I understand that you have received certain information from APL and the work that they have been doing on the changes. We've set out in our submission that the APL policy that dry sow-stalls should be permitted to be used for up to 10 weeks of any one gestation period after sufficient lead time as well as for occasional housing of individual animals for animal health reasons (indistinct) feeding or for confining animals at feeding time.

One of the concerns that we have and we've set out in our submission is that there are still significant deficiencies with housing sows in groups. Now, what we've done there, and I think I've provided it for you - Graeme Moore, who is a member of the APL's animal consultative group, he's prepared a paper outlining the deficiencies in housing sows in groups which I'd like to table. I think you may already have a copy there. I've left one with David. But the major concern that the industry has - and it's set out, and we've said there that this issue has been vigorously and thoroughly debated within WAPPA with the executive supporting APL's argument - is that any proposed change made by public policy to animal welfare plans based on opinion and perception rather than science which are clearly not financially sustainable nor recoverable from the market must be borne by governments. Now, I'd just like Chris Keene to outline what he has been through in the last two to three months with actions by the animal activist group within his own piggery.

**MR KEENE:** Thank you, Russell. Yes, Chris Keene speaking here. I've had on two occasions where I've had the animal activist groups come out to my property illegally and enter onto my property and taking photos and stating that my piggery doesn't contain the necessary code of practice for the requirements for housing dry sows during gestation - totally unfounded information that they have presented, and it has been backed up by the animal welfare group that my piggery does conform to standards set down when the piggery was built.

Since the new legislation has come through, and what we're working through APL and through WAPPA, obviously will put severe financial burden onto my piggery to change the code. One of the things that is quite annoying is that, as Russell said, people are going on emotion rather than science-based education or codes that they need to put in place. So I feel that in Western Australia anyhow, our climate is not very conducive for sows running around outside because of our hot summers. So that's my point I'd like to make on dry sow stalls.

**MR COX:** Thanks, Chris. I probably should emphasise that the policy that APL has determined, has been determined after extensive review of factors such as the economic implications to an industry still recovering from a period of high feed prices and low returns. The welfare and management implications to the embryo and newly weaned sow, and the fact that group housing is at an early stage of research

and implementation, hastening adoption of group sow housing systems by using legislation without due consideration to sow welfare may be counter-productive and detrimental to the industry.

Then we've gone on to say it is important everyone understands that housing sows in groups does not address by association the welfare requirements of the animals. As I said previously, there are still significant deficiencies with this system which require further research which is being undertaken by APL, to ensure that the welfare of the animal is not compromised. We are working with APL hopefully to ensure through the code writing group that that policy is maintained.

We've had a situation here in Western Australia where the senior veterinary officer, Dr Michael Patton from the Department of Agriculture, is on the code writing group for the revised welfare of pigs - the new revised code. Michael has a certain view on it, but the unfortunate aspect within the department itself is they didn't have a policy on dry sow stalls. What we did prior to Christmas, along with meeting with what they call the Pig Biosecurity Group here in Western Australia, we also wrote to the acting director general of the department, Mr Ian Longson, who is now the director-general, requesting the government position or the department's position on dry sow stalls. So at least at the end of the day we can get a uniform approach here for Western Australia. I'll table that letter too for your information. There is nothing more that I would probably like to say unless there are any questions on that particular issue.

**DR BYRON:** Just a question of clarification. This seems to be a much more pressing issue in WA than it is in the other states. Is that right?

**MR KEENE:** Not correct. Dry sow stalls?

**DR BYRON:** Yes, is it a higher priority in this state that - I mean, I realise that APL has looked at the issue nationally, but it just seems to - - -

**MR COX:** Actually, I was quite surprised, given the feedback that I got from a number of people, in particular from the eastern states and some of the people that I've spoken to there, that the issue wasn't taken up in their submissions, and primarily because costs have been raised by a number of people here and in particular Chris. And I think to be fair to Chris, if he had to change his structure over the next two years, he's looking at a cost of somewhere in the vicinity of 800 to a million dollars - 800,000 to a million dollars. So we see it as quite oppressing because he's got to change his whole shed structure, and he might want to elaborate on that.

**DR BYRON:** But is the government seriously talking about that rapid introduction of - - -



**MR COX:** Well, we don't know that.

**DR BYRON:** Because, you know, normally governments give a lead time to allow transition and normal write-off of existing stuff and time to line up the funding to move to the new technologies and so on. So you don't know yet what the phase in time would be for - - -

**MR COX:** We don't know - where I see - as we've said, stated there, but APL are looking at a phase-in time of 14 years. New Zealand, I think, are relying on - it's about a 10-year period there. But some people, especially within the code writing group that we're aware of, who are looking at a phase-in period of probably even two to three years and there's a lot of activity among the animal activists. For example, last week I had to contact the state minister for agriculture on a particular issue and they were about to ring us about our views on the dry sow stalls, simply because the department don't have a view and that had a lot of - of course with the election almost being announced, a lot of the animal activists have written to them seeking what the government is going to do about the change in dry sow stalls here and particularly in Western Australia. And I guess that lobby may be taking place Australia wide.

**MR KEENE:** As you say, Neil, it's not to do with what the government thinks. It's to do with - this is all to do with vote counting at this stage against the industry with dry sow stalls. APL have worked at length to keep science up the head of the point and keep showing the points of science facts and trying to stay factual, but when you're dealing with emotion against factual and a bigger voice against a smaller voice, that's where - and, no, the government hasn't given a set time but that's where we're trying to make all the facts come up front before we get set at that time.

**DR BYRON:** Okay, yes.

**MR COX:** Quite clearly, if it's introduced within the next two to three years, if you had a lead time - and probably getting back to what Chris Brennan said this morning, if you had a lead time and then some investment allowances within the industry for those changes to take place, then, you know, the punch mightn't be so hard to take. But for it to happen over the next two or three years, it would be a blow to the industry, particularly those that have got, you know, large numbers.

**DR BYRON:** Yes. And even more ironic if it doesn't actually enhance the welfare of the animals anyway.

**MR COX:** Well, that's - yes, and that's the argument that some people within the Department of Agriculture will put forward to us. So there wasn't unison within the department but we're working - and they've got a very, very good pig group there that we work very closely with.

If we go on to exports and imports - and that seems to be a pretty topical subject today. We've highlighted the fact there, as stated in your report, that imports have increased from 40 million to 219 million while exports have grown and grown quite dramatically. I think as Graeme Jones touched on that exports have grown quite dramatically from Western Australia. In 1997 there was 65 tonnes exported and last year there was 8405 tonnes which is quite a significant achievement and it's been extremely beneficial to the industry here in Western Australia.

As we set out there we accept in the long term the competitiveness of the pigmeat business will be driven by sustainable international cost advantages and/or product differentiation but, however, we have difficulty understanding how this can be achieved when our international competitor in Denmark received substantial subsidies. We've quoted there from the draft report being page 50 and I think we touch on the same issue that Mr Jones touched on, the 41 cents a kilo. So translate that for a pig at 70 kilos, that's an extra \$28 a pig. So if you're producing 4000 pigs, it would be worth a lot of money to the Australian producers.

Now, we're not saying that should take place but we're probably getting back to what Graeme said, we're looking for a more level playing field. I'd also point out that that is also supported by Prof Clair Nixon on page 183-184 when they highlight the fact that Australia, Canada and United States received 7 cents a kilo, and in 2001, while producers in the European Union received 29 cents per kilo US which I think at the time equated to about 36 to 37 cents in Australian dollars. That's one of the major problems that we're confronted with, and from all the evidence that we've written and from all the information that's been provided by APL, we're yet to be able to clarify that these subsidies are not in place with those countries.

Having said that I'd also refer you to APL's second submission, appendix G, and just to outline there in income support, Canadian hog farmers - that's point G1.1 - income support insurance, Canadian hog farmers receive substantial subsidies under the programs that insure against backdrops in income. These subsidies are not commodity specific and aim to make farming more attractive by providing a guaranteed income. However, the effect of government subsidy is to subsidise the final product. Hog farmers received more than 100 million from 2002 to 2003 which equates to 4 to 6 dollars a pig. So there are substantial subsidies and it's outlined in our first submission when we talked about pig support estimates as well, and the ones that the Danes received there.

So effectively what we're asking is that with the level of support our major competitors receive, what we want to be informed is as to what actions the Commission believes are required by the industry to make itself internationally competitive and more particularly the role governments should play in the industry achieving this goal.

**MR EDWARDS:** Can I just seek clarification of something. On page 4, four paragraphs up, the quote in bold:

The level of support can be expressed on a product weight basis.

