24-11-07.
Dugald Walker.
Chair NSW Farmers Pork Committee.
Pig Producer in process attempting to divest farming assets to next generation.

Pig Industry Submission & supportive presentation.
The WTO.
The WTO inception was for discussion between Economists with intent to promote the growth of wealth & well being between Countries through less restrictive trade practice.

The Legal agreements that backed up these arguments were drawn up as they necessarily should be.

The downfall of the intended Free Trade has been the change from Economists arguing for a better outcome to Lawyers representing Countries intent on subverting the worthwhile intent.

WTO compliance presents something of a conundrum – the legality has been cobbled together to satisfy political acceptance by countries that largely wanted to gain personally from the outcomes.
An example might be Japan supposedly still a "developing" country in 1990 managed special dispensation to callow continuation of subsidy, tariff & quota to some industries – most especially agricultural.

The richest countries & those best represented in general obtained concession at the expense of others.
Examples might be quotas against Australian beef into Canada, USA & Japan. Also the restricted access to EU for most agricultural commodity.
In 2007 the "developing" China has quotas on Australian product including wool.

Aside from the "Political" shortcomings of WTO agreements the bias continues with large wealthy countries/economies sheltering their industry by means illegal or legally behind unjustifiable & illogical WTO negotiated law.

Never the less – the wholly justifiable intent of the WTO agreements was to provide provision for countries to obtain relief from unforeseen, short term or "Force Majeure" incidents.

Australia 2007/8.
Incidents have occurred in Australia intermittently in the period 1997 through to 2008 that should qualify for "Safeguard Action" or Govt assistance to the pig industry.

The first a result of a heavily subsidized reconstruction & an attempt to ensure critical mass of human population & industry of the Canadian Western provinces.
The resultant importation of Canadian pig meat into Australia was found by Commissioner Snape to be a case of dumping.
Coupled with a period of significantly reduced rainfall & cereal crop 1996/8 the Aust pig industry suffered serious setback.
The Australian Govt after a bitterly fought argument decided against action supportive of the Aust pig industry but did make funds in part taken up by processors available.

2003 culminated in a second crises resulting in another Enquiry. The causes - the onset of drought with high grain prices at the same time as a fallout of the North American pig industry lowered the International price of "Free Market" pork (as distinct from that of pork in restricted markets such as EU).

The Report advised Commissioner Byron of the damage done to the Australian Pig Industry & the hardship caused by imports & unusual drought. The report indicates that Commissioner Byron ruled against the overwhelming advice of his staff. His decision accepted the benefit to Australian Consumers was of greater importance than the harm done to producers by subsidized imports & market distortion.

Though drought continued from 2002 until present intermittent relief was provided by slightly improved grain supply against slightly improved international pork prices placing marginally less pressure on the domestic Aust market .

Australia had 40,000 pig producers in the 1960's.
Intense competition has reduced the number to perhaps less than 1,500.
Whilst producers have exited the industry the limited number remaining have expanded to maintain or increase total production until the recent downturn.

Provisional Safeguards.
Grain Supply.
Australian cereal production is largely wheat. Climatic condition precludes Corn. Sorghum, Barley & others are grown but in limited quantity only.
Likewise protein grains are limited by climate, soil types , etc to relatively insignificant quantity.

The wheat crops from 2002/3 to 2007/8 have been significantly below norm & as consequence carry over supply has been below normal (both internationally & domestically).
The Eastern Seaboard crop of 2006/7 largely failed & the expectation for 2007/8 is for even greater reduction in yield & stocks available.
Supplies of Summer crop - Sorghum etc have also been below normal.

International industrial & stock feed grain prices increased by about 50% through 2006 & 2007 years. Corn prices rose with US mandates on ethanol the major cause.
International milling wheat prices rose from about $Au160 Chicago to $Au480. Australian consumers with little recourse to Feed Grains & additional supply shortage of quality Wheat were "hung out to dry".
In September/October Australian & International milling wheat markets were almost certainly distorted by those holding futures contracts having to "wash out" their contracts.

American pig producers have inherent advantage with access to "Chicago" priced stock feed grain supply. Some N.American producers will have additional advantage as "Chicago" price may be reduced by freight & handling charges to make FOB.

Quarantine restriction & freight cost makes grain imported into Australia so expensive it is essentially precluded from use.
The price of milling wheat in W.Australia & freight costs will make importation economically not viable.
In mid November 2007 information on current harvest yields does not allow sufficient accuracy to predict grain availability.

Imports.
Imported pig meat is almost all "middles" from Denmark & denuded leg meat from N.America.

Prior to 1997 imports were insignificant. From 1997 through to 2002 imports were about 30,000 T. PA.
The failed harvest of 2002/3 coupled with increased imports at about 50,000 T. PA created further crises.
By the end of 2006 imports were in excess of 12,000 T. monthly & with grain prices difficult at harvest & rising to near $500 T. a cost price squeeze & an immovable market price resulted in loss of average $50/pig.

