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TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

DRAFT REPORT ON THE AUSTRALIAN PIGMEAT INDUSTRY

DR N. BYRON, Presiding Commissioner
MR G. EDWARDS

TRANSCRIPT OF PROCEEDINGS

AT BRISBANE ON MONDAY, 31 JANUARY 2005, AT 9.43 AM

Continued from 28/1/05 in Perth

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

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

The purpose of these hearings is to facilitate public scrutiny of the commission's draft report and to get comments and feedback on it. We've already held hearings in Melbourne and in Perth last week, and following this hearing today, we'll have similar hearings in Sydney and Melbourne this week, with an additional morning in Melbourne on 7 February with APL. We're then working towards completing the final report which has to be with the Australian government by 18 March, having considered all of the evidence presented at the hearings and in submissions and as well as other relevant information that we've collected. All participants in the 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 we've completed our report and handed it to them.

We like to conduct all our hearings in a reasonably informal manner, but because we're taking a full transcript, it's not helpful to have comments or interjection from the floor. But at the end of the day's proceedings, I always provide an opportunity for anyone in the room who wants to come forward and put forward any views or statement on the record, to come and do so.

Participants in inquiries like this are no longer required to take an oath, but the Productivity Commission Act does state that participants should be truthful in their remarks, but they're welcome to comment on any issues raised by other presentations during the day or in written submissions. The transcript will be made available to participants, and they will be available on the commission's web site as soon as possible after it's been checked after the hearings, and copies are also available - hard copies - using an order form that's available from the staff here today. All the submissions to the inquiry are also available on the web site or by order form.

To comply with requirements of the occupational health and safety legislation, I have to draw your attention to the fire exits and evacuation procedures and assembly points. In the extremely unlikely event of an emergency requiring evacuation of this building, the fire exits are on the left just outside of the function room. The assembly point is at Quay Central next door, at the front door facing the river. It's on your right, and meet at the bottom of the stairwell to be escorted. Toilets are just near the lift. I think that's enough of the housekeeping. Anyone who requires any further assistance, we've got two staff members from the commission here who can assist today. If there is anybody in the audience with a mobile phone, I would ask them to turn it off or silent mode, and that's the introductory formalities.

I'd now like to welcome Mr Paul Taylor. Thank you very much for coming. If you could just briefly introduce yourself and your organisation you're representing, take us through the main points that you want to make today, and then we can talk about it more. Thanks for coming.

MR TAYLOR: No worries. I'm Paul Taylor. I'm president of Queensland Pork Producers Incorporated. What I have to say today is basically to reiterate what Queensland Pork Producers submitted to the initial inquiry. I don't feel it's necessary to go over all of those points, although some of the main ones I believe that I should, and of course our industry believes that the main point for consideration is imports or the level of imports and their continued growth. I'll just go through what we actually submitted or part of that, and it says this: the volume of pigmeat imports have increased significantly over the last six years as evidenced by the following figures: for the 12-month period ending August 98, pigmeat imports were 37,175 tonne compared to the 12-month period ending August 2004 where imports equalled 64,123 tonne, an increase of 72 per cent.

At this point in time, Canada and Denmark are the two major countries which export subsidised pigmeat into Australia. However, under the recently competed import risk assessment analysis for pigmeat, major pigmeat exporting countries, such as the United States of America, will be able to export pigmeat to Australia. QPPI is concerned that due to the currently or the recently signed free trade agreement with the USA, Australian quarantine requirements could be comprised through American participation on certain quarantine committees. Domestic prices of fresh pigmeat are closely linked with the price of imported frozen pigmeat for manufacturing.

Pork imported into Australia is a major input into the production of smallgoods and only 60 per cent of smallgoods are actually produced from Australian ingredients. Even though imports are currently limited to raw material for supply to its smallgood manufacturers, unrestricted subsidised imported pork has become a critical element, which in turn directly determines the price received by Australian pork producers. The strong correlation between the price of imported frozen pigmeat in manufacturing and the domestic price of fresh pigmeat clearly demonstrates that pigmeat imports cause severe economic harm to the domestic pork industry and consequently a strong case exists for the imposition of safeguard measures.

I'll just go on to the profitability of the industry now. Industry profitability, particularly over the last two years, has become a significant issue due to the increasing volumes of pigmeat imports and the corresponding downward pressures they have placed upon domestic pig prices. In addition to these depressed prices, the drought caused severe rises in the cost of feed to the highest levels on record, thus further decreasing financial returns to producers. The clear indication of the industry's lack of profitability over the last 12 months is outlined by figures obtained from a 450-sow multi-site pork production enterprise in Queensland. The figures show that between July 03 and June 04 the average cost of production for this operation was $2.26 per kilogram whilst the average price received per kilogram was $2.14.

Over the last two years many producers have experienced their most difficult period ever with significant financial losses occurring due to a combination of low prices and high grain prices. Now, the major costs involved with pork production are feed costs obviously and the figures that we have at 67.4 per cent on average. Overhead costs are 11.2 per cent, labour costs 10 per cent and herd costs 7.4 per cent. It's therefore clear that any event which significantly impacts upon feed costs will have a direct and significant impact upon profitability of pork producers. The general increase in costs across all parts of the pork production has also contributed to reduced profitability. The other key determinant of industry profitability is the cyclical nature of pig prices and the corresponding impact of unrestricted subsidised pigmeat imports upon domestic prices, which has placed producers in an extremely precarious financial position.

I'll go on now to talk of measures to enhance our competitiveness. There are government and industry measures which, if undertaken, would enhance the competitiveness of the industry. The Australian pork industry restructure plan focuses upon several key strategies which will lead to a globally competitive industry. These strategies include increasing fresh pork sales through consumer education and product innovation, increase carcass weight in order to reduce costs throughout the supply chain, reduce feed costs through the establishment of the Pork Cooperative Research Centre as well as encourage improved feed buying practices, create new pricing systems including long-term contract pricing, undertake animal health initiatives to reduce costs and meet consumer demands, build consumer loyalty for 100 per cent Australian smallgoods - and this is basically happening as we speak with the home-grown label or brand which is now under way - and also to implement trade measures to address market distortion.

In conclusion, the impact of falling pigmeat import prices and increasing import volumes combined with excessive import costs, particularly feed grain, has placed extreme financial pressure on pork producers in the entire pork industry. The implementation of the strategies contained in the pork industry's restructure plan will lead to the required changes to the dynamics of the industry. These strategies must be undertaken in a coordinated and consultative manner and they must be accompanied by government assistance where required. Through the immediate introduction of safeguard measures such as quotas or tariffs on pigmeat imports an opportunity will be provided for the necessary adjustment and realignment of the supply chain to occur.

May I make a few brief comments on the actual draft findings of the PC. Industry, particularly APL and QPPI, believes that the terms of reference constrain the PC, particularly the short period of time it was given for the inquiry. We really believe that the PC should request an extension of its time frame, to enable it to undertake the rigorous analysis required to substantiate its findings or clearly indicate where the factual base was too thin to draw such conclusions.

Also, no assessment is made on the way in which imports have surged since the opening of the Australian market. Indeed the December 04 figures for imports were 6000 tonne and, you know, if you simply multiply that by 12 that's 72,000 as opposed to that 64,000-odd tonne in the previous nine months.

The PC's finding that the case for industry specific adjustment assistance is weak, because many of the difficulties experienced by the industry relate to essentially cyclical factors, the ongoing variable nature of world pigmeat markets, climate and currency markets. This ignores the long-term structural changes in the industry stemming from the decision by government in the early and mid 1990s to review and change the quarantine arrangements for pork imports and the consequent surges in imports which have caused so much damage to it.

The safeguard question, APL and indeed QPPI believes that the PC has not addressed the industry's request for an investigation of the need for safeguards against imports as the primary mechanism to facilitate restructuring and hence address the competitive challenges facing the industry. That's basically all that I have to say at this stage, so I suppose we throw it open to questions or discussion.

DR BYRON: Thank you very much for all that, and thanks for all the thought and effort that has gone into both the initial submission, and to the comments and the criticism of the draft report. Where shall we begin? I guess one thing I'd like to explore a bit further is the connection between prices of the imported pigmeat that comes in from Denmark and Canada at the moment and fresh meat prices. You were saying how the - - -

MR TAYLOR: It effectively keeps a cap on the prices received for domestic pigs.

DR BYRON: Even in the fresh meat market, although the imported material can't actually compete in the fresh meat market because of quarantine.

MR TAYLOR: That is so, because if the imported product wasn't coming in, the domestic product, albeit fresh, would be going into the manufacturing. So there is a certain correlation there. X amount goes into the manufacturing, whether it be from imported or domestic supply, and with the increasing levels of the imported product there's not so much domestic product going into that, so it therefore goes onto the fresh meat market which keeps a cap on that price.

DR BYRON: So if the price of imports goes down by 10 cents a kilogram, the price that growers will get for fresh meat in the butcher shops or whatever will also go down by eight or nine or 10 cents a kilogram?

MR TAYLOR: That's highly likely.

DR BYRON: Does that happen in the reverse? If imports went up by 10 cents tomorrow would we see higher prices for fresh meat?

MR TAYLOR: You would effectively, that would be so.

DR BYRON: So it's a two-way - - -

MR TAYLOR: Yes, like, it's a cyclical nature. You know, there's peaks and troughs. The troughs have been more severe of late because of the level of the imports. It seems to take - well, there is a possibility of as much as 150,000 tonne of imports coming into the country, as opposed to the current 64,000 tonne as of June last year. If that were to happen, there would be significant loss of pig farmers in the continent. You simply wouldn't need them.

DR BYRON: I haven't heard that figure before. Where is the 150?

MR TAYLOR: Well, that's for the total manufacturing side of the industry.

DR BYRON: Okay. If imports were to supply three-quarters or two-thirds or something of the manufacturing, yes. Do you think it could ever come to that?

MR TAYLOR: I suppose I'm forever the optimist. I would certainly hope not.