See that?

**MR COX:** Yes.

**MR EDWARDS:** Now, are those numbers right?

The OECD estimated that producers in 2001 in Australia, Canada and the US received less than US70 cents per kilogram while producers in the EU received US29 cents per kilogram.

**MR COX:** That's in your report.

**MR EDWARDS:** Is that from our report?

**MR COX:** That's in your report.

**MR EDWARDS:** Is it?

**MR COX:** Pages 183-184. I'm pretty confident - yes.

The level of support can also be expressed on a product weight basis.  
The OECD estimated that producers in 2001 in Australia, Canada and the United States received less than 0.07 cents per kilo - - -

**DR BYRON:** It should be 0.07, not 0.7. That's just a typo but it did look a bit funny.

**MR COX:** Yes, and then the 29 cents is right. Sorry about that. I also apologise there - we had this edited yesterday. No disrespect to Clair Nixon but it was changed to "she" and it should have been a "he". Sorry about that.

**DR BYRON:** He doesn't mind. He's used to it.

**MR COX:** So, Mr Chairman, we'd like your views on what you think we need to do.

**DR BYRON:** Okay. This question of the amount of imported material from Denmark, most people are familiar with a very long history of a common agricultural

policy in Europe and the way they have subsidised all sorts of things, from mountains of butter and lakes of milk and wine and so on. So when we and Clair Nixon and Terry Sheales of the Australian Bureau of Agricultural and Resource Economics, when you read the OECD estimates that we've got tabled 3.1, page 48 of the report, you'll see that the overall producers support estimate to the EU, 23.93 - you know, it's head and shoulders above Australia, Canada and the US.

Let's take the easiest one first. In answer to I think Mr Jones' comment this morning, the estimates for producer support in Australia include a lot of things that most Australian primary producers don't think of - everything from expenditure on agricultural extension, CSIRO, diesel fuel rebates, all sorts of things. Also included in there is the effect in other countries of the US and Canada subsidies on grain prices. If you look at the second column in that table under Canada, there's a figure of minus 0.44 per cent. Well, that's because the Canadian pig producers suffer from the way the Canadian wheat is marketed which actually makes their grain more expensive. So all those sorts of things - not only direct payments to producers but all sorts of indirect payments that affect their costs and the selling prices are factored into those sorts of equations.

But just talking through that table, the figure for Australia and the figure for the US, you know, 3.59, 3.56 per cent, well, they're pretty close. Canada is also very close except for that figure of 3.05 just up from the bottom which is their Canadian Agricultural Income Stabilisation Program. A lot of people outside of Canada think that that's a very generous form of insurance that's available to all Canadian farmers, not just pigmeat farmers but all farmers, to stabilise their incomes. But apart from that, there's not much difference between Canada, Australia and the US in terms of all those sorts of subsidies.

The big one is European Union. But of that 23.93 per cent assistance, 20.33 per cent is in that first line. That's called market support. That's supposed to be the effect of any tariff quotas, import licensing requirements, phytosanitary - all those things that have the effect of jacking up the domestic price in the EU as a way of keeping out imports and getting higher prices within the EU for EU producers. That's the estimate there of how much all these sort of trade barriers have benefited EU pigmeat producers. That figure may or may not be right but when you look at Denmark, they export something like 90 per cent of their total production. They don't actually benefit from having a high price in the EU. They sell most of their meat outside of the EU because they get much higher prices there, whether they send to Japan or to Australia or to other countries.

What the OECD has assumed is that these tariffs and quotas and licensing or whatever the EU has put in place has actually raised the EU pigmeat price to 20.33 per cent above the world prices, but when you actually go and look at it, the EU is below the world prices. This doesn't quite make sense. So we've had an

absolute flurry of email exchanges and phone calls and everything back to the OECD in Paris and the people who came up with these figures and say, "Where did you get the numbers from? Have you checked them? Are you sure it's right?" We're still having that debate but it's not as obvious as you and I thought it was when we first saw those numbers that Danish producers are getting 23 per cent subsidy because of government policies in the EU. It's quite possible that Danish producers are actually being screwed by the EU policies.

If you just ask yourself, if you were a Danish pig farmer why would you sell meat overseas if you could get 20 per cent higher prices selling it within the EU? Well, the answer is, no, you get 20 per cent higher prices by selling it out of the EU. They consider Australia a high-price destination. The prices they get for the same category of pigmeat in Australia is only a bit less than what they get in Japan, and a lot more than what they get when they sell that same type of pigmeat into the EU. We haven't got to the bottom of all this yet, but all I'm trying to say is that it seems to be a hell of a lot more complicated than what we or ABARE or Clair Nixon thought it was. Everyone just took the OECD published figures at face value. They are all now going back and rechecking these numbers.

**MR KEENE:** So are you saying that if we were to put meat into their market, we could actually do it if we were using the same freight component as they are where our meat would actually be higher priced over there than it is their meat coming this way?

**MR COX:** They have a tariff though.

**DR BYRON:** They've got a quota, but the interesting thing about the quota is that - I think from memory it's something like 88,000 tonnes a year. But in the last few years the amount that's imported hasn't even been more than 8 and a half thousand out of 88. So again what's that's saying is that only about 10 per cent of the allowable quota is even coming in to the EU. So it's not consistent with the idea that this tariff quota is actually binding and, you know, distorting the prices in the EU, because if it was really jacking it up then you'd expect to see Danish meat going to France, Germany, Italy or whatever, within the EU, and selling at those high prices because of the tariff.

There's just so many contradictions and inconsistencies and things that just don't make sense. We've looked at the freight issue, for example. This came up when we were discussing it with QAF the other day in Melbourne. They were saying, well, it would have to cost them at least 30, 40 cents a kilo to freight from Europe to Australia the pigmeat. But from other inquiries that we worked on - international shipping containers and so on - the amount of refrigerated cargo that goes out of Australia is something like 20 times the amount that comes in.

So the shipping lines tell us they spend an awful lot of time and money repositioning empty refrigerated containers. So, you know, about a third of every boat coming in from Europe has got empty containers that have to be brought back here so they can be filled up again. Okay? Now, if somebody says, "Oh, how about backloading a bit of pigmeat, for example?" it's possible that the freight rates, both from North America to Australia and from Europe to Australia, are backloading rates, not, you know, the full quid.

So, you know, even just on the basis of transport costs it's nowhere near as simple as you'd expect the first time around. And we've been trying to get into all this. We asked the people in the OECD when they calculate the differences between farmgate prices and the FOB prices. They say, "Oh well, we've got a figure of" - it was from memory about 37 or 38 euros. About 60 cents Australian per kilo is the difference between the farmgate cost and the on-the-wharf cost. Said, "Okay. How did you calculate that and what does that include?" They said, "Well, we got figures from five or six abattoirs in the north of France and we assumed that they were representative of all 15 countries in the European Union," and we said, "Well, are they?" "Well, it's halfway between Scandinavia and the Mediterranean, and besides, it's the only numbers we could get."

Now, they've had to make all these approximations in calculating these figures that we've quoted. And when you say - when you dig down into it and say, "Well, how realistic are those approximations?" You know, it's quite possible that the abattoirs costs and boning costs in Denmark are very different from what they are in these five abattoirs in France. We don't know. We don't know how wide the spread is. But, you know, it seems like a bit of an approximation. So I can't actually give you a hard answer. All I can say is it's awfully complicated.

**MR COX:** Yes. Well, that's a critical issue for the industry Australia wide, you know, particularly here in Western Australia because that is a major concern. Like, they want to compete on a level playing field but it's the mindset of the whole industry that there are substantial subsidies being received by the Danish producer.

**DR BYRON:** But, I mean, I made exactly the same assumption the first time I read that report in ABARE that the European Union has da da da, therefore Denmark - now, although Denmark is a member of the EU, you can't assume that what applies to the average of 15 European countries is exactly what the Danes get. They might get more or they might get half, or things that actually benefit the French and the Germans might actually be screwing the Danes. So it's a big assumption to say, "Well, let's assume that the Danes get the average for the whole 15 countries in the European Union." I don't think that's valid. So we've got to keep digging on this one.

My intuition was probably like yours and most people that we think that the

Europeans subsidies all forms of agriculture all the time, but with Danish pigmeat, because they're such a big exporter and because exports are such a large percentage of the production, it's not like those other commodities where EU is an importer and all those quotas and trade restrictions are actually binding. In the case of the pigmeat, though, sure, they've got a quota but it's not even 10 per cent exercised.