A producer or "the owner" of "the cut" will suffer reduced price from his customer who may not own imported substitute but will state "I can buy imported cheaper – that determines the price I pay you".

Cost of Production is not the key driver of other countries exports.
The low COP countries are Brazil, West provinces Canada & the US mid West.
The "mediums" Australia, parts of the US & Eastern Canada.
The high cost - All of the EU.

Denmarks COP is significantly higher than Australias but still with subsidy able to deliver to Australia. The N.Americans have higher Govt subsidies directed to their pig industries as recorded by their PSE's as well as advantage from highly subsidized grain production. (Commissioner Byron accepted these in 2003 Enquiry).

While frozen pork imports may seem to not be in direct competition with domestic fresh meat imported meat is used to suppress the value of domestic middles & legs. The decrease in value of part of the pig reduces the overall price of the pig.
If legs & middles were not discounted the improved price for those parts of the pig would make exports of pig meat much more competitive.

Conclusion.
The strong 19% annual increase in total consumption of processed & fresh pig meats from 408,000 T. in 2002-3 to 486,000 T. in 2006-7 demonstrates the strength of demand for pork. It also demonstrates the pig industries enormous achievement & the need or demand for an efficient & continuing Australian pig industry.

Grain cost coupled with increased supply of imported pig meat is the crux of the short term disaster of the Australian pig industry.

Cyclical Recovery Prevented. In a cyclical market situation producers suffer but then have the opportunity of recovery on the upswing – this applies to beef, sheep & chicken meat but not to pork as imported product may be substituted.

With loss of an average $50/pig the damage to the industry is profound with an initial reduction in production through sales of "breeders" etc estimated at 30,000/40,000 sows or about 10% of production to date.

It is of paramount importance there is a no delay to a positive decision of short term support by meaningful Tariff or Quota to allow the pig industry to operate for a limited period without the excessive downsizing that would destroy the industries critical mass, the beneficial supply chain to consumers & the structure of country towns dependent on pig production & processing.

The Commissioners judgment should find the long term benefits to consumers & the economy will be greater from a healthy stable ongoing industry than from the short term gain of cheap subsidized imports, the loss of the domestic pig industry & reliance on the whim of other countries for Australian supply.

"There is no reason for the earnings of the importers, processors, wholesalers & retailers to be in any way affected by curtailment of imports.
They should not make any less "mark up" or suffer any loss.
Their margins should remain unchanged whether they use either imported or domestic product.

2nd Stage – Industry restructure.

Protective Measure.
Commissioner Snape's 1997 recommended industry restructure. The Government chosen measures were confined to upgrading processing works.
Restructure measures were not offered to farmers.
Some of the money was well spent with increased efficiency beyond farm gate.
Much of the allocation went to organizations that did not have beneficial flow on to the industry.
KR Darling Downs was the largest beneficiary had organizational & financial problems, was ultimately sold & has continued to act detrimentally to the industry.

The prolonged drought, high grain prices & ever increasing imports have combined to reduce producers income to a level that has prevented investment in the industry.
Such investment would have allowed introduction of technology, renovation of buildings & the general progress necessary to maintain a competitive industry.

The Pork CRC has been instrumental in research & the application of technology that would enable producers to invest in this better knowledge & technology if the industry was thought to have some future & the where withal to pay for it.

Trade – Fair, Free or Neither.
Subsidy to Danish, Canadian & US pig producers plays a big part in their competitive edge into our market.
Additionally the subsidies to N.American grain farmers allow them to stay in business at lower commodity prices which are passed onto consumers such as intensive animal production.

Free Trade may be the opening of markets to international competition.

It was never the intent of Economists that Free Trade would result countries dumping product in another market nor that market entry would be enabled by rich countries subsidizing their less efficient industries to enable them to destroy other countries industries.

The "Free" Trade forced on Australain pig farmers would not be accepted by economists as Fair Trade.
It would be fail as the competition faced is from subsidized imports.

Professor Murray Kemp.
Prof Kemp states when the gains from trade are distributed equitably, then nations will benefit. Exceptions to this proposition are only found when a country's markets are already distorted. Economists continue to argue about and qualify politicians' gains-from-trade assumptions. The world is made up of distorted economies (to varying degrees) and it is important to remember in any gains-from-trade debate that the opening of trade for an economy that is already distorted risks increasing productive inefficiency.

If free trade could be imposed simultaneously on every country in an initially competitive but tariff-ridden world, the world would become more efficient. However, it is not certain that each country could compensate those of its households that would be harmed by the movement to free trade.
For example, those countries that are initially mighty exploiters of their trading partners might well suffer from the abandonment of their tariffs and might, therefore, refuse to engage in tariff negotiations. In fact, the objective of universal free trade is never mentioned in the GATT – and wisely so because free trade would not necessarily make every country better off.