DR BYRON: Yes, sorry. That wasn't a very good question.

MR TAYLOR: Yes.

DR BYRON: But we've been trying to separate out all the short-term spikes and the hiccups and the static and stuff that's going on - and that could be, you know, week to week currency exchange rates or the effect of drought on feed prices - and try to look at the long-term underlying fundamentals, to say, "Look, we've had the drought of the century but it's almost over and grain prices are getting back to normal." World prices for pigmeat are probably determined by what happens in US, Canada, Japan and Denmark. So the world price is completely outside our control. All we have to do is sit and watch and see what happens. Would that be an accurate statement?

MR TAYLOR: I believe so. You know, that's certainly why this industry restructure plan that we have come up with, there is a major focus on increasing domestic sales because of the vagaries of the currency market and also the world supply of pigmeat. Our industry, without the assistance that these other countries do receive in relation to their import costs or indeed the subsidies of the export product itself, we will have difficulty competing with that. So our major focus certainly has to be on increasing domestic fresh meat sales.

DR BYRON: I notice that Australia's consumption of pigmeat is very low compared to Europe and North America.

MR TAYLOR: It certainly is. I suppose, you know, they're traditionally pork eaters whereas Australians simply are not.

DR BYRON: Beef and lamb.

MR TAYLOR: Yes. I believe our industry, through our national body and the arms associated with that, are doing a very good job in relation to promotion of fresh meat consumption. I don't know the actual figures but I do know within the last six months we have increased it by over one kilo per head or per capita consumption and, you know, the trend does seem to be increasing. I suppose partly this would be due to the effects of the drought and the short supply of beef and lamb. However, with what is being done by industry, particularly I suppose because I personally know a little bit about what's going on, is Hans Fresh.

They've put a product onto the market which is a moisture-enhanced product and sales of that through the restaurants that they have put it into, et cetera, are going exceptionally well. They're about to put that into supermarkets at a reasonable price. So for particularly legs, which is one of the major problems for the industry, the amount of legs that come in from Canada, there has been a problem with how to get rid of the legs in Australia and Hans are concentrating on actual leg cuts with this moisture enhancement, and just talking to them last week, indications are that it's going to go exceptionally well.

So it's just a time thing. Industry may have been a little bit tardy in relation to - you know, back in the mid-90s when imports started to come into the country to a greater degree. You know, things turned around and perhaps they didn't act as quickly as they should have, but certainly now because of the drought the equity in most piggeries within Australia has been eroded to the extent that if we have another downturn this year there will be major losses to the industry and therefore significant job losses within Australia.

DR BYRON: One of the things that we've been told in a few places is that while the exports were doing reasonably well, there are a number of producers including some in Queensland who are sort of geared up to supply a heavier carcass to the Japanese market. But if the prices turn down or if the competition gets really tight in Japan, apparently a lot of meat that was prepared for export didn't actually make it to the export market and instead came back onto the domestic market, and that would have had the effect of depressing prices here too, wouldn't it?

MR TAYLOR: It would, simply because of the supply and demand situation. If extra supply comes onto the market the demand isn't there, it has to drop the prices, and I would say certainly the quality for Australian fresh meat consumption wouldn't be in those domestic pigs even though they are boned out. There is a degree of - I don't know quite what the right word would be, but I don't think Australian consumers would be quite used to what the Japanese are used to eating.

DR BYRON: Yes, okay. Just finally on the domestic consumption thing, it appears to have gone from, say, 14 kilos a head to, say, 20 kilos a head. But I haven't been able to get hold of any sort of breakdown of how much of that is fresh meat, you know, roasts and chops and things, and how much of it is ham, bacon and smallgoods, and whether the growth has all been in the fresh meat area or whether - I mean, it makes a big difference. If all the growth has been in ham and bacon and imports are targeting - you know.

MR TAYLOR: Yes. Honestly, I don't have those figures but it is my understanding that the major proportion of that growth has been through fresh meat. APL would certainly have a handle on that.

DR BYRON: Okay, we'll ask them.

MR EDWARDS: If I could just follow up on that movement in consumption story, it's understandable that the industry would be thinking about how to push that per capita consumption of pork up a level, somewhat closer to the level in other countries where the pigmeat eating culture is much more firmly established. But of course, as you've recognised, in this country we have a tradition of beef and lamb, and I suppose in recent decades also chicken, being pretty cheap. Would you accept that the prospects for pushing pork consumption up will depend perhaps more than anything else on the relative price of pork against chicken, beef and lamb, as opposed, say, to expenditure on promotion of pork?

MR TAYLOR: Not necessarily so. I believe if our industry gets it correct this time, which I believe we're hopefully smart enough and educated enough to do now, pork will be an enjoyable eating experience. In the past it hasn't necessarily been the case and with this moisture enhancement product that is coming onto the market and is being developed as we speak, I really believe that will happen. So I think people will prefer or will consider pork once a week, whereas traditionally it may have been once a month to have a pork roast or something along those lines.

MR EDWARDS: For my benefit very briefly, what does moisture-enhanced pork mean?

MR TAYLOR: Well, it's basically putting a small - I don't know the fine details of it, but it's something along the lines of 6 per cent water with a trace of nitrate, some type of thing. You would have to talk to the people that are doing it as to what it is. But basically I think it's about 80 to 90 per cent of all of the fresh product sold in America is moisture enhanced, so Australia is way behind in that respect.

MR EDWARDS: So the buyer of a kilogram will get less pork and more water than previously but the product is seen to be better in - - -

MR TAYLOR: Yes, it's an enjoyable eating experience. You know, chicken meat is full of water. There's a significant - I don't know the actual number but it's a much higher figure percentage of water that is in chicken meat.

DR BYRON: I guess that comes back to the quality thing. A few people have suggested that in the past there hasn't been as much care as might have been taken to make sure that the product that went to the consumer was as good as possible. I understand that we normally have the fresh meat from smaller carcasses because the meat is tender and juicy and so on, and the older carcasses, bigger animals, are better for taking the curing processes for ham and bacon. But if you put an older animal into the fresh meat market it tends to be a bit dry when it's cooked. Is that approximately right?

MR TAYLOR: Not necessarily so, particularly with the advances that the industry has made over the years in relation to growth rate and whatever. You know, the 80-kilo carcass is probably only from a 21 or a 22-week-old pig and it's actually in the way it's cooked as to what sort of eating experience you have with pork. People traditionally tend to overcook it to hell, you know, and that has been a problem. It's public or consumer education.

DR BYRON: Grandma's technique, that you had to boil the bejesus out of it.

MR TAYLOR: Yes.

DR BYRON: Just in case it had some nasties in it.

MR TAYLOR: Yes, you know, probably 30 or 40 years ago where pigs were wallowing in mud all the time. A dairy farm had two or three sows in the yards, out in the sun. That may have been the case, that that was perceived they had to do that but certainly not now with the intensive production.

DR BYRON: Can I change the subject a bit. You talked before about the intensive long-term structural changes in the industry and this has come up in a few of the other hearings where the pigmeat statistics book that APL produces, you know, in 1970 there were about 40,000 producers in Australia. We're now down to about 2500.

MR TAYLOR: That's right, yes.

DR BYRON: But what my recollection is that a lot of that reduction in the number of producers happened long before the import changes, the quarantine policy of 97, that by the time you get to 97 we only had about 5000 left. Would it be fair to say that allowing imports from Canada and then later from Denmark in, I mean, you can't attribute the whole reduction from 40,000 to 2 and a half thousand to that, because that really only applies over the last eight or nine years.

MR TAYLOR: You certainly couldn't. I'd say that would be just natural attrition. You know, the dairy farmers that traditionally ran a couple of sows in conjunction with their waste milk, those sort of things have disappeared certainly, and the industry has become much more intensive over, I suppose, the last 20 years but particularly the last three, four or five years, that there is a very big growth in the larger type piggeries sort of 1000 sows plus.

DR BYRON: That sort of brings us to the big question about imports. The way we've looked at it, in writing the draft report at least, is to say that the amount of imports that come in is a reflection of how internationally competitive Australian producers are, so that if Australian producers are internationally competitive and can produce prices similar to everybody else, the manufacturers are not going to go to the trouble and expense and the risk and whatever of ordering container loads of imported pigmeat. The reason that they do place orders for imported product is because they concede that they can buy that either because of quality or price differences that make it more attractive to those manufacturers to use imports, rather than buying the local stuff.

MR TAYLOR: That's reasonable. Certainly the likes of Denmark, they produce a significant amount of pigmeat, over a million tonne, I believe, and of that I think something like 900,000 tonne is exported. It's heavily subsidised, both through the feed grain and also the two-tier pricing system that they have over there for domestic and export.

DR BYRON: Can you tell us more about that because we're having trouble - everybody tells us that it's subsidised but I'm having trouble finding it.

MR TAYLOR: Yes, I suppose because they have been exporting for so long, you know, they're pretty experienced as to how it is actually seen so that they don't contravene any of the WTO rules. I can give you some brief detail of it but I certainly haven't got the full information. APL will supply that to you next week, I'm sure.

DR BYRON: We're looking forward to seeing it.

MR TAYLOR: Yes. The information I have here does come from APL. I can give that to you now, but they will certainly be following up on that.

DR BYRON: Where it gets a bit confusing is that APL has already indicated to us - I mean, the way they look at it is that our costs of production in Australia are pretty similar to the costs of production figures that they have got and therefore they must be subsidised somehow, somewhere along the line, although we're not exactly sure how they've done it. The figures that we've got show that the Danes - the producers - seem to get much higher prices when they sell in Australia or Japan than what they get if they sell within the European Union. So from their point of view, even when the Danish piggeries were having net losses per sow in the last couple of years, they still see Australia as one of the most attractive premium markets for them to sell their middles to. That sort of makes sense that if they could get more by selling the stuff in Europe, they wouldn't be sending it to Australia, would they?

MR TAYLOR: I would really prefer not to comment on that. My knowledge on that is not great.