**MR COX:** Yes.

**DR BYRON:** So we're still digging.

**MR COX:** Yes. That's an interesting - like, even in our first submission we quoted the pigmeat producers forward estimates and things like that and there was quite a clear understanding of the industry and, really, in your final deliberations, in the outcome of your final report, you can quite clearly explain to the industry Australia wide, "This is precisely what happens." I'm quite sure that the whole industry would feel a bit more comfortable about that. They might feel comfortable financially. But at least if they knew the facts they'd understand what action they may have to take to overcome their competitive advantage.

**DR BYRON:** Well, as I say, we're still working with ABARE and the OECD people in Paris, trying to get to the bottom of all this but it's just not as straightforward as it seemed at first glance. That's all I can say.

**MR COX:** What about the role government should play?

**DR BYRON:** Well, the role government should play. Well, you probably heard what Geoff said before about - to a certain extent it doesn't matter how the world crises determine - whether it's determined fairly or unfairly. That's the price out there that needs to be matched. I know the Europeans completely frequently complain that there are many things about Australian agriculture that they consider is unfair and unreasonable - how we get our water too cheap or we don't pay the full costs of soil degradation and so on. But even if you say, "Okay. We can clearly show that exporters in Denmark are getting a huge subsidy and this is how it's done and this is how much it's worth? What should the Australian government do about it?", well, it's not obvious that the answer is to either match it or - technical countervailing duties.

If you can calculate exactly what the subsidy is, there may be a case for countervailing measures, but there are many reasons why governments might rationally not choose to do that. We don't have a position on that at this stage.

**MR COX:** I was interested in Geoff's comments that - I think it was in answer to what Graeme said about the economics, the sheer economics of it. Why would a government invest in an industry? Right? And, you know, I think it's pretty well

known, and with no disrespect, that the Commission operates pretty well on the dry side of economics.

**MR EDWARDS:** That's your description.

**MR COX:** And not the wet side. The only comment I'd like to make - and the reason why we ask that question about the role government should play, because I think it's pretty critical and I think Darren Edwards touched on it this morning that what we're saying is a role by government is a role for an investment in the welfare of the community. You know, when you look at the federal government situation there's about 40 per cent of the total appropriations going to welfare Australia wide. Now, you have a situation which we touch on a bit later about farm support, mixed farming operations. These people, they diversify their operations to keep their families going and to keep going as part of the community, and I think it's very, very important in the outcome of this inquiry that consideration is given to ensure that there is some support for mixed farming operations or for the opportunity for this industry to grow.

Now, I can take you back to the mid-80s when the export market to Japan for beef was very low and there were certain investments, as I understand it - the records would be available - investments for people to invest in the industry, and that industry has grown dramatically and there's been a dramatic increase in the exports to Japan, beef exports to Japan and Korea in the last 12 months, simply because of the disease problems in the US. But there is that opportunity.

Probably to add to that there is the Asian communities becoming much more sophisticated, together with the fact that over the next 15 years there's going to be about an extra 500 million people living in that region - that's based on World Bank figures - and, more importantly, there's 300,000 jobs to be found there, and they've got to be fed. And I think it's a wonderful opportunity with an industry like this with so many people that like pork in that area that we have the infrastructure in place so the Australian farmer and the - well, the Australian people can take advantage of that.

**DR BYRON:** Just on your question of the actions required by industry to make itself internationally competitive, I guess I would have to say that we think that - can't talk about the industry as one thing but many firms within the industry are already internationally competitive. There are some that are above and some that are close and some that are not so close, but we've argued in the report that it's individual businesses that compete, not the industry as one single uniform unit. But the APL industry restructuring plan, as you know, has got a number of the things in there that the industry has worked out for itself are worth doing and need to be done and the industry is planning to do it.



Now, it's not really our position to give advice to the industry or to individual firms in industry, but for what it's worth, you know, those - at least six of the seven points in the industry restructuring plan seem to me to be very much in the right direction, and if the industry goes ahead with that I think it is going to ensure a pretty prosperous future for itself. But certainly you already know what needs to be done and you're already doing it. Now, the question is what, if anything, does the government need to do or could do, apart from saying, "That's terrific. Get on with it." So it seems to me that most producers are saying, "We're not after handouts. We're after a level playing field."

**MR COX:** Yes.

**DR BYRON:** If, as Chris was saying this morning, one of the impediments to new investment is lack of confidence or uncertainty in the industry about whether it has a future, I guess I'm not sure to what extent an announcement from politicians that, "Yes, we believe the industry has got a great future," whether that carries a lot of weight with people or whether it's - what does the government need to do to give a signal of confidence? Given that, governments generally are not in a position of going around picking winners about, you know, which sector is going to be successful and which one isn't.

**MR COX:** Okay, the sugar - yes, I understand.

**DR BYRON:** It's funny how sugar always comes up. As I said this morning, can you name another one?

**MR COX:** But I think that's one of the things that the industry is looking for. It's not so much handouts but how it can grow. I think, you know, to complement what Chris was saying, whether it's a 200 sow herd mixed farming operation, like Stuart and Graeme have, to a thousand herd, they like the industry. A bit like Darren said, like, he's trying to grow. But they need a sign of confidence because there is not quite the margins there at the moment for it to grow. Like, as I said in our original submission, there was a glimmer of hope and lower grain prices have helped but there's not that confidence at the moment to go, say - to jump from position A to position C so they can reinvest, grow the industry, expand and then compete more favourably with the Americans on the international scene. Well, especially with the Americans getting into the Japanese market at the moment there's been a substantial increase there. Animal health.

**DR BYRON:** Thanks.

**MR EDWARDS:** But if I could - sorry, if I can just ask one follow-up question on that. The industry won't take confidence, will it, from a government statement to the effect that, "We think the pig industry has a great future."

**MR COX:** No, not so much a statement, but what I'm pushing towards is that in the final outcomes of this report, if the industry can see from this report there's going to be a certain level of action by government, whether it's by way of investment, to give the industry the confidence to grow, and this report comes out and says, "Well, look, these blokes don't receive these - the Danes don't receive this subsidy but these are the actions required by the industry to make itself grow internationally competitive." I think that would instil a certain level of confidence in the industry for it to take the next step.

**MR EDWARDS:** Do you think that would be welcomed by all producers in the industry? Would it not be the case that there will be some people in the industry, probably largely in the top 25 per cent, which I think Chris Brennan remarked this morning was the segment with which the future of the industry largely lies - would there not be some people in that industry who are individually making their plans for their futures and that they may not welcome government action which provides more general assistance, whether by way of infrastructure or in other ways, that help others in the industry who are their competitors?

**MR COX:** Well, I think I saw the deputy chairman of QAF make a statement prior to this that he thinks that they're the biggest operators in the area and that he thinks there should be some sort of government intervention or support, or restrictions on imports. So I can only quote what he said, what he said at the time. But I'm pretty confident speaking for these gentlemen - and they're quite capable of speaking themselves, but I think if there was a support throughout, from the report, that there's going to be some support from government, and it doesn't have to be in cash support, that the industry would grow.

Now, just to give you an example, one of the gentlemen sitting at our table, Graeme Dent, he has reinvested in the industry. He's building a new piggery, which is terrific, I think probably one of the first new piggeries being built in Western Australia for a number of years. So he's got a mixed farming operation. Then you've got to look at the other side, at the ones with the 1000 sows and so you look at Chris's operation and how he can grow and how he can maintain his business as a viable entity.

**DR BYRON:** I guess one of the things, talking about different parts and different sides of the industry, is that if you have something that is some form of assistance that's production related, and that includes an import tariff or something of, you know, so many dollars' assistance per tonne of product, those who produce most of the production get most of the assistance. So even if the government was going to assist the industry they would then have to think, "Well, do we need to assist the QAFs of this world or do we need to assist the little sort of mum and dad and the two boys who are in a small block somewhere type of industry and can we target the way

we give assistance so that most of the benefit goes to the people who need it most, rather than going to people who don't need it?"

You know, there's different ways of doing this stuff. So it's not just a question of saying, "Well, the government wants to support the industry," full stop. It might be a little bit more subtle than that.

**MR COX:** Yes.

**MR KEENE:** Why are we talking about assistance anyway? As you quoted yourself, you've heard so often, we're not after handouts or subsidies as such. I can't understand why we're sort of going down that track.

**DR BYRON:** Yes. There has been a bit of, I guess, confusion in the media reports too. We use words like "assistance" to include trade restrictions, tariffs and quotas. We're not talking about where you get the cheque from the treasury in Canberra as a budget measure. But if the government announced, you know, 10 cents a kilo import duty on all imported product and as a result of that, not only imported product went up by 10 cents but the domestic prices, then basically every man, woman and child in Australia who buys a kilo of pork will pay an extra 10 cents a kilo and that is a transfer of wealth from the consumers to the producers, and that is what we call a form of assistance.