Professor Kemp has been a visiting scholar at the Aust Graduate School of Management for three years. He has held positions overseas at Johns Hopkins University, McGill University and Massachusetts Institute of Technology, as well as becoming the first research professor at the University of New South Wales.

Our attempts at opening up our own economy to Free Trade helped increase our national debt from about $70 billion to about $500 billion.
We now import about $7 billion worth of agricultural produce annually.
Surely this is taking Free Trade to a position of damaging our economic interest.

Walker Family Production.

Windridge is family owned farming business located Young raising pigs, sheep, cattle & crop on 4 properties.
It is currently in the throes of generational ownership change.
Windridge has close to 4,500 sows, sells about 90,000 pigs annually & employs about 80 staff + contractors to look after its pigs & extensive farming pursuits.
Windridge sell all their pigs to B.E.Campbell who have 250 to 300 employees.
The pigs are killed at Young through Burrangong Meats Abattoir again about 300 employees in an acbattoir that relies on pigs as its mainstay of slaughter stock.

Windridge have some advantage over pork producers in general with use of by-products that otherwise would discharged to landfill or the sewer system.
The replacement cost of Windridge infrastructure might be $30 to $40 M.
Rate of return in a high risk business should be at a reasonable rate.

Windridge has commenced expansion coupled with upgrades.
A new feedmill to allow expansion & efficency savings of about 3c/Kg. COP. Inadequate profit forced funding from borrowings instead of internal cash surplus.

The Dead Horse Gully developement commenced in 2001 in conjunction with an upgrade of the adjoining Golden Grove Unit to breeder only with increase from 550 to 2,000 sows & their offspring would have delivered whole herd COP saving about 5 c/Kg was postponed in July 2002, recommenced in 2005 & again postponed in 2006.

The Wonga Unit had planned upgrade scheduled for 2005 – it has also had to be postponed.

The saving in COP from all would be in excess of $1.5 M annually.

Since 1997 the returns have not been adequate to justify the business.

Benefit to Domestic Economy & to Consumers.

Australian consumers should benefit from Australia having a strong & competitive industry supplying quality fresh meat.
Imported meat comes from countries that may have lesser animal welfare & employment standards than Australia.
Australia has higher health standards, prohibits the use of some chemicals used in America & imported in meat.

Studies show that Rural towns gained better downstream financial benefit from intensive agricultural industry than from extensive.
A few Country towns are reliant on the pig industry totally.
Many country towns & regions have higher rates of unemployment, lesser rates of population & in some instance reduced critical community mass leads to the failure of that community – medical services, schools etc.

A number of towns & regions are significant beneficiaries of the pig industry.

Australian pig meat consumption is increasing per capita.
Given meat production cost & world consumption figures it is near certain that domestic consumption of pork will exceed beef at some time in the future.

As population growth & standards of living increase world demand for pig meat will accelerate & as land is taken from agricultural production it is assumed that if subsidy & other trade distortion was reduced Australia would become a serious exporter of pig meat.

It is folly to allow the destruction of an efficient pig industry.

World trade in meat is distorted
As well as the likelihood of pig disease entering Australia from exporting countries the lack of inspection procedure in Australia gives little security of product integrity for human consumption.

Australian food distribution is unfortunately heavily concentrated with 2 entities having such large market share & resultant market power that they are able to dictate & control suppliers.
Despite price reduction to producers & increased imports prices in Supermarkets have risen to the detriment of consumers.

Those that might suffer from import curtailment managed to operate business before 1997 & the commencement of imports.
It is doubtful they are any more profitable post imports as they were pre imports. If imports are curtailed all processors would be equally able to source domestic product.

Conclusion.
It is most likely that the Australian Govt & others negotiating trade agreements will at some stage manage to remove the distortions of subsidized production & assisted exports.
At that time an Australian pig industry will become a more dominant exporter & have less disruption to its domestic market from subsidized imports.

Commissioner Byron's report seemed to accept the benefits of imports to Australian Domestic Consumers.
This implies that cost of domestic supply is reduced by cheaper imports.

The report accepts the benefits of subsidy & protection to EU & N.American producers from subsidy & tariff.
The report then concluded that the equivalent would be of no benefit to Australian producers.

An extension of protective measures to prevent damage by imports or financial assistance from Govt would allow some certainty of income & support an upgrading of pig industry infrastructure necessary for the future of the Australian pig industry.

With the believed attrition rate of pig producers & production levels it is essential that there is as little delay as possible in the implementation of recommended remedy for the pig industry.

The Australian pig industry is already competitive on an international basis.
Those countries "cleaning up" Australian domestic production do it for the greatest part with subsidy from their Governments.

Australia's pig industry can be even more competitive if given the opportunity to upgrade their infrastructure through a window of profitability or Govt support.

The Australian Economy will gain from likely long term increased exports of pork.
Australian Consumers will be better served by a stable domestic supply & not being reliant on the supply risk of pork imports from countries with lesser health & welfare codes.