DR BYRON: We'll talk to APL about that. It's just that you, like most other people that have come to the hearing, always make it sound like every import from every country is heavily subsidised and yet we're finding it difficult frankly to track those down. As I said in Perth last Friday, we've got a team of three or four people who have done absolutely nothing else for the last four months to try and track this down and it's not easy.

MR TAYLOR: No, I do realise that. Do you want me to speak on what I have here from APL - talking about the Danish pigmeat, I can give you a little bit of information here. In 2003, Denmark - earlier on I said a million tonne, it's

1.9 million tonnes of pigmeat - imported .1 million tonnes and exported 1.7 million tonnes of which approximately two-thirds was exported to other EU countries. Export to non-EU countries were at export prices - the Danish kroner - of 15.38 per kilogram, whereas those to EU countries were at 13.57 Danish kroner per kilogram.

Exports to Australia were at export prices of 20.14 kroner per kilogram, or convert that to Australian dollars, $4.65, whereas that for non-EU countries in 2003 was 15.38 per kilo, and average export prices for middles was 23.49 or $A5.43. Why would Danish pigmeat producers export pigmeat to the EU and receive 1.81 kroner per kilo less than if they exported the pigmeat to non-EU countries? Similarly, why export middles to Australia at an export price of 3.35 kroner per kilo less than to other countries? Those figures are certainly there and APL will substantiate those.

DR BYRON: That is extremely interesting and we'll be taking it up in a lot more detail with them.

MR TAYLOR: Yes.

DR BYRON: It's quite an investigation to unravel all that.

MR TAYLOR: Yes.

MR EDWARDS: Could I take you to page 6 of your submission under the heading, The Effects of Drought on Profitability. In line 2 there you say:

> Insofar as drought normally causes feed grain prices to rise (but within the constraint of linkages to export parity) -

et cetera. Now, I'm just wondering exactly what you mean there. Do you mean that drought in Australia normally increases world grain prices, pulling up prices on export markets and also prices for domestic sales of grains, or do you mean that in drought the domestic price which is normally lower than the export parity moves up somewhat closer to export?

MR TAYLOR: I would say indeed it goes even higher than that. The pig industry or any other grain user has never been able to access grain at world parity prices. Queensland probably is in the drier part of Australia. We're certainly impacted by drought more so than our southern counterparts. But, yes, the price of grain, there's no link at all to the export parity price for the feed grain users within the country.

MR EDWARDS: But those words in brackets do refer to the constraint of linkages to export parity, but you now seem to be saying that that linkage is broken in times of drought and the domestic feeders have to pay more than export parity to get grain. Is that what you're saying?

MR TAYLOR: Yes, that has traditionally been the case. I don't know the figures but, for example, at the height of the drought, the cost of grain was certainly over $300 per tonne and export parity was nowhere near that. I think it was along the lines of $180 per tonne for sorghum. I know there was a great gap but what those figures were I'm not certain, but it was a considerable amount.

MR EDWARDS: So are you thinking especially here of sales by AWB, the wheat board?

MR TAYLOR: Not necessarily so. Whatever the organisation is that exports the sorghum as well, that certainly wouldn't be the AWB, Grainco or whatever they call themselves, I don't really know.

MR EDWARDS: So what is your thinking on the reason for this seeming failure of markets to generate the significant price difference between sales in the domestic market and sales in the export market?

MR TAYLOR: Well, I suppose it's another industry and they place their grain wherever they receive the most money. In times of drought I would imagine that a certain amount simply doesn't go onto the export market, and because of the under-supply on the domestic market it goes into that at an increased price.

MR EDWARDS: But we would normally expect commercially oriented marketing firms to shift grain about between markets in such a way that the price tends to be equalised across the different markets - the export market and the domestic market. Now, you're suggesting that this typically does not happen, at least in times of drought for feed grains. I'm just trying to get to your thinking on why that might happen.

MR TAYLOR: I don't really know but what I'm trying to get at is that, I suppose, there is not a dedicated feed grain industry within Australia at this stage, but we have to compete with the flour millers and also the exporters to get grain to feed our animals. Now, with this pork CRC that has just been granted or given the green light, certainly a lot of work will go into creating, I suppose, a dedicated feed grain industry or indeed feed grains which are more suited to feeding intensive livestock animals. I suppose, you know, over the years with feedlots and chicken and certainly the pork industry, we possibly haven't done things as well as we could have in relation to our import costs because there never has been a feed grain supply industry within Australia.

MR EDWARDS: So you see that as a disadvantage for the Australian pig industry compared, say, with the North American one?

MR TAYLOR: Certainly. They have the soy bean and the corn which is grown specifically for livestock, or pretty well specifically.

DR BYRON: I thought you might have been arguing for liberalisation of the quarantine on feed grains to be able to import sorghum at world prices when there's a drought on in Australia.

MR TAYLOR: Certainly most industries did look at that during the drought. Indeed the chicken industry did import certain tonnages.

DR BYRON: To the extent the poultry industry can do that, that takes a bit of the pressure off the other feed-using industries.

MR TAYLOR: That's right.

DR BYRON: I guess if you're arguing that quarantine has to be strict and scientifically based et cetera when it comes to importing meat, you have to be consistent when it comes to importing grain to produce it.

MR TAYLOR: That's entirely correct.

DR BYRON: We're trying to stay right out of the scientific issues of the quarantine, either as it relates to meat or grain or even semen imports. We leave that to the scientific people.

MR TAYLOR: Everybody has their own areas of expertise. Industry certainly wouldn't be asking any import protocols to be compromised to allow feed grain to come into the country, that's for sure.

DR BYRON: You also mentioned - back on drought. Your submission had a fair bit on drought policies and how the way that drought assistance is given has adversely affected the livestock feeding industries. Is there anything else you wanted to elaborate on that about?

MR TAYLOR: Not really but I suppose - I think we did mention it in there somewhere to do with this possible ethanol industry that might get up and running. That will place further pressure - particularly up in Queensland - if that does go ahead here. That's why this pork CRC is such a significant achievement I suppose, but that is a time thing, you know. Medium term I think we'll have some good outcomes, but short term, it's - you know, the indications are that if we have another drought or there's a great surge in the level of imports which will depress the price, you know, our industry is in big trouble in relation to the production side.

DR BYRON: Just to clarify a bit about the industry in Queensland, do you know off the top of your head about, you know, how many are part of mixed sort of farming ventures and how much are sort of pure specialist pig producers or even there are big corporate specialists, pig producers, and at the other end of the scale, you've got people who are producing grain and maybe piggeries and even have some cattle or something. So what's the sort of spectrum of your membership?

MR TAYLOR: I don't have those figures. Certainly on the Downs, a lot of them are mixed farming enterprises, with the exception of the bigger corporates. In the Central Burnett where I come from, it's mainly specialist piggeries Certainly up in the Central Highlands, it's mainly specialist piggeries, but there are some tied in with grain production. The way the industry is going, I think that, you know, there will be more and more bigger corporate-type entities with - the, you know, smaller piggeries that have disappeared are mainly becoming contract growers for these larger entities. But what the figure is, I don't have that.

DR BYRON: I was just wondering because, you know, you were talking about the combination of low pig prices and high grain prices, and I was just wondering whether it was easier for somebody who is a mixed producer to just change the balance of what they're doing on the property and do a bit more grain or beef and a bit less pigs, whereas somebody who is a specialist, you're either in or you're out.

MR TAYLOR: I really believe that no matter what type of enterprise you have with pigs, you've got to be a specialist. You can't quickly ramp up or turn down production. It's really at least a 10-month cycle to produce a market pig from when you start. So you can't turn it on and off at whim.

DR BYRON: I think it increasingly requires a great deal more sort of technical expertise, and all the piggeries that we've been to - big and small - people have been very professional and very - - -

MR TAYLOR: Certainly.

DR BYRON: - - - scientific in what they do in their piggeries. I wasn't trying to suggest that these people are amateurs or just mucking around, but even the smaller mixed producers still seem to be very professional and very serious about the way they do their business.

MR TAYLOR: You certainly have to be if you want to be a pork producer because the margins aren't there, you have to be efficient. If you're not, you simply won't stay in business.

DR BYRON: One other thing that you just reminded me of, I'm familiar with the

Downs and Warwick and Toowoomba and the South Burnett, but is there much of the pigmeat industry in Queensland outside? I mean, I've heard of some fairly decent sized piggeries up around Bowen and Atherton Tablelands, but - - -

MR TAYLOR: Yes.

DR BYRON: Or is it mainly sort of south-east Queensland?

MR TAYLOR: Certainly the major proportion is concentrated down in the south-east corner if you incorporate the Burnett region. There is one producer in Bowen who is probably 2000 sows or 2 and a half thousand sows. So that would produce about a thousand pigs a week which is - you know, Queensland kills 20,000 a week. That's 5 per cent production in one enterprise.

DR BYRON: That's pretty serious.

MR TAYLOR: Yes, it is, and similarly up on the Tablelands, I think there's probably about 15 to 20 producers that they would probably have in total of a similar amount.

MR EDWARDS: Just one further line, do you think that the processing side of things is, you know, a constraint on the competitiveness of the pig industry in Australia?

MR TAYLOR: How do you mean?

MR EDWARDS: We have heard that although at the farm level, our pig producers are very good internationally. We're not so good in the slaughtering stage, and that post-farm side of things. Do you have a view on that?

MR TAYLOR: I don't have a great degree of knowledge. So I wouldn't prefer to make a specific comment. What I do know is that certainly we don't here in Australia enjoy the advantages of kill costs or whatever that they do in America, simply because there isn't the number of pigs or the throughput through the slaughter facilities. But other than that, I would prefer not to comment because I don't know enough about it.

MR EDWARDS: Okay.