It's not a cheque from the government and it's the mums when they go to Woolies who are paying for it and, you know, it's still a form of assistance even though it's not a cheque. It just means that you can get a higher price when you sell your product.

**MR COX:** That is the point we make. It's not in direct cash assistance but, as Chris said this morning, by way of investment allowance and issues such as that accelerate depreciation.

**DR BYRON:** Animal health?

**MR COX:** Yes. Well, we just set out there, pretty straightforward, precisely what we said in our last submission. But we'd just like to add to that is the fact that APL evidence and evidence provided to WAPPA by APL advise that the procedures currently used by Australian Pesticides and Veterinary Medicine Authority result in long and unnecessary delays in having new and more effective antibiotics approved and there's a longer delay in getting new vaccines to the market. It's hindering the progress producers are trying to achieve in improving animal health and therefore improving the cost of production and the efficiency of the industry.

Now, all we're recommending there is that the process of registration of

important vaccines be treated as a priority, enhancing the opportunity of the industry to investigate alternative animal health strategy, to improve efficiency and reduce costs of production.

**DR BYRON:** I completely appreciate the issue. Do you have - well, two questions: do you have evidence of long, unnecessary delays and would people in the authority agree that they were long, unnecessary delays?

**MR COX:** Well, based on what Bill Hall has told me from APL - and I asked him the other day could he be more specific, the same question, and he said, "Well, sometimes it can be three months, sometimes it can be four or five months. But if you want us to obtain that specific information I will."

**DR BYRON:** I think the general position that we'd take on any of these things, and it's the same as we'd take on quarantines, is that the measures should be as least restrictive as possible. They should be done as efficiently and timely and all those sorts of things - it's just good public policy practice that there should never be long, extended, unwarranted delays in anything. But, you know, if you can just supply us with a bit of a follow-up on that we're quite happy to look into it.

**MR COX:** Yes.

**DR BYRON:** I don't recall it being something that has come up in too many of the other submissions.

**MR COX:** It was raised by APL. I know it's a matter that we've discussed and I know it's a concern with some people in the industry here in WA.

**DR BYRON:** Yes, thanks.

**MR COX:** I've touched on this earlier about the production of feed grains. It has been well documented the cost accounts for about 60 per cent of the total cost of production. Based on our previous submission, the average cost of production for sows producing 20 pigs per year in 2002-2003 was \$2.46 a kilo and for 2003-2004 was \$2.25 with no change being made for the inputs. We did make the comment that some producers, especially those operating these farms, mixed farming operations, don't always clearly understand their cost of production because they don't separate out the cost from the various enterprises.

But from the research that we've done within WAPPA reveals that mixed farming operations are key members of the local rural communities. Without their individual enterprise diversification they would be no longer farming. They accept the fluctuating fortunes of international markets and exchange rates, and get on with the job of improving their farming operations for the benefit of their families and

their community. It is the enterprise of these farmers that must be respected and it's supported by government policy to ensure farming remains an integral part of the rural landscape and we've touched on your two findings there.

We've also touched on the fact that lower feed grain prices have played a part in stabilising the pork industry in recent months. However, there are still not the margins or the outlook to give the industry sufficient confidence to expand. We support the pork industry's policy requirement that access to feed grain be no more than world parity pricing at all times.

Now, we've outlined comments there from the Yates and Coombes report to review options, to review feedstuff supply variability in Australia, and that report was done in 2003 and we refer you to pages 97 and 98, and also APL's policy on feed grain there and that's the pork industries position is that it requires access to feed grains at no more than world parity prices. Pork producers need supply systems in place that will deliver the inputs. They need competitive world prices and give a fair return to grain farmers.

We've also outlined there the Pastoral and Graziers Association of Western Australia submission to the Productivity Commission on national competition policy in June 2004 and their views on the single-desk marketing. I don't think there is a need, given the time, to go through all that information but I would like to touch on our recommendation that, based on this evidence and that contained in APL's second submission on feed grains, pages 48 to 55, what we strongly recommend to the commission that as part of the final deliberation it recommends to the government that the current single-desk marketing arrangements or monopoly for the marketing of export of wheat be reviewed as a matter of urgency, to determine the impact the single-desk arrangements have on feed grains with specific reference to the intensive livestock industries, particularly during the last drought.

Further to this, WAPPA recommends that the PC provide in its final draft more substantial proposals on how this matter can potentially be addressed, based on existing reviews and research.

**DR BYRON:** You're probably aware that the Grains Council has taken very strong exception to our comments about the AWB in the draft report, as you'd expect them to. Have you got any suggestions about how the Australian government could guarantee the grains sold to Australian pig farmers and other intensive livestock industries is at no more than the export parity price? How would you actually do that?

**MR COX:** Well, it's a very difficult one to answer because it's my understanding it's governed under the Wheat Marketing Act, so it's a matter of changing the act. That's the way I read it. More particularly, the issue that has confronted the industry

during the drought period was the fact that they paid over and above world parity for their product and that's the critical issue.

**DR BYRON:** Well, one of the things - - -

**MR COX:** But based on the reports provided - sorry, based on the information provided to us by PGA, based on the information provided in the Yates and Coombes report, without any actual net benefit to the actual grain growers - and that's one of the critical reasons as to why we say that single desk should be reviewed.

**DR BYRON:** You're probably aware that the Commission has been criticised for being too critical of AWB and the single desk for wheat, for quite a long time, and now wouldn't be a good time for me to start sticking up for it. But the people in the Grains Council would argue that government might want to consider that the pros and cons of all sorts of things, all sorts of reasons for having or not having this policy, one of which would be the effect on intensive livestock industries.

But governments have to make the choice about the trade-offs of - you know, if they believe that it benefits grain growers and it penalises intensive livestock industries, if they want to make that call, then they may do that. But what the commission has been trying to do is to point out that there are pretty significant costs, especially to the intensive livestock industries, from the way it has worked in the past.

**MR KEENE:** But there are two issues there too. This is where a lot of people made mistakes and it's probably AWB's fault partly. It's always AWB and single desk. They are actually two different things, and that's what a lot of people keep forgetting. They're saying that it's the single desk that's at fault. I don't believe that's the issue. The single desk should be held totally away from AWB. AWB controlled the single desk and probably made a few errors doing so, but I don't believe they should be put in the same sentence together actually.

**DR BYRON:** Also where do you see the export authority in that?

**MR KEENE:** How do you mean?

**DR BYRON:** My understanding is that any applicants for export have to go to the WEA who then ask the Australian Wheat Board International for their consent, is it, or feedback comments?

**MR KEENE:** I'm not going to comment on that at this stage.

**DR BYRON:** Okay.

**MR COX:** What was that last comment you made about - - -

**DR BYRON:** It's just that it seems - I'm not an expert in this at all - that the AWBI almost has a veto power on who else is allowed to export wheat.

**MR COX:** I understand that to be the case, yes.

**DR BYRON:** That seems to be a funny way of having a legislation.

**MR COX:** A wheat export authority mandate which exclusively protects the main licence-holder, AWB International which disregards the impact on the rest of the industry. That's part of the PGA submission.

**DR BYRON:** Can I just come back to the earlier part of the discussion on this section, and you talking about the importance of the mixed farming operations in the fabric of rural society. It would be terribly remiss if we'd given the impression that we didn't understand or appreciate that. It was certainly not my intention to have anything in this report that was critical or disparaging about mixed farming or small producers. I see that as a very sensible and rational way of diversifying and as a number of people have said this morning, including Graeme, that there are many advantages of the smaller-scale mixed producer, vis-a-vis the big corporate guys.

When you look at the number of big corporate failures in the pigmeat industry, it's not obvious that they hold all the aces at all. So we wouldn't want to give the impression of saying what we think that anybody who's got less than X sows is doomed because we don't believe that at all. Basically I think what we're saying is that it's up to the individual enterprises to work out what size and structure suits them best. It's not something that meeting or anybody in Canberra should be trying to decide.

**MR COX:** That was effectively put in there and I discussed the issue with Stuart simply because there is some concern that, you know, the smaller producer may no longer be an important part of the industry. That's not from your perspective, it's a view held by certain people, both outside the industry and some people within the industry, and there are a lot of our producers - a lot of producers that run very successful mixed farming operations. Effectively what we're saying is that their operations and their efficiency and the role they play should be maintained and respected within the system.