DR BYRON: But over the last five years, I think the Australian government had a big program - well, $12 million or something - for updating, modernising and export-oriented processing facilities, and yet a number of those seem to be running at a lot less than their ideal capacity, and they're saying there's a shortage of pigs. That comes back to the question that a lot of people have raised, you know, there seems to be a bit of a lack of confidence amongst the growers.

MR TAYLOR: Yes. There certainly is a lack of confidence. Personally, you know, we've been hit so hard in the last two years that we certainly won't be making at this point in time further investment in the industry. Having said that, we have been able to secure reasonably long-term contracts for the prices received for our pigs and similarly for our import costs. We simply have to be smarter how we do business. It could well be that with this industry restructure plan that is up and going now that there is an oversupply of export accredited slaughter facilities within the nation, and perhaps some of those will have to go. Slaughter facilities may have to be regionalised, and there will be some casualties in that side of the pig business. It's early days yet. I don't really know, but there has been that suggestion.

DR BYRON: But to get the high-quality product to the marketplace at the right price, it's a question of, you know, getting everything right on farm, but also getting things right all the way through the supply chain.

MR TAYLOR: Exactly.

DR BYRON: If there's any weak link in there anywhere, it's going to affect the delivered price of the product in the marketplace.

MR TAYLOR: That's so. Having said that, I suppose that, you know, throughput and larger carcasses would be part of the answer to that. It's certainly what industry is looking at.

MR EDWARDS: We understand that the industry had a difficult period. Some people who have appeared have suggested that the last six months or so has been significantly better. Is that your assessment?

MR TAYLOR: Probably six months would be a bit long. I would say September, things started to turn around price-wise. For at least the first half or nearly the first three-quarters of 2004, price received would have averaged about $2 a kilo. Leading into Christmas, that got as high as $2.85. So there was a significant turnaround, but having said that, that doesn't take into account the previous two years and the amount that people or producers actually lost, and indeed greatly reduced equity in their enterprises, because they had to borrow more money to continue to produce pigs.

Every pig that was leaving our enterprise for a period of two years, we lost the equivalent of $5000 per week for two years. However, we were able to keep going, but certainly if it would have continued, we wouldn’t be here today. If it hadn't turned around by Christmas, we would have had to walk off our farm with nothing.

MR EDWARDS: But you're a bit happier now than you were six or nine or

12 months ago.

MR TAYLOR: Yes, obviously, mainly because we've been able to secure up to two years' contract prices with CAPs and collars for our pigs. So we know that at the very worst, if it goes to the minimum price, that would be above cost of production, and we've been able to secure our feed or our grain imports up until the end of this year at a very good price. So certainly I think industry is becoming much smarter as to how they do their business, but for our imports and how we sell, we've got to have these supply chain alliances, and they are becoming more and more a part of everyday life I suppose.

MR EDWARDS: So those contracts that give rather more security about prices than you've had in the past are becoming reasonably common?

MR TAYLOR: Certainly in our area they are. Southern states, I can't comment because I don't know, but certainly in the Burnett and indeed the Downs they are, yes.

DR BYRON: Thank you very much, Paul. Is there anything you'd like to say? I think we're going to have to move on to Alan who is next, but is there anything you wanted to - - -

MR TAYLOR: No. I'm about talked out I think.

DR BYRON: Okay. Thank you very much for coming and for being so open and honest with your information that you've given us about your own business.

MR TAYLOR: That's no problem.

DR BYRON: Thank you very much.

DR BYRON: Thank you very much for coming. If you'd like to just sort of take a seat, make yourself comfortable, sort out your papers, and whenever you're ready, if you could just start off by introducing yourself into the microphone for the Hansard recorders so that they'll recognise your voice.

MR STICK: Thank you. Alan Stick is my name, a small pig producer from the Beaudesert or Boonah type area - Rathdowney in fact - and I do thank you for the opportunity to be able to come here and throw in my two bobs worth. I'm speaking as a small producer, and somebody without access or without easy access to lots of statistics and data. So anything I say is probably anecdotal evidence rather than anything else, but I have made a few notes. I haven't been as thorough with my notes as I really would like to have been. Things happen at home, you know. Without putting this off till the last minute, the last three or four days when I intended to devote time to this, the time just blew away. Anyway, here I am, and I hope I can say a few things which may be of interest to you.

DR BYRON: I'm sure they will be.

MR STICK: I went through the draft findings, and I do want to comment on various parts of those findings. If you just sort of bear with me while I do get organised now, hopefully I will do this in order, but I will sort of cross-refer on a couple of occasions, and starting at the one that I've lost - I'm sure I was on about page xxi or ii. I'll pick this up in my notes, I’m sorry - xxi or ii in Roman numerals. Where am I? I've gone too far. Yes, in fact we go back to page ixx in Roman numerals, and the heading, Domestic Prices are Increasingly Related to World Prices. True. I would certainly agree with that, and I have read elsewhere in this book that while we are selling at world prices, we are still paying domestic prices for our costs. That's certainly very true. I agree with that. As is mentioned several times in your statistics in these findings, our costs for one reason or another are greater than overseas costs. So that makes it look like we're on a losing streak to start with.

Turning the page, page xx, and the heading Profitability was Low Between Mid-2002 and the End of 2003 and is Rising Again. Yes, I made a note of that in several places in my notes. It is mentioned. There are graphs and boxes et cetera, and I wish I could find that in a hurry now, but maybe finding 3.1 on page xxxi - yes:

> Changes in profitability and market share can reflect changes in competitiveness -

et cetera. I won't read the lot. You have it there, don't you? It did say in this book that profitability was high in those couple of years, 2002-3, and that's the one the I particularly object to. The previous years from about 1991 or something, as indicated in the tables elsewhere in the book, were low - very low. One year recorded a loss. This is on a profit-per-sow basis, and then 2002-3, the high years referred to, were in fact what I would say are normal years, and if anything, a little bit below normal.

If we go back to around about 1990, DPI in Queensland had figures which indicated that the profit per sow per year should be around $600. That was down from a few years previously when the figure quoted was a thousand dollars per sow per year. The high profit years that you've indicated here, one was $603 and the other was 487 or similar, and they are, as I say, just normal or just average years. So we haven't returned to high profitability. We've simply had a couple of years with a little bit of normality about them, and the rest of the time is a loss.

DR BYRON: I think it was the Queensland DPI that said - I don’t remember the exact words, but they were the ones who were talking about the period around 2000 being as record profitability for the industry, all-time records.

MR STICK: Yes. I haven't heard that. I haven't seen those figures, so I don't know. Probably in about the year 2000 in the lead-up to the Christmas boom period, if there is any sort of a boom, I did sell pigs at very, very good prices. In fact my best price was $3.25 a kilo live weight at an open auction or live weight auction in Toowoomba. I can tell you I was more than pleased. Then in the next couple of months - January, February - we're back to the situation that's happening right now. The price traditionally drops, and it probably drops just a little bit worse. But having received those prices in 2000, we haven't seen anything like them in subsequent years. It probably bears out what I say, that a $600 per sow per year profit is getting back to what we should expect to achieve, and it is not high. It's only just normal.

My best sale price prior to Christmas was around about $2.50 live weight, down a long way from previous years. When we consider inflation, et cetera, the cost of living rising generally, if we can't obtain at least the highest figure, you're going backwards in essence. I suppose having said that, too, I must admit that we are in a supply and demand thing, and prices will fluctuate; prices will always fluctuate. We sort of accept that.

DR BYRON: The comment or the heading that you had in there that Australian industry has been increasingly sort of integrated into the world markets, both in what we export and what we import, it suggests that the conditions are very different to what it might have been 10 or 15 years ago when Australia was or even states within Australia were pretty much self-contained, and - - -

MR STICK: I do agree with what you say, but I don't necessarily approve of that situation. I did want to talk about exports a little bit later but okay, we'll comment on them. I think Australia was lucky to fall into a decent sort of export situation; I'm sure you've been told of the Nipah virus, et cetera, in Singapore. That happened at a time when imports were starting to rise. I think the federal government realised that and was doing things to help or doing things to be seeing to be helping the Australian pig industry. It did lend support to the exploration and establishment of export markets and it was simply a fluke of nature that the Australian export market suddenly opened up.

The comment that I did want to make later was that the clean green image which was mentioned in this finding and is sort of acknowledged elsewhere as being one of our big advantages, it is certainly an advantage and I don't want to see it taken away, but I don't think it's as big an advantage as a lot of people would hope, a little bit like organic farming. We're told each year that organic farming has doubled and it's doubled from such a minor base that it's not very hard to double it. Our clean green image was given as a reason why Japan in particular started buying stuff from us. That's probably why Singapore started buying stuff from us. But I don't think people, the consumers, are as terribly concerned about clean or green or where it comes from and is it sustainable industry, I think they're concerned about getting safe and healthy food. They certainly want safe food, healthy, nutritious, high quality. Those things are almost a given now, in my opinion anyway. You would just reasonably expect to buy good meat, good vegetables, good anything.

Once other countries sort of overcame some of their problems - ie, foot and mouth or the Nipah virus was got under control to a large degree - more particularly when prices from Denmark to Japan dropped, the Japanese said, "This'll do us, thank you very much," and our market dropped dramatically. Singapore, because we're selling chilled product there, does have an advantage over frozen product, but given that all of their suppliers are supplying healthy and high quality product, they are I think starting to buy again on price. So how much value do you put on a clean green image?

DR BYRON: We've been told that the Brazilians can put frozen pork into Singapore at something like a third of the price of the Australian. Now, Mrs Singapore Housewife is willing to pay a bit extra for the Australian stuff that's clean and green and all the rest of it, but she may not be willing to pay three times more.

MR STICK: Exactly my point, yes. I wasn't aware of those things - I don't have statistics, as I mentioned - but yes, my point exactly. The Japanese too I think are very fussy people. I've been told the housewife buys a package of whatever and everything must be absolutely identical. I'm told that Denmark, because it can supply such huge quantities, can supply middles which are identical, which suits the Japanese. They then cut them up into individual rashers which are put in packets which are absolutely identical. They do it simply by volume rather than anything else; perhaps an advantage for them but I really think the price is the key. We, in

Australia, cannot produce as cheaply as overseas - that's obvious from the facts in this draft report - therefore we can't compete in an export market other than niche markets - there are always them around, but in a volume export market - and if Brazil is selling it for one-third the price, where do we go? That frightens me when I think about it.

DR BYRON: It even frightens the Americans and the Canadians.

MR STICK: Yes.

DR BYRON: The point is that I guess the implication would be that maybe we should forget about the sort of bottom end of the market commodity grade stuff and really concentrate on premium quality and premium markets for people who are willing to pay a bit more for something that they see as being a bit special.

MR STICK: Yes, I would agree with the sentiment, and being a lowly little pig farmer, you are getting me a little bit out of my depth.

DR BYRON: Sorry.

MR STICK: But I wonder, is there a large enough market at sufficient price to justify it? It's great to sell into niche markets sometimes, until everybody realises how profitable the niche market is and then they all get in on the act and then it's oversupplied like everything else.

DR BYRON: Sorry, I've taken you off your track a bit there, but go back to what you wanted to say.

MR STICK: Okay, yes. Box 2 on page xxv, again in Roman numerals, Programs Available to the Pigmeat Industry, again we want to comment on the value of government programs generally rather than specifically. Research and development, market development, processing facilities et cetera, yes, all good things. These particular things don't have a direct bearing on my profitability on a day-to-day basis. Research and development is obviously necessary. Somebody must do research and development but I don't expect that some finding from research will improve my profitability next week or even next year. Things don't happen like that.

MR EDWARDS: But if R and D stopped, perhaps your position would be rather worse in five, 10 years' time, than if the research continues?

MR STICK: Most certainly, yes. Research and development should be done, it should be done, but I'm sort of talking about an efficiency or productivity situation. It won't improve my profitability or production in the next week, next year. In five years' time possibly something will have happened, who knows?

MR EDWARDS: But perhaps you're benefiting now from R and D done five, 10 years back?

MR STICK: Yes, I would think so. I would hope so. I would hope that I've been able to implement some of their R and D, but it's not a magic wand. I suppose that's what I'm trying to say. Yes, it must certainly be there. Market development, again, yes, you must have market development, you must have advertising; very difficult to quantify the benefits of advertising. It must be done, but if QPPI, APL or any other body puts an ad on television that says pork is the best thing ever, I don't expect my prices to rise next week or next year, even in a 12-month thing because of too many other factors affecting production. Certainly we must advertise.

In the last 12 months, lamb and beef have both risen tremendously in value. Beef in butcher shops here in the city is selling for 22, 25, 29 dollars a kilo. Pork has had a pretty strong advertising campaign, I believe. I suppose I should say our TV reception is pretty ordinary. We do get the ABC, we don't get much in commercial television, so I haven't seen too many of the ads. But pork consumption hasn't risen in the last 12 months, despite a strong advertising campaign and despite opposition foodstuffs, beef and lamb in particular, which have got enormously dear. Pork, if anything, has got cheaper because the imported product is keeping the price down.

So how much value do I personally put on an advertising campaign? I put a big value on the campaign itself. I put nil value on the result. I've had nil result, nil value, yes. So those types of government programs must be there, but for an individual producer like me, I don't see any advantage.

DR BYRON: On the processing facilities - you might have heard me talking to Paul before - that it seems to me that even if you've got the best managed farm in the country, if you have to go through a processing facility that's not up to scratch, they can turn your very high quality live animal into a very ordinary product and charge you a lot of money for doing it, so if you want to get to the final consumer or the export market, whatever, to have the best quality at the lowest price, you can't do that unless you've got a top quality processor there.

MR STICK: Yes.

DR BYRON: That could be the weak link in the supply chain between the piggery and the consumer.

MR STICK: Yes, it certainly could be.

DR BYRON: So if there are programs that modernise, update or improve the efficiency of productivity that reduce the kill costs and the boning room charges or whatever, that should be reflected back in the price you get for a live animal.

MR STICK: Should be, but it's not. Yes, certainly a pork processing facility will ruin a carcass, but those processes have probably been weeded out the same as all of the other weak links and chains by now. A good processor can employ somebody who is inexperienced and get a job on the chain and not do things very well; may ruin a few carcasses before the foreman or somebody else wakes up, yes. I think their own quality control fixes that, the fact that they must survive in business. It's mentioned everywhere that abattoirs are closing. They don't have turnover. They can't sell at a sufficiently high profit to upgrade their facilities, so it's easier to close down. That's been happening - Lakes Creek is a good example; nothing to do with the pork industry but that's what happens. The little country abattoirs, same thing, it's cheaper to buy product from elsewhere. So anybody who is trying to sell a substandard carcass won't survive as a processing facility for very long. I did hear you mention that to Paul.

The federal government did make grants to various processing facilities to upgrade. I thought, again, that was a token gesture - that's very nice, thank you, I would sooner have the grant than not - but in the case of one processor on the Darling Downs - can I mention names?

DR BYRON: Yes.

MR STICK: KR Darling Downs, as they were, came up I think with a budget of around 18 or 19 million to upgrade their facilities. The federal government gave them 5 per cent, 1 or 2 million dollars or something. The budget for that development then blew out to $26 million and the job still wasn't completed and it finished up I think at something like $30 million. The little bit that the federal government gave them was blown away in their own inaccurate estimates, and what's happened to the company since? I don't know. It ceased to be a cooperative. It's in private hands. It's amalgamated with another company.

DR BYRON: In Victoria.

MR STICK: Yes, and what benefit to me was the money that the federal government gave them? I really don't want to pick on them in particular. What happened to all that money that went to all the other processors?

DR BYRON: Point taken.

MR STICK: Yes. The findings on page xxxi, Roman numerals, I might perhaps try and precis what I've said. I heard you ask Paul how many people are specialist pig producers and how many are grain growers and have the piggery as a sideline; I certainly don't have the figures like that. I did read from one of your earlier submissions that the submittee said words to the effect that if the piggery is not viable, the pig buildings cease to have value, and that's true. So I think when grain prices rise and fall, I suppose particularly when they fall, people value add to their grain by putting it through the pigs, a follow-on probably from the dairy farms of the 50s et cetera; if they had spare milk, they fed it to the pigs, the main difference now being that because pigs are intensively housed, the cost of housing is high. It's not so easy to drop in and out of pigs the way dairy farmers did in the old days. They simply sold the pigs and bought a few more. They had them in a paling fence with a log hollowed out to make a wooden trough, a pretty simple business - not nowadays.

The large specialists, the big pig producers, obviously are looking for economies of scale but they can flood the market when they offload huge loins of pigs that are outside their target weight or their fat specifications. In all-in all-out programs, they suddenly decide whether the pigs are porker size or baconer size, they sell them, they just go, so you can find a glut of pigs of a particular size. If that coincides with my few pigs and the market is down that week, then I'm in trouble. I think we can live with those things. We can live with the day-to-day variations. The year-by-year variations, if there's a drought, grain prices rise and traditionally pig prices have risen too because processors - we're sort of aware of the fact that they had to pay a bit more for the pigs to keep the pig producer in business, otherwise they wouldn't have any. In the last few years of course they've simply shrugged their shoulders and said, "Well, bad luck, pal, we'll buy it from overseas." These are the things that we can't cope with.

I did have a note here that abattoirs were closing because of their low profitability et cetera. With large abattoirs or processing facilities and specialist processors, it will obviously reduce the competition for somebody like me too. Instead of having 20 people possibly buying my pigs or attending a sale to buy pigs or a series of smaller abattoirs somewhere within handy driving distance for me to get the pigs to market, all of a sudden I'm down to two. If I did something wrong and one processor didn't like what I did, I'm in trouble, and if I didn't like what the other processor did and called him an idiot or something - but even without things like that, there are simply only two of them and it obviously reduces competition, and without even thinking about price collusion or something, it just happens. The price sort of tends to go down. They say, "We can't pay more for the pigs," so they don't. They don't have to; a bit of a shame.

DR BYRON: Just on that, I know that there are companies, like Coles and Woolies, who have people that they have long-term contracts with, their inner circle or whatever they call it.

MR STICK: Yes.

DR BYRON: And then there are other people that they buy from occasionally when the core group can't supply enough and then there's sort of an outer circle that they might very rarely - - -

MR STICK: Yes.

DR BYRON: Most of the time they have nothing to do with them. I don't suppose I can ask you whether you're in group 1, 2 or 3, but have you looked into the possibility of getting some sort of long-term relationship with one of those big buyers?

MR STICK: Yes, looked into the possibility, considered it certainly, and brief consideration tells me that I'm too small to even think about anything like that which answers your question on group 3. Contracts you've covered fairly well in these preliminary findings. The benefits, if any, and the penalties if you can't fill a contract are just enormous and forward contracts, buying or selling, really are a little gamble on their own and for somebody in my position - I'm sure you've been told that if I go and buy grain at what I think is a good price, if the price falls I just say, "So be it," if it rises I give myself a little pat on the back. But I do have the problem of keeping that grain free of weevils and spoilage and whatever. Will the market go up and down? Not even National Australia Bank knows that. It cost them $360 million. What hope have I got?

Am I looking to sell elsewhere? I do sell a few pigs each week to a sort of semi-local butcher. He thinks the quality is just great and I thank him for that. It amounts probably to about 25 per cent of my production. I've thought seriously of looking elsewhere to another smaller suburban butcher and do the same thing, but in the last 12 months I've been debating seriously as to whether I will continue in the business or not, so I can't go and reasonably ask another butcher to buy my pigs every week if I'm not going to be able to supply them. They are just difficulties and supplying those few to my butcher - four pigs a week in fact it is so we're not talking anything enormous, not affecting markets - but we certainly do smooth the price out and when the price drops below the figure that I sell to him, I sort of keep a note of the number of weeks that I'm charging him more than market value and I charge him that same price until we've reached an equivalent figure over market value and if by then it hasn't sorted out, we adjust the price. It's a gentleman's agreement.