**DR BYRON:** I certainly don't see a future where the Australian pigmeat industry consists of four or five companies the size of QAF, and I don't know of anybody who thinks that that's what the future is going to look like. So if I did give that impression I apologise.

**MR COX:** No, that wasn't the impression you gave but we wanted to express that view. I just want to touch on the environmental guidelines/policy and we've outlined - and that's the information we've provided there and this might be a sensitive issue with a number of people, but I think APL, along with the state government departments, the industry itself developed a wonderful set of guidelines. But at the end of the day, legislating and planning requirements override industry guidelines and codes of practice, including these national guidelines. There is a concern - we have the capacity in Western Australia to grow the industry. We've got plenty of wide open spaces. One shire clerk told me only three months ago, he said if there was an application for a piggery in this particular shire it would be vetoed immediately. They may have a problem with the Trade Practices Act there, I'm not up to date with that but they may.

It's always very difficult to enshrine guidelines in legislation, but we believe that in order for the industry to confidently expand the environmental guidelines developed by the industry and various state bodies, it needs to be enshrined in legislation. Now, that doesn't matter whether that's at a state or a federal level, what we believe is that such actions will avert the Australian industry encountering the sorts of privative environmental requirements evident in the EU. There's problems there that you would have read about, particularly in Holland, and some of their pig producing companies are moving east to Slovenia, Romania - there's three countries - and Czechoslovakia. They're moving operations there because they're not encountering environmental problems which result in significant constraints on the capacity of many European countries. Pork needs to be viable, let alone expand.

Whereby we appreciate that is a very, very difficult ask, consideration should be given to it because there's an enormous amount of time and effort that's gone into putting these guidelines together. At the end of the day if they're presented to a local government body they effectively don't carry any weight. I'm aware - I only got an email on it this morning - that APL have appointed a group in Queensland to develop alongside these guidelines the management practices for the implementation of these guidelines. I did speak to them briefly this morning and I said, "What impact would that have if an application was vetoed by a local council?" and they said, "Well, there would be very little we could do about it." So if we want the industry to expand, if there was the appropriate guidelines and the appropriate legislation in place, everyone knows the course they would have to chart to develop the industry.

Labour for the industry. We touch on the same subject again. We touched on this very strongly, and Chris Brennan touched on it again this morning and it's a massive problem - Darren Edwards touched on it. He, I know, for the last couple of weeks has been trying to get some - employ people. You did seek in your report:

The Commission sought information on government or industry activities that may materially impede business decisions regarding labour,



recruitment and retention in Western Australia. It's increasingly difficult for the industry to attract reliable and skilled labour. This is partly due to the economic plight of the industry and produces an inability to compete with the current strong demand for labour from other industries offering more attractive choices and providing better conditions, particularly for young people. The industry in Western Australia has been proactive with its training programs to both employee and retained personnel within the industry -

and you saw what we outlined in our previous submission.

What we believe is that until the industry has the policy support of governments and a structural reform -

and I want to re-emphasise, we're not asking for government handouts, but investment incentives for the industry to grow and structural reform which we've agreed on that the industry's restructuring plan is attractive, and hopefully attractive to the industry -

in place, it will not be able to compete fairly and equally with its international competitors.

That might come back to the issue when you people bring out your final report and it's realised that they may not have an advantage that we think they have at the moment.

What we believe is this can be achieved if the recommendations submitted to the commission by the industry are adopted and implemented, hence creating an environment to produce, to proactively focus on improving working conditions and wages for staff. The maintenance of the government's training/new apprenticeship scheme which provides a range of incentives for producers to employ and train staff is critical to the industry's future sustainability and prosperity.

I think - and I can give you the details of those. We did a fair bit of research and you don't get a lot of answers but I'll table it for your information, the summary of the Australian government's new apprenticeship incentive schemes, and there are incentives there for people to employ people in rural and regional areas of Australia. The incentives are sort of semi-attractive but it certainly does give them a hand. We're very confident with the training programs we have in place. You met with our training officer Emalyn Londen the last time. She's put that information together and I think Emalyn, along with the people at the various TAFE colleges do a very, very good job in trying to attract people to the industry and also train those that are within the industry. There's our wish list:

We trust that the volume and quality of information the Commission has before it now -

which I think when you did your draft report you only had one submission from APL and now you have a further two submissions with another one on its way -

that it will recommend in its final report to government, policies, procedures and practice that if applied to the pork industry will help make it internationally competitive and a positive and influential part of the rural landscape and local communities of this country.

**DR BYRON:** Thank you very much. I'm afraid I've talked too much and took up some of your time but is there anything that any of you gentlemen would like to say just by way of closing? I do appreciate all the time and effort you've put into this.

**MR COX:** The only thing I'd like to say is to thank you and your staff for - I'm pretty new to the industry - their cooperation. You've been very good, and we've also - and I understand you people have too - from an association perspective received outstanding support from APL as well. I think that's qualified in the information that's been provided to you as well. Thank you.

**DR BYRON:** Thank you very much.

**MR DENT:** Neil, one thing I would say, you said earlier this morning about increasing production and carrying on about the better producers increasing production. Without having our hands continuously tied behind our back which appears to be starting to happen by government regulations, eg, one thing is GMOs coming in or not coming in. There's for and against for everything, but with our genetics and with our production on anything, be it agriculture, be it wool, be it any agricultural product, we can only actually do so much with the genetic pool, for instance, we've got in the pig industry, or the gene pool in our feed grains that help us grow, get cheaper grains we need.

There are products out there and there's companies out there that we're willing to put millions and millions of dollars into research into Australia to help us find maybe not "the" answer but better ways of growing grains for, say, feed industry. They were virtually told to pack up and leave by the Australian government or the Australian public, whoever you want to point the finger at about referendums or moratoriums on issues of GMOs. "No, there's not going to be any in WA for five years, or you can go over to Queensland and you can grow them over there but you can't bring them over here," and you know, all around. Australia had lost a huge advantage. Maybe they didn't have to bring them in straightaway but there was money there that was willing to be spent by outside companies that were told, "No,

you couldn't do it here."

That has seriously affected probably our part of agriculture but a lot of agriculture in general, purely because of a government decision. We can only keep increasing - the growth can only go so far with what we've got, and if our hands are tied as an industry against something where they can go over to America or Canada, let it rip over there and they can get things, we are seriously disadvantaged by a government decision created by votes.

**DR BYRON:** Yes, well, it's I think - look, we'd probably agree with you that there are many instances where the government is responding to popular pressure and the urban newspapers don't fully think through what the consequences will be to primary producers out there, and this - - -

**MR KEENE:** Not only primary producers in this case.

**DR BYRON:** No.

**MR KEENE:** Australia, because Australians or the population is going to miss out, unfortunately.

**DR BYRON:** Thanks for reminding us of that bit too.

**MR KEENE:** Thank you.

**DR BYRON:** Thank you very much, Thomas O'Reilly. Sorry to keep you waiting.

**MR O'REILLY:** No, that's all right.

**DR BYRON:** We need to get as much out of these chaps as we can.

**MR O'REILLY:** My name is Thomas O'Reilly, I'm a farmer from Narrogin, and I've also got a piggery of 400 sows and export them into Japan for four years. At this stage of the game I feel a bit like the guy that wanted to get rid of his cat, and for two nights he rattled round the countryside and went further each night, and each night the cat came home. On the third night he's out (indistinct) all over the countryside and after a long time he rang the wife and he says, "Is the cat home?" "Yes, he is." "Well, put him on the phone," he says, "because I'm bushed."

That's the way I feel at the present moment. But anyway, I thought I'd leave you with a few points today, and most of the (indistinct) has been covered. The little thing in the report that I do want to say is that, don't worry about making the product dear for the housewife because it will never happen. As I said to somebody today, that the lamb industry was a clear example of this. When lamb went from \$1 to \$3-4 and nobody complained and the housewife was still buying lamb and the exports are still going well, so therefore there is no need to worry about the price of the product going up because it won't go up that far.

There's been a lot of talk today too about the various subsidies and various things that they're getting, and I did take a few notes on the various things that they get in Denmark and Canada, and they've got all sorts of programs: livestock risk protection and all those things. The pig levies are paid by us in Australia; in Canada and Denmark the government pays for all of the levies.

I'd like to move on to this export side of it now. I was in Japan for four years and I must tell you that when I first started off I got very little help - no help at all - except a few little government grants. But what I was very disappointed in was with Austrade. From the time I went to my first fair to the time I sent in the first container, which was six months, it was impossible to find out how much tariff I was going to be paying in Japan when I put product in there.