DR BYRON: So you're smoothing it yourselves?

MR STICK: Yes. I do like that idea, but it is related strictly to the selling price of pigs, not much to do with the input price. I don't know whether I would like to do it with all of my production, in other words we're getting back to contract things because what about if I take a contract at a certain price and the damn price goes through the roof and wouldn't it break my heart. Perhaps a little bit tongue-in-cheek saying that, but you are aware of what I'm getting at, aren't you? You've been through it. Probably the draft finding 2.1, a comment that I did want to make, as pig producers becomes more specialised, as individual piggeries become larger, the 2, 3, 5 thousand sow piggeries, the largest 3 per cent as it refers to here, having over half the breeding stock, chasing their efficiencies of scale but there's a limit to those things, then develop internal inefficiencies, don't they? So they have their problems.

But I think the main thing that I don't like about it is the fact that those big piggeries are moving further away from the markets to help overcome environmental problems. The smaller producers with 50 or 100 sows - and there were thousands of them not long ago - don't have an environmental problem. They seem to be able to empty their manure effluent ponds without a great deal of difficulty. I do, it goes on to my pasture and it's improving the land out of sight, it's wonderful stuff. I don't have near neighbours, but the smell doesn't carry more than a couple of hundred metres if the wind is strong. But a piggery 10 times the size of mine seems to generate odours that are about 20 times. They don't just go in proportion.

Feed lots are the same. You can have cattle in a yard and they don't create much problem, but when you get a big feed lot all of a sudden the people from the next township are complaining about the smell. The poultry industry is surely finding the same thing. 15 to 20 thousand bird sheds you can't smell them as you drive past driving down the road, but 300,000 bird shed and it carries on the breeze for miles. So I wonder if encouraging larger production is being encouraged by the fact that margins are being squeezed tighter and tighter you simply must sell more at a less profit to make the same total profit. I wonder environmentally if that's sound. I wonder should it be investigated as to whether there is a limit or a cap on the size of these things.

Finding 3.1 we referred to those high profit years, I mentioned that earlier. Finding 3.4 and I've noted here "relate this to box 2" which is on page xxv - I won't worry, I simply mention it. Internal factors, this is productivity of one sort or another, efficiency and so on. Those things can go up and down a little bit but they don't particularly offset the exchange rate, it's a thing that's beyond me. I like to be as efficient as I can, I know I'm not 100 per cent efficient but then again who is? I know my efficiency could be improved by updating some of my equipment. I am not prepared to spend money to improve my piggery at the moment because I don't know where the industry is going. For example, I want to spend about $15,000 on the roof, the roof has had it. I know I've spent $15,000 on something that may be defunct in the next six months, 12 months, so things like that.

The piggery you referred to in Bowen, how many thousand - 5 per cent of the market, I think, was the figure. My few pigs every week, 20 or 30 or 40 pigs sold in 20,000. The market does as it pleases and leaves me behind and leaves the majority of other producers behind too. The 90 per cent who are not in that top 3 per cent bracket with half of the - if anybody can find a way of farmers being able to set the price rather than being price takers, not just pig farmers, all primary producers, if somebody can find a way of equalising the market or giving us the ability to set the price, then that person would be forever sainted.

MR EDWARDS: I think farmers in many countries have been seeking that solution for a long time.

MR STICK: Exactly.

MR EDWARDS: There were agricultural histories that have been written that point to many disasters that have occurred as a result of attempts to control prices and I'm sure you're familiar with what happened to the reserve price scheme for wool a decade or so ago in our very own country.

MR STICK: Yes, I am familiar with that reserve price thing. I think a slight difference there, I think it worked for a long time, it was quite successful for many years. They were slowly adjusting the price down, but it was put there to try and create a base and I think the main trouble that happened to wool is that consumers around the world simply stopped wearing wool products. They simply didn't want wool any more. The price would have dropped perhaps a little more slowly and a little easier if there wasn't a reserve price scheme. But the reserve was there, they were buying the wool until it became blindly obvious that the wool picnic was over and then they had to offload the stock.

Australia was supplying, I think, about 90 per cent of the world's wearing wool, apparel wool and that is about 3 per cent of the total fibre product that people wear. The rest is cotton or whatever. Lycra replaced wool and I think - well, they sort of did good with the reserve price scheme for a long time. It did ultimately collapse, probably more through - well, entirely through market factors.

MR EDWARDS: Wool is a very different industry in Australia from pigs.

MR STICK: Yes.

MR EDWARDS: Through the reserve price scheme for wool Australia was attempting to smooth movements in the world price for wool. Anything that we might consider for pigs in Australia would have to take the world price of pigs as given and focus on doing something, if anything, about the domestic price. There would be no point in thinking about little Australia controlling the world price for pigs.

MR STICK: Exactly, whereas we did perhaps, shall we say, with wool but, yes, certainly. We're perhaps getting off the track a little. Finding 3.5:

> Increased specialisation and capital intensity have allowed some pig producers to achieve economies of size and higher scale, the consequences of large unanticipated variations in the prices of outputs and inputs may be greater.

Yes, it certainly is. I've made a note here simply, "The bigger they are, the harder they fall," and that's what will happen. If they can't survive with the economies of scale, where is the rest of the industry going?

MR EDWARDS: Yes.

MR STICK: Single desk marketing of grain. I did hear questions about that earlier and I'm not entirely sure what the question was or what the answer is. As was stated, grain in Australia is grain for human consumption. If I was a grain grower I would grow grain for human consumption too. I would not deliberately try to grow a product that was going to give me a lesser return, that's fairly obvious. But the single desk marketing of grain, I think APL was a little bit against this and I'm a little bit against APL. That marketing is surely aimed at overseas markets and the idea is to capitalise on the best price for Australian grain. Good luck to them, why shouldn't they? That's what I want.

Domestic buyers can go and buy direct off farm. Those impediments that once happened, they were removed a long time ago and in particular animal feed is usually the grain that doesn't quite make the standard for human consumption. So where is the point in trying to get somebody else to abolish the single desk marketing? I can't see sense in it. I can't see any advantage in it. The only thing is without single desk we have presumably more individual people trying sell grain overseas and that creates more competition within our own field. The price that they receive may be less, but it will not necessarily reduce world price and we're sort of looking at world price competition in our feed stuff. We wouldn't buy it much cheaper. No advantage in my opinion.

Finding 5.4 more or less agrees with finding 5.3 and reducing those few regulatory impediments is unlikely to make a significant improvement to the competitors of pigmeat business. Certainly when one thinks about the fluctuating exchange rate, the way it's fluctuating, the sad part about it fluctuating is that when the Aussie dollar rises makes imports cheaper, the meat comes in; when the Aussie dollar falls and makes imports theoretically dearer, they simply seem to drop their price and keep sending the same amount in. So it's - I think there is statistical evidence to back that statement up. Import quantities have not dropped at times of low Australian dollar, as has been mentioned to you before and during the course of this inquiry, yes. Look, I've been here a long time, thank you very much.

DR BYRON: We appreciate what you've got to say.

MR STICK: One comment that is mentioned here, finding 6.3 in fact it is which is just across the page, I think, yes, "While new restrictions on pigmeat imports into Australia may provide short-term benefits to pig producers, they would adversely affect Australian pigmeat consumers, retailers and manufacturers." Boy, don't I disagree with that in a big way. It may possibly have an adverse affect for consumers and I'll discuss that in a little more detail later. For retailers and manufacturers, not at all, and I can't imagine why you came to that conclusion. Manufacturers being secondary processors, you've qualified that somewhere here, and retailers simply pass their costs on. They buy and sell on whatever market and do they care how much per kilo? On a day-to-day basis they do. They would prefer to buy it for $3 instead of $3.20 those things are given. But if they pay $10, they would sell it for $12 or whatever the required profit margin may be.

Manufacturers are the same. Gee whiz, will they buy from Brazil at one-third of the cost? If Brazil is knocked out of the market, will they come back to buy at Australia, of course they will. They will buy it at whatever price the Australian market is and they will add their own processing costs obviously, they will add their profit, they will sell it to the retailers who will buy it at the cheapest and sell it at the best.

DR BYRON: Basically it all ends up with consumers. If everybody else is just passing through.

MR STICK: Yes, exactly. Will the consumer benefit if they are simply buying overseas product? I sort of doubt that. The history of buying things elsewhere, the consumer pays whatever it's put on the market for. I'm sure a lot of housewives do shop for the best deal and probably don't care much where the product comes from. Again, sure it must be safe and healthy and that's taken as a given. But the jam industry in Australia close to Brisbane years ago strawberry farms and strawberry jam factories, all of which is gone and our jam comes from Israel and various places. Is it cheaper for the consumer? How the hell would anybody know, but I don't think so. It's just being bought overseas cheaper, a profit margin is being added and it's being sold and the housewife buys it. Simple as that. That's one thing I did take objection to when you say it would adversely affect Australian retailers and manufacturers. I might be wrong. They're my feelings.

One other little thing I'd like to refer to just quickly too about those high profit years. In 2000 prices went up fairly well and a couple of other spikes and again, while I don't have statistics to back up my statement, but I do feel that those things can be allied to activities of the federal government, ie, a federal election looming and it appeared as though the government may do something about restricting imports. We were living in hope obviously, but there was enough there to stop importers importing the product just in case they got caught with it. Just in case the federal government said we will impose a tariff and quota. There was a commission of inquiry established as to whether that could be done and I believe the findings were in the favour of the pig industry at the time.