It so happened that I did not know until the first container went in, and I sent two and a half tonnes of meat - cut-up meat like they want for Japan - and I saw the fax coming through a couple of days later and all those hundreds of thousands of yen was appearing on this and I thought, I've got to pay for this. At that time one yen was equal to a cent, so it was 100 yen to the dollar, and it was worked out at 360,000 yen, which was \$3600 tariff on 2600 kilos of meat. On the fax they also stated, "Go to your bank, get this in writing, pay the money, and when you get a receipt from the bank send back the receipt to us and they will release your meat."

So they were very efficient.

But in the four and a half years I was there I was dealing with a small processor who enjoyed our hams. He was a ham maker, and on the second fair that we went to we were allowed to sell the meat at the fair. What I mean by that is I had hundreds of kilos of loins with me, he had all the hams from the container I had sent him, and I was getting \$25 a kilo selling it to the public at the fair, and he was getting \$35 for the hams and he was getting \$30 for the bacon. The bacon that we sold at that fair was the bacon from selling pork and it was all belly bacon. There is no bacon in Japan except belly bacon. All the loins are so valuable they are sold in a separate thing themselves.

But when we finished up at that fair I said to my buyer, "Well, I'm going to make a lot of money." "No, no," he says, "that's not the price. That's not what you're going to be getting." But that was the kind of money, and we were told by Austrade if we overcharge for the meat they'd close us down, and we were charging \$10 a kilo less than what it was making in the shop. That's the type of money that was in Japan - not for me. For anybody coming in with us. But that was for the Japanese people themselves.

Now, what I would like to suggest to this organisation is this. There is an opportunity in Japan whereby you can go to the big supermarkets and you can rent a part of a store, a part of a shop or a part of a bench like this and you can also rent some of the coolrooms, and you can set your own setup there and you can sell against them, provided you're not selling less than what they're selling it for. They will charge you for this - they will charge you - but as long as they're making money out of what they're doing they don't care less. I was told about that. I looked into it. I was told I was too small and I had no money - I had no money to do it myself.

I believe that after listening to all this today - and I don't want to take too long, but I believe that we should form a co-op in Australia. What I mean by that is it took 90 days before I was paid for my first meat, and that's the way they operate amongst themselves in Japan - they're all on 90 days. I says, "No way." I says, "I'm not dealing like this." So he says, "I come back to 60." "No," I says, "I want 30 days." But I was still 60 days behind because they were still two containers behind all the time in paying me. But I wasn't worried about that - I knew he was okay.

But if we were to form a co-op and each grower was prepared to accept the 60 days, and we'll send 10 or even 5 per cent of the pigs each year. If they would accept to take that there would be no pressure on the processor because he wouldn't have to find the money for the pigs. His job would be to kill them and get them out, and everybody would be paid when they were sold back through the store. Now, that's a big ask, and you might find it fairyland, but it could be done if we were to get organised. That's when we could go to government then and say, "Well, you've got

to pay for the cost of running that store for two years until we get off the ground."

I believe that we are going about it the wrong way and, going into Japan, we are never going to compete with Canada and we are never going to compete with Denmark on account of the subsidies and all this. But I'll tell you what, if we started to develop niche markets like this we will be far better off down the track. There was talk there a while ago about the price of grain and whatever. Many years ago our grain was sold in Japan for \$130 a tonne, and the grain pool was charging me \$165 at the local bid. When I challenged them about it they said, "Well, that's the way it is." I says, "I'll take my pigs to Japan and I'll feed them Australian barley at \$130 a tonne." They deduct \$10 off the price of the tonne.

But as an industry I feel that reading through all this here, that we're going to miss out in Singapore. I think that we'll go backwards because the hazy days are over. Japan is definitely a tough country and if we were to turn around and form a co-op and do our own selling we wouldn't have this problem of bits and pieces of the product left back in Australia and not sold. They sell 2 million tonnes of pork in their own country. You're not going to tell me that throwing away the shoulders or anything else - they're using it all right, and that is where we might have an opportunity to get in there and do something of this nature.

If you were to let 5 or 6 per cent of your product go on those conditions you wouldn't miss it - I didn't miss my lot for 60 days or 90 days - and you'll be building a foundation into the future. Keep moving around and keep those niche markets going. I think that is the only way you can do it. The big companies - I was too small for the big companies and yet they wanted the product because (indistinct). But then I was too small for them then.

But looking back on it all now, if I had got anything - if I had got a fraction of the grants that is put into this at the start I had a - I was already there at no cost to anybody, and I proved in four years that they still wanted the product, and the day we were put out of Japan there was 40 per cent tariff put on that Friday afternoon, and if we put in the container the next Monday morning we were up for 40 per cent, and the guy says, "I can't do it." We got kicked out for six months at the time because there was an overflow of pigs and they gradually brought it back in again and I play around there from time to time.

On this question of oversupply coming in from each country, the WTO is meeting at the present moment or about to meet. We've got to get a submission in there immediately, and not ask for stopping exports or anything else but to turn around and ask for a break in supply from time to time from the country that's giving it to us, so that they don't oversupply us like they did two years ago, and that there would be some orderly market here at home in Australia.

That's not a big ask for any country or any government or anything else, because I feel that if the government in Australia doesn't wake up soon there will be a revolt in this country from farmers and there will be a new government formed, and the city will back it simply because when they find out - like when they found out about the lamb going to America - that we are being penalised all the time - the average person outside that door, they have got no idea what we're going through. No idea. That's not the way for us to do business. If it means that we've got to let people know, we've got to let people know, and there's no use standing back any longer.

**DR BYRON:** Was there anything you wanted to follow up?

**MR EDWARDS:** Well, yes, I'd like to ask just how would you see this co-operative working? What would you see as the process for setting it up?

**MR O'REILLY:** Well, it would be getting the organisation together and ask how many growers would be interested in being part of it. They'd know the conditions, they'd know what they'd have to leave behind, and they might all walk away - but we've got to ask.

**MR EDWARDS:** How much money would be involved in - - -

**MR O'REILLY:** There wouldn't be - - -

**MR EDWARDS:** - - - in setting up the sort of thing you're expecting.

**MR O'REILLY:** There wouldn't be a great deal of money involved. The only money that I can see that would be involved is the rent on the premises in Japan and the staffing of it. If the government came in on that line for two years, that's when they really got off their feet that would be a good opportunity to get going in Japan. I bet you the Danes are doing it now.

**MR EDWARDS:** So are you thinking of the cooperative involving just West Australians?

**MR O'REILLY:** Well, you could put four in the co-op for each state if you wanted to.

**MR EDWARDS:** Yes.

**MR O'REILLY:** The first thing that would have to be done is the research of all the major stores in Japan and see if it is possible.

**MR EDWARDS:** When you talk about the government assisting you, you're

thinking of the Australian government, the federal government assisting the establishment of a cooperative in one state, Western Australia?

**MR O'REILLY:** If you start off with one in one state and see how you go.

**MR EDWARDS:** You could see there might be a little interstate jealousy there.

**MR O'REILLY:** The poultry bosses insist (indistinct) otherwise it will wait, because it won't be a situation where you can get them all up together. It will depend on how you go with the stores. It depends on how you go with the stores. Many of the stores were very keen when I was there.

**MR EDWARDS:** Would you anticipate there would be some producers in Western Australia who would sooner stay out of a cooperative and do the exporting on their own?

**MR O'REILLY:** No, I don't think they'd have (indistinct) to do. I don't believe they would. When I went in 1992 and there was a thousand stands from all over the world, I was the only one from Western Australia.

**MR EDWARDS:** But there are some West Australians exporting to Japan now, are there not?

**MR O'REILLY:** There are now, but there was nobody then.

**MR EDWARDS:** Do you think those people would be interested in combining with other West Australian growers to market - - -

**MR O'REILLY:** No, their exports are in different and other products, they'll not be exporting pork. They're following me in various other things. In four years there was 40 companies. See, the Japanese like me because they said, "You're a grower. You're a farmer and you come here to say hello to us." They're (indistinct) people. They thought it was fantastic and I says to them, "Don't you like the big companies?" and they said, "We don't because they send their best men out of Australia." 12 months later after we set up all the business - you see, loyalty is a big thing - "Oh, that guy doesn't work with us any more," and they hate that and that was the biggest killer for the name in Australia. They love the Australian people, "but boy you move around a lot" and that's the biggest thing that was against us.

The girls that I saw operating in Japan with the language were our own girls from Australia and they were brilliant. They were absolutely brilliant, especially the ones that had gone to Japan and gone through university and got the language. Those girls are invaluable. You'd never pay for it. For me to have an interpreter at that fair costs me \$500 for the week; \$500 for the week for that interpreter because



that's the kind of wages you could get.

**MR EDWARDS:** That's Australian dollars or US?

**MR O'REILLY:** No, sorry, 500 Australian dollars a day, not a week.

**DR BYRON:** It's interesting to hear you say that you think that there is a real future there in the niche markets. I don't know if you were in this morning, I was wondering if people would agree with the general proposition that countries like Brazil can probably produce very large volumes of very cheap stuff.

**MR O'REILLY:** That's right.

**DR BYRON:** Maybe we should forget about the bottom end of the market and try and do the premium end where people like the Japanese will pay premium prices for a premium quality product. They appreciate the way it's grown and the fact that it's very low pharmaceutical usage and clean and green et cetera. So you're on that wavelength.

**MR O'REILLY:** Yes, absolutely. Getting back to the Australian girls, I saw Japanese girls on those stands and I tell you what, the blokes wouldn't even talk to them at \$500 a day. But if you had an Australian girl, boy, you were in. That is true. It was a big thing. I wouldn't have a bloke as an interpreter, waste of time. But I don't know how they could do it now, it's been a few years since I've been there. I got out in 1996. But I see there ¥600 and what is it a kilo they're getting for loins at the top of the market. I got ¥956. I got 950 yen in 1992 and when I was in there I had for three of the four years I was on 61 yen to the dollar and that would be the equivalent of about 45, 46 cents. I sold in Japanese yen and because of that I had this (indistinct) all the time and that helped me a lot.

But it's not that hard, it can be done and it's got to be done from the government, that is for sure. This is where Austrade could come into it a little bit more because they've got thousands of staff up their in Australia House in Tokyo. You ought to see the staff, four floors of them most of them Japanese.

**MR EDWARDS:** All looking for something to do.

**MR O'REILLY:** They're clapping away there (indistinct) looking for something to do.

**DR BYRON:** Something to sell.

**MR O'REILLY:** But I'd say for service it's just another string to your bow, it's worth looking at. I do believe that we have a submission right now to the (indistinct)

and ask for a break on the supply from town to town. Don't ask them for anything else at the moment, but it's just to let them know that we've gone through hell and that if there was a break like that, like they have in Japan, there's no tariff for anything else, they just keep the stuff at home for a month or two months or three months and give the whole market a break, because if we don't this is going to get worse. This will get a lot worse.

I mean, they're talking here of the average farmers his income will be zero in 2017 and there's two more scientists on there to say that it will be five years before that. As I said before, you all saw what the West Australian said the other day about the weight and the subsidies and the EEC, well, that's all coming too.

**DR BYRON:** Mr O'Reilly, I think we're going to have to keep moving, we're on a timetable. Thank you very much for coming today and for sharing that experience with us, your insights. You're one of the few people who have actually been there and done that.

**MR O'REILLY:** I sure was.

**DR BYRON:** Thank you.

**MR O'REILLY:** Thank you.

**DR BYRON:** Next is Pastoralists and Graziers Association; it's Emma Field. Thanks very much for coming. Just settle down anywhere you're comfortable there and if you can just introduce yourself and affiliation for the transcript.

**MS FIELD:** Sure. My name is Emma Field. I'm the policy director for grains and economics at the Pastoralists and Graziers Association. Do you have the note that I faxed through this morning?

**DR BYRON:** Yes, we got that this morning. Thank you very much for that.

**MS FIELD:** I apologise that it's very brief, but you can imagine with the state election on it's quite busy.

**DR BYRON:** Yes.

**MS FIELD:** We're not involved in the pork industry as you know - do you want me to just speak and give you a summary of why I'm here?

**DR BYRON:** Yes.

**MS FIELD:** Obviously the reason I'm here is I did have a brief look at the draft report that came out, especially in relation to the wheat marketing arrangements that are in place at the moment at a federal level and how that impacts on the pork industry and all domestic feed users. In summary, the PGA have various members from across the state from pastoralists up in the Kimberley, through the - we have a lot of broadacre farmers out in the wheat belt and right through down into some of the water users down south. So, like I said, where we come in is we've long advocated for the removal of statutory marketing organisations such as the one that AWB Ltd holds because it's simply not good for growers and it's not good for end users like the pig industry and even our customers overseas, we don't believe it's the best system for them either.

That is why I'm here today, and we felt it important that as growers we stood up and said that we're not happy with the system either and we believe there are a lot of domestic feed users that aren't happy like the pig industry, the dairy industry, the chicken meat industry, all that sort of thing. So that's why I'm here today and that's why I'm representing my growers at this inquiry.

We didn't do a submission to this inquiry, we have done many over numerous years into this are, most recently was the Productivity Commission's national competition policy and there is some stuff in here that I might just read today because it's relevant from our submission. We also in 2000 were part of a group called the Joint Industry Submission Group, that was made up of various players like ourselves and that was the submission to the 2000 review of the wheat marketing

arrangements and I'm sorry, I don't have it with me but I would like to tender that because there is a chapter on domestic feed users and how it relates to this legislation. Even though the legislation changed somewhat, the principles are all still there. It's still a single desk system which doesn't help the domestic feed industry.

**DR BYRON:** That would be really helpful if you could send that through, email a copy or something.

**MS FIELD:** Absolutely. I'm not sure if I have an email - I'll see what I can find. You can have the whole thing, but it's quite a lengthy document so I'm sure that chapter 6 will be adequate. If I just go through the main points that I have here. One of the reasons that we don't believe it's the best system for the pig industry domestic feed users, is that in times of shortage like droughts or the end of the season or mid-season where there isn't much grain around there have been examples where the industry hasn't had export parity prices, they haven't had access to those because of the nature of AWB Ltd. They virtually crop control the domestic supply in Australia and they have the opportunity to do various stock swaps up country receival points and can create shortages in different regions.

There was an example in the 2002-2003 drought and the dairy industry were vocal about during the NCP inquiry where there was extraordinary prices being paid by domestic feed users and that was simply because the AWB were withholding supply and sending their supplies overseas. If I can read from something that we said in our National Competition Policy submission - this is taken from an article that was in one of the rural press, the Stock and Land:

Dairy adviser, John O'Connor, said, "The AWB had set its domestic feed grain prices during the 2002-2003 drought at levels well above export parity and for a significant period quite above import parity." He said, "Those prices could not have been sustained without AWB's monopoly export power and had only moderated after feed grain users moved to import their own grain. As well as charging excessive prices during the drought as it is believed, the AWB has restricted the volumes available to feed grain users and failed to provide customers with information about quantities of wheat in store."

We receive information about this all this time because of our stance against the single desk, the way it sits at the moment. I do have something else to read to you which my chairman, Leon Bradley, who is a grower from Bolgart in Western Australia. He said this to Gary Banks and Mr Weickhardt during the submission.

In times of shortage, the shortage is exacerbated by the marketing strategies at both the grain pool who of course have a single desk over here for prescribed grains, and the AWB. We have anecdotal evidence that a buyer buying on behalf of dairy

farmers actually offered AWB \$340 a ton delivered port in December 2002, and he couldn't acquire that grain. He wasn't asking enough. Six months later, the AWB were knocking on his door trying to sell the same wheat for \$230 delivered port. The wheat which is offered that he couldn't buy at \$340 was exported - was actually exported for about 230, \$235 delivered port. So that's what the grain growers who tip their wheat into the pool, they would have received 230 to about 235 from their export pools. So that's just some examples of how the current system impacts upon the domestic feed users in, in that case was the dairy industry.

There is a lack of risk management services and products for domestic feed users who may take on surplus stocks in order to - if they're a big - I don't know much about the pork industry, but if they're a big pork user, a big dairy, they'll try and get in as much feed as they can to make sure they're not caught short, but if they overestimate these stocks, they can try and make a bit of money by trading it out again, but unfortunately with a single desk situation, the only real alternative is the Wheat Board to tip it back into their pool.

So domestic feed users can't afford to be what we call "long" in the market; that is, have more than they need, because there's no competition to buy their excess stock. That means they're forced to buy hand-to-mouth type situation, and then they're at the mercy of the AWB if there's a shortage in the marketplace, which there was in the drought, and if I can just point out, here in Western Australia with the grain pool, they have a traders' pool which traders can tip their grain into if they have excess or they're just simply an up-country trader and they're just everyday using the grain to trade. It's actually a \$10 discount for those traders. So that's well below market price and it's a real disadvantage for them to have to have them as the only alternative.