But anyway, the other one was labelling laws. We whinged and moaned for years about labelling laws and we achieved very little. I had several discussions with our local federal member who sort of promised to find out things and promised to support us and it just came to nothing. The made in Australia label is mentioned, you're aware of all those facts. It's a nonsense really and when people jumped up and down and complained about and it looked as though they would reinvestigate the labelling laws, once again importers stopped importing just in case they caught with a whole heap of product that they may have to relabel and may have to do things with, and those couple of price hikes looked good for us. It fizzled out and we were right back to square one, and in conclusion I think I would like to say that unless the federal government changes track, all of our primary industries are doomed sooner or later. It's made fairly obvious here that we cannot compete with overseas prices, and yet we're selling on those overseas retail prices. We cannot do it.

There is nothing that is made or grown or produced in Australia, primary or secondary, which cannot be purchased cheaper from overseas. Either they have cheaper costs or their government is subsidising it or whatever the case is. But you can go anywhere and buy things which we would buy in Australia cheaper than they can be made here, which means we simply become a nation of shopkeepers, as they said about England at one stage. So I think the federal government just has to do something, be it tariffs or quotas or what. The Prime Minister currently in Switzerland and saying that Europe must lower its trade barriers, sure, wouldn't we like to see that happen. But unless they put up some sort of trade barriers here until the others lower it, we're in trouble. We're going downhill and going downhill rapidly.

MR EDWARDS: But I can't resist responding to your prognostications of doom there. The reality is that they are - agriculture overall, if you take a 20 or 30 or 40-year perspective, has done very well. We're competitive with the best in the world across a range of agricultural industries; wheat, other grains, livestock, dairy. I mean, sure, some people have not been able to continue to make a go of it, but it's always been that way. Throughout my lifetime, I've heard individual farmers, and I have a farming background, and their industry leaders say that it's just too difficult for us. The government must assist us, but the reality is that many producers have adjusted in various ways, and they are continuing to export successfully - they are the best in the game in the world. So I just have trouble accepting your finishing message there.

MR STICK: Okay. Yes. I do accept what you say, too. I tend to restrict the field a little. Beef is certainly being exported and world competitive. Grains - I would settle for saying grain rather than wheat, barley, sorghum or specifying the grain. I tend to lump grain growing as a single industry. Yes, dairy products are being exported, and profitably at the moment, but for how long? I don't think it will go much longer. Beef and grain I see quite a long-term future, but wool we discussed earlier has had it. Our citrus industry, our timber industry. We did export timber at one stage, especially finished.

Our horticulture industry could collapse simply by importing more bananas and tomatoes and - yes. I think there's a range of things there that - we have two good things going for us at the moment. If Brazil manages to enter the world beef market - they've had another setback just recently. Prior to that, Australia was still importing beef from Brazil. How can we compete with that, and what will happen to the beef industry and what will happen to Australia if the beef industry falls over? That's the next one.

MR EDWARDS: No, it's not, Alan.

MR STICK: Sorry.

DR BYRON: I think we're going to have to continue that discussion over a cup of coffee.

MR STICK: Yes, okay.

DR BYRON: Thank you very much for that.

MR STICK: Thank you for giving me your time.

DR BYRON: Thank you very much for coming and for sharing it, because as you probably noticed, we've spoken to a lot of big producers and a lot of industry associations and so on, but we haven't had as much participation as we would have liked from people from sort of your end of the industry. So I doubly thank you for making the effort to come here and give us your input.

MR STICK: I'm glad that I made the effort, too. I think a lot of people like me tend to think that these inquiries are a foregone conclusion, and I certainly hope I haven't wasted my time coming up here. But this is probably why there is not much of an attendance at these things. We just tend to think that will it really achieve anything?

DR BYRON: People are too busy making a living.

MR STICK: Yes.

DR BYRON: Thanks very much for coming, Alan.

MR STICK: Thank you, gentlemen.

DR BYRON: We can adjourn for about 20 minutes for a coffee break.

DR BYRON: Thank you, ladies and gentlemen, if we can resume the hearing. Mr Covacevich, perhaps if you could just introduce yourself. Thank you very much for the submission which we've read and we look forward to talking about it with you.

DR COVACEVICH: Thank you, Neil. Myles Covacevich is my name. I was a pig producer in Boonah from 1979 to 1998. I am also - still am - a rural merchant and stock feed manufacturer in Boonah from 1985 to the current time. My background is that I have diplomas in sugar chemistry and industrial chemistry, a science degree from Queensland University and a PhD from James Cook University. I had 12 years' experience in the sugar industry and a part of that experience was that I attended a sugar technologist's conference in Brazil and visited the Brazilian sugar industry and looked at their ethanol production in the late 70s.

As I indicated, from 79 till 98 I was a pig producer in Boonah and also now am a rural merchant. I just want to address a couple of issues before I start on my main submission about where I see the problem with statistics in analysing the impact of importing pigmeat into Australia and its effect on productivity. It seems to me that it's very difficult to separate out the effects of importing pigmeat, the effects of drought and also the exchange rate. I don't want to spend too much time on the exchange rate but importing of pigmeat in drought seem to in some way be, if not related but they have an impact on the pig industry. I can just relate my own experience: in 1995 we had both our piggery and our rural merchandise and milling business going and the piggery ran at a substantial loss in 1995 when barley hit $270 a tonne. Barley hit $240 a tonne in 1997 and pigmeat prices were down around $1.60, and we made the decision then that we didn't want to go through another 1995 where we had to put capital into the piggery to keep it going to pay its accounts and we decided to close.

Just to give you an example of what happened in our business, from 1985 to around about 1993 the piggery was one of the largest customers of our rural merchandise and feed milling business. It used to spend about $25,000 a month on that account and that account was paid as soon as the statement was issued. In other words it was paid virtually 30 days in advance of our other customers. By the time we had decided to close in 1997 the piggery was 60 days behind in its payments to our rural merchandise and feed milling business. It was quite obvious that we had to do something; the situation had slipped so badly.

So I just wish to point that out. When we made the decision in 97 to close, we did have options. One option which we could have considered was to change our herd around to a growing out unit and either buy in pigs or produce smaller pigs elsewhere, because one of the problems we had was that our unit was close to town and we weren't able to get productivity above 15 pigs per sow per year. I felt that if we were going to survive we had to get up to 20 pigs per sow per year. The council wouldn't allow us to erect a new farrowing shed which we had made an application for, because of our proximity to town.

So we had a decision to make about whether we established another breeding unit somewhere or whether we became a growing-out herd or whether - because the council hadn't said we had to stop production, but they had effectively said that we - but they had refused our application to construct a new farrowing shed. So that was a decision we had to make. Do we set up a breeding unit on another site, do we become a growing-out operation or do we cease production, and we decided that the best thing for us to do was to cease production.

I move on to my actual submission which is concerned - I know that other groups have made submissions about quite a wide range of things of relevance to the pig industry, but no-one as far as I know has - well, there have been submissions about grain to ethanol, but no-one has been concerned about the quality of grain. I've been on the Barley North Research Committee since about 1994. I've forgotten the exact date that I started on that committee. I think I've been on that committee almost since its inception, and the Barley North Research Committee has been concerned in Queensland to (a) produce barley for moulting barley, but then also to look at the possibility of what could be done for feed barleys.

In the early 90s, up till about 1998, there was quite a strong interest in the application of genetically modified - genetic engineering to plant breeding, particularly in the grain industry. But since then, there has been a fall-off in interest in the use of gene technology in grain production, and this has been partly offset by what's known as marker technology, gene marker technology, and this has allowed them to review varieties without being concerned about using technology. But the thing that's occurred to me over those 12 years or so that I've been on that committee is the failure to use gene technology to improve barley varieties.

My interest in this stems from 1986 when I spent two days along with other rural merchants at Pioneer Hybrid International's breeding set-up at Kingaroy, and we spent two days going around their establishment, and all they kept talking to us about was the work they were doing on midge control or various other aspects of increasing yield in sorghum. But they weren't paying any attention at that time in the grain quality, particularly protein quality, and while sorghum is an excellent source of digestible energy, it's not really a good source of amino acids. So that's been a hobbyhorse of mine that I've been pushing for the last 12 years to try to get research people looking at how we can improve the amino acid profile of sorghum.

I'm delighted to see that Pioneer Hybrid International anyway had applied for a patent in 1999 - and the patent was just approved towards the end of 2004 - to use gene technology to improve the protein quality, the amino acid profile of grains. The thing that concerns me about that is the way the status is with the application of gene technology in Australia, this technology won't be used in Australia. It will be used in the US. It will probably be used in Canada. Their cost of production quite likely will go down, and their competitiveness with the Australian pig industry will increase because their cost of production will go down.

So I think that we should be addressing that issue, we should get on and do - even if we feel that commercially it's not appropriate to apply gene technology say at this stage, there may well come a time - I believe the time will come in the future when gene technology will be accepted worldwide, the resistance to gene technology application and agriculture will eventually disappear in Asia and in Europe, and we'll be left behind, and I really think that's a bad situation to be in.

On the grain-to-ethanol production, I've done most of the work for the stockfeed manufacturers in representing their interest in this, and it partially comes from the fact that, as I said, I visited Brazil in 77 on behalf of the Queensland Cane Growers, and I also conducted a study for Queensland Cane Growers into the potential for them to produce ethanol from cane. I just point out that my conclusion was that I didn't think at that stage there was any potential or there was potential, but I didn't think it would be commercially viable, and my study of the energy situation in Australia in the late 70s was that we had such abundant reserves of coal and natural gas that we would be better off looking at that rather than going - that the community would go down that path; they wouldn’t encourage cane to ethanol.

Now my interest is in the grain to ethanol, and the concern I have is that if the federal government goes ahead with in effect subsidising grain to ethanol, that we will have a demand for grain that cannot be met by production, particularly in Queensland and generally in Australia. While it's true to say that we can stop exporting wheat for example and also sorghum to Japan and divert that back to the domestic market for alcohol production, that doesn't answer the question of where is that grain going when it's being exported. There is already a market for grain which has been exported. That market won't disappear. So the result of that will be that prices will rise.