Another point worth making is that under the current system, AWB have no obligation to domestic feed users, despite the feed users being a major customer of our growers. I believe we export about 80 per cent of our crop in a good year, and 20 per cent goes into the domestic market which includes the feed industry. AWB's main concern is the export pool. They have long-term supply contracts because they have such a huge supply, they get given all the what that is grown in Australia because of their single desks. So they do have a lot of grain to get rid of. So the export markets will always come first, and the domestic customers will always come a poor second, and like I mentioned in times of shortages, they won't be given the first priority. It will be through their long-term contracts which they hold overseas.

We believe if there were competition in the market, there may well be people that only deal in domestic grain or, you know, maybe even have a fifty-fifty, half domestic, half export. I mean, there's all these options there which we can't get into unless the marketing arrangements are changed. This stuff is - - -

**MR EDWARDS:** Could I just interject there, Emma?

**MS FIELD:** Sure.

**MR EDWARDS:** If AWB has long-term contracts with overseas customers, is it unreasonable as you see it that it fulfils those contracts?

**MS FIELD:** It's not unreasonable because that's what they need to do with the situation that they're in, because they are always going to be long in stocks, because they acquire virtually all the grain that is growing in Australia. So traders, international buyers know that they're always going to have grain on hand, so they're not going to have much of a bargaining position, you know. So that's why they enter into these long-term contracts because people would like the security of knowing they can get the grain rather than, you know, what other bargaining chips they use. But my point is, there's no other option for growers. They don't have an option to sell to a trader who might exclusively deal with the domestic feed grain.

There's a few options out there, but because of the situation with domestic - sorry, with the export market, which is controlled by the AWB, they essentially control the price as well because it's just a numbers game. They have more than 80 per cent of the total crop that's grown. So it's not strange that they have long-term contracts, but if there were competition in the market, they would change the way they did business, there would be other people offering different products for different customers, for growers, for domestic feed users. There's just no alternatives at the moment.

**MR EDWARDS:** Would the livestock feeders often be interested in off-grades of wheat that are not suitable for human consumption and which therefore the Wheat Board wouldn't be very interested in either?

**MS FIELD:** Well, we always believe that there's always a market, no matter where it is, for any grade of grain. There's usually a market at a price. So the Wheat Board would - they'd take it regardless, but the point I guess you're trying to make is domestic feed users can buy off the Wheat Board. There's no doubt about that, but there's an example given in the last submission about where the gentleman was buying the price from - buying off the grain pool at a lot higher price than what he knew they were selling it into Japan.

The only person winning out of that deal is the grain pool or the Wheat Board or the statutory marketing organisation. The growers are not winning because they're not getting any extra money. They're only getting what the guys are getting paid in Japan, and the feed users aren't winning either because they're paying well over market price. Do you understand?

**MR EDWARDS:** Yes. But the pig producers are not just in the wheat market, are they? They're in the barley market and possibly some other grains also. Do you have an observation on the situation there for those non-wheat components of the feed - - -

**MS FIELD:** In WA we're under the same situation as the national situation. We have a statutory marketing organisation that controls the export of barley, canola and lupins. We have a GLA system over here. So it's partially been deregulated, but that's not releasing very much outside the single desk at this stage. So it is the same situation. There's been situations this season with lupins where people like domestic feed users are trying to buy off the grain pool, and they know that they are paying a lot more than what the farmers are receiving. So there has just been some skimming in there that no-one is benefiting out of this except for the body in the middle.

**DR BYRON:** I was just wondering if there were other sort of potential intermediaries there. I mean, the big companies like, you know, Ridley AgriProducts who supplies stock feed all over Australia - in fact I think they're in North America, too.

**MS FIELD:** Yes.

**DR BYRON:** Now, if they're handling hundreds of thousands of tonnes of grains a year, are they in the position to buy low and sell when the price is right or to store and - their whole business I guess is getting grains at the right price and mixing them and putting in supplements and selling them to intensive feed livestock into the industry. I mean, aren't they are another element that sort of detracts from the monopoly aspect of AWB?

**MS FIELD:** Sure. I mean, the domestic market was freed up in 1989, and there's some statistics around - and I don't have them at my fingertips, but in that year that the wheat domestic market was freed up in 1989, there was a 400 per cent increase in domestic feed uses buying grain or something like that. I mean, it was an incredible increase in the use of that particular feed grain. But, yes, they do offer an alternative, but with all value-added people, like I said, if they have excess stocks over - and they will from time to time - there's no viable alternative for them except to tip it back into the AWB.

Sometimes, like I mentioned, the grain pool in Western Australia, they're at a \$10 discount to the going rate because it's a traders' pool. This is the issue that value-adding companies - and often value-adding companies like Milne over here and different, you know, molten companies, that sort of thing, they actually make money out of their grain trading, but they can't do it as well under a single desk system, because there's not as many viable alternatives.

For example if the company that you talked about had excess stocks left over, they had a company in Japan, in Pakistan or wherever in the Middle East that wanted to take that excess stock because they had it at the right place at the right time, they could put it in a ship and put it over there, but under the situation now, they'd have to apply for a licence from the wheat export authority, and that can take up to three or four months to get processed, and there's not many of those licences that are granted, because the AWB has a veto over bulk shipments, and not many bagged and containerised licences are actually granted. So they're at a real disadvantage to an open market system. They don't have that option of sending it overseas. Does that answer your question?

**DR BYRON:** Yes, exactly.

**MS FIELD:** The final point that I just did want to make was the current - sorry, the wheat marketing arrangements as they sit at the moment are not in line with NCP principles at all, and industries like the dairy industry for example have felt the full force of NCP, and I don't disagree with NCP. I think it's been highly beneficial for our economy, but they're faced with reforming their industry, yet they're forced to buy off an industry who will not be deregulated because the federal government simply refuses to do so at this stage. So we don't think it's fair that there's been an ad hoc approach to this NCP policy where some industries have been deregulated and some have not.

I might add that this is the recommendations that came out of the 2000 review done by Malcolm Irving and others, and it found that there was no net benefit to having the single desk arrangements within Australia across the community, yet we still have them in place, and we don't think that's good at all. Is that it?

**DR BYRON:** Thank you very much. As I mentioned before, when our draft report on the pigmeat industry came out, the Australian Grains Council took pretty strong exception to the comments that we'd made about the impacts of single desk wheat marketing on all the intensive livestock industries including pigmeat.

**MS FIELD:** Yes, they have long been advocates of the single desk, and I dare say they will take it to their - they will always hang their hat on it, and certainly the PGA have had a policy for many years, and it's one that's increasingly becoming popular, because people are starting to realise that there are some real anomalies going on within the system. It's not helping growers and it's not helping customers.

**DR BYRON:** We have tried to document the number of times when the domestic prices were higher than the export price for wheat, and I guess the Grains Council would say that that was the difference between long-term contractual prices and short-term spot prices and so on. So there's an element of that, but - - -



**MS FIELD:** There's no liquid market because of the contracts that they've got to send it overseas. There's no real liquid market for the domestic feed users. Basically our hands are tied by the AWB and their movements in whatever they're doing.

**DR BYRON:** We've also got the article from yesterday's newspaper about PGA and push to drive WA farmers out of AWB.

**MS FIELD:** Well, we're not so keen about the headline, but the rest of the article we think is a pretty fair representation of what we're trying to do.

**DR BYRON:** That's all very helpful.

**MS FIELD:** I will tender that now because I do have a copy of that.

**DR BYRON:** Thanks very much for coming.

**MS FIELD:** Thanks.

**DR BYRON:** As I said this morning, with these public hearings, whenever and wherever they are, we always open it up at the end to anybody in the audience who wants to put something on the record or even if somebody who has already given evidence who wants to come back - they just remembered something they forgot to say.

**MR COX:** Mr Chairman, just - - -

**DR BYRON:** Why don't you come up and take a microphone, Russell.

**MR COX:** Sorry. The recommendations actually of the National Policy Competition Review, the Irving recommendations, I just want to touch on the fact that I meant to mention that when you asked me the question about what the answer is. I think if those recommendations were looked at as part of your final deliberations as well, and we tabled them there this morning. So that's all I wanted to say. Thanks very much.

**DR BYRON:** Thanks for clarifying that. If there's nobody else, I can formally adjourn the proceedings, and the commission will resume on Monday, 31 January in Brisbane. Thank you all very much for coming, ladies and gentlemen.

AT 3.45 PM THE INQUIRY WAS ADJOURNED UNTIL  
MONDAY, 31 JANUARY 2005

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