I see the excise subsidy of 50 per cent which the government is proposing to have in operation in about five to eight years' time as being a subsidy for alcohol production, and it's going to impact on pig producers. It's going to impact severely on pig producers here in Queensland, because the proposal here in Queensland is to use grain sorghum for alcohol production. Eight years out of 10, we have a deficit of grains here in Queensland for the feed industry, and we have to either import grain from other states or the grain is imported from overseas, but predominantly it comes from other states. So commercially it doesn't make sense to me to convert grain into ethanol when we already have feed industries that can't get enough grain when they need it. Thank you.

DR BYRON: Thank you very much for all three sets of comments; the import statistics, the grain quality and the ethanol. I think your arguments are pretty compelling, particularly the one of we deny ourselves the option of using gene technology to improve the quality of stockfeed and we're certainly going to restrict our potential in terms of import competitiveness or export competitiveness, vis-a-vis other countries. I guess you notice that we did make some - express some concerns about the ethanol subsidy and impact on all the intensive livestock industries.

What precisely would you suggest we should do in response to these comments that you've made, particularly - I mean, the use of GM, that would be in the hands of the gene technology regulator, the Australian government.

DR COVACEVICH: In many ways, it's probably too late now. This patent that Pioneer have got is a very broad-ranging patent. It covers all grains. It covers lupins, oats, the whole wide range of grains are now covered by a very important patent. The patent covers the use of an enzyme inhibitor - a protein enzyme inhibitor - increasing the production of that and changing the amino acid profile in grains. It's really a very important patent, and Pioneer in my view will fight tooth and nail to make sure that they maintain that patent, and that's going to be very difficult. Though here in Australia, I would expect that they would accept research on a licence basis, but they're going to charge for that licence.

Their patent covers two applications. The first one is the protease inhibitor and the second one is the use of another interference in the biochemical pathway of amino acid production where they increase methionine. I say good luck to them because they're both such a broad ranging patent that it's going to be very difficult for any other plant breeder to now use that technology without paying a huge licence fee. But there may well be other pathways that need to be considered, and it just seems to me that to not fund this research in my view is very short-sighted and it should be brought to the attention of the relevant authority.

I may be wrong, but in my view, the gene technology will be accepted worldwide eventually. I think it's only a matter of time before gene technology is accepted, and then we'll be behind.

DR BYRON: Do you know if it's on the research program for the new CRC that's just been established in terms of feed for the pig industry?

DR COVACEVICH: For the pig industry? Yes. As I said, I represent the Queensland stockfeed manufacturers on the Barley North Research Committee, and I think I've attended two meetings last year - it was either one or two. I've forgotten now, and it was - it may have been two. One of them particularly that the premium grains for livestock program - have you heard about that?

DR BYRON: Yes, we have heard about that.

DR COVACEVICH: The premium grains for livestock program has been going since 1996, and I think that's a very good program, and what's coming out of that program, the emphasis in that program has been on increasing the digestible energy of grains, in particular increasing the digestible energy of barley. I've been concerned about that because they have said when they did the assessment of where the research should be done, they've said, "Enough work has been done on amino acids, and we feel that the greatest progress will be made from research on digestible energy."

I think that's a decision which they probably had to make. Research money is available in restricted amounts, but I still think that they should in some way have some sort of seed capital going into gene technology and grains in Australia, and as far as I am aware, no work will be done in amino acid profile - improving amino acid profiles for pigs under their new program, because when I raised the issue at that meeting, it didn't get their support.

DR BYRON: All the premium grains for livestock program is using conventional breeding technology.

DR COVACEVICH: Yes, they are using conventional breeding technology, but they're also using what's called a gene market technology.

DR BYRON: Yes. I'm familiar with that.

DR COVACEVICH: Yes. That's very good, but gene market technology doesn't look at the fundamentals of what's going on in the plant. If it's for example a disease problem or an insect problem, BT corn, Bacillus thuringiensis corn which has that gene in it, they've done some fundamental work, and they decided that they can transfer the gene from the insect that produces that - well, from the bacteria that produces the toxin, they've been able to transfer that toxin genetically into cotton and control various insects.

That's fundamental research and that's not being done. They are using traditional plant-breeding processes with gene market technology which most definitely is beneficial, but I still believe there's a need to do some fundamental work as well.

DR BYRON: Right. Geoff, did you want to ask something?

MR EDWARDS: You have drawn attention to the fact that if one area of agriculture is subsidised, then that generates inequities, and of course as a general proposition, that always is a potential issue. You go on and suggest that if it's appropriate to subsidise grain-to-ethanol production, it's also appropriate to subsidise heat production to offset the inevitable rise in the cost of stockfeed. Now, would you see the same argument being applied to dairy production, meat production, chicken meat production to all uses of stock feed that are impacted by the development of the grain into ethanol industry?

DR COVACEVICH: Yes. Most definitely yes. I don't support subsidies. I'm a small business man and I have to try to make do without subsidies. So I'm opposed to subsidies. I think that all of those industries, all the animal industries are going to suffer if we convert grain into ethanol. As I say in my submission there, in effect it's horses for courses. Each country should make use of the resources that it has to overcome its problems, and we have - look, we have large reserves of coal. If you go and stand at Hay Point and watch the millions of tonnes that are going out on conveyor systems heading towards Japan or wherever else it's going, we've also got huge reserves of gas on the North West Shelf, and that gas is going to China.

I'm not saying that we shouldn't be exporting. Of course we should be exporting, but we need to also be looking at what our own future demands for energy are going to be and funding research into those areas. I understand that you can convert natural gas into methanol. I think there's a plant operates in New Zealand - sorry, not ethanol, methanol. There's a methanol plant, and it's based on natural gas. They're the sort of technologies that we should be looking at. We should also be looking at - we may well be looking at the use of solar technology. We've got a lot of interest now in hybrid engines where they are a hybrid between petroleum fuel and using the energy developed in braking systems to power small motors.

I see the future being not only just that sort of hybrid, but perhaps another hybrid where you've got a solar system on top acting as well. What would it be? If it's not a hybrid, it's a tribrid. It's a three-component aspect of energy use. We need to be looking at all those areas before we rush in to using grain to ethanol. Grain to ethanol in my view is a folly. It will increase production for all other aspects of industry, and it's going to definitely be subsidised. If they want to convert grain into ethanol, that's fair enough, but pay the full excise.

MR EDWARDS: Your account of energy possibilities there is fascinating, and I can see we could listen to you for a long time and that. You're obviously knowledgeable in that area, but for our purposes today, perhaps it's better to focus just on the ethanol side of things. Do you think it could be - given that you've accepted that there are several other industries which perhaps have a similar claim to offsetting assistance as the pig industry has, do you think that giving such offsetting assistance to one industry might be seen as stepping onto a slippery slope?

DR COVACEVICH: Yes. I don't think the grain-to-ethanol industry should be subsidised. If it's going to be beneficial to Australia, it will become commercially viable, and it should operate in a commercially viable situation. Does that answer the question?

MR EDWARDS: I'm sure the economists of treasury would give you 10 out of 10 for that answer.

DR COVACEVICH: Thank you. If it's not commercially viable, it's not going to survive. I attended the stockfeed manufacturers' national conference last year in Melbourne, and we have a combined conference every two years. It's a combined conference with flour millers and stockfeed manufacturers, and last year we had the president of the American Feed Industry Association there, and it was there that I presented my - I made a submission to the stockfeed manufacturers at the national level. It had become part of their policy that we are opposed to the grain to ethanol, and at the relevant time, our president would release statements saying so.

As I said, we had the president of the American Feed Industry Association there, and he indicated that the 50 per cent tax that the federal government was going to - in effect he indicated that the 50 per cent tax the federal government was going to apply on alcohol was in fact a step forward - worldwide that was a step forward, and I say that there. But he also indicated that corn-to-ethanol plants in the US are getting big subsidies to do it, and a lot of them are not getting very far. They're going broke. They're cooperatively owned and they're not really successful. That was his view.

DR BYRON: Just coming back to the potential of gene technologies and getting more protein and amino acids and so on into the grains, can you give us an estimate of what the potential impact would be of that technology if successfully developed in terms of what would it do to lowering costs or improving quality?

DR COVACEVICH: Okay. The patent - - -

DR BYRON: Are we talking 1 or 2 per cent reduction or 20 per cent reduction in costs?

DR COVACEVICH: This is the problem. There's been a study done by the Department of Agriculture in New South Wales, and they looked at the economic benefits of various research programs in the grain industry, and they operated - their criteria for whether there was a benefit or not was a 20 per cent increase in relevant value of whatever it was that was being done, whether it was digestible energy, amino acid profiles or whatever else it was going to be researched.

The conclusion of that research was that energy was a better deal than amino acids, but the disappointing thing for anyone for research people was that the only areas where they felt research would be of relevance in New South Wales anyway was in lupins and naked oats. They were the only two crops that they felt commercially research should be carried out on, using this criteria of a 20 per cent improvement in the value of that particular aspect of that research. That's what I've applied here. I've said in arriving at that analysis that I've done, I've used a 20 per cent improvement in the amino acid profile.

The US patent, Pioneer's patent, doesn't address the issue of how much they are going to actually increase the amino acid profile of grain. So they do look for amino acid profile increases from anywhere from 30 per cent to 70 per cent. But if you operate on a 20 per cent improvement in amino acid profile for sorghum, my study shows that it's worth around about $4 a ton. That's just the amino acid profile increase. Say on a hundred sows using about, say, 10 tonne a week, that's $40 a week, $2000 a year. The other complicating thing with sorghum of course - well, it's not complicating, but the other beneficial thing with sorghum is to apply fertiliser to it and keep that protein level up anyway. That's a very simple solution. So you need to be looking at - I would think you need to be looking at, at least 20 per cent. The thing that's been driving the energy research program in the feed for livestock program has been that one unit of digestible energy is worth $20 a ton, and that's what's been driving that, but there are - I've had disagreements with them about that because you can substitute - for example in a pig diet, you can substitute sorghum for barley, and the value of increasing one unit of energy in barley then is only worth about 2 or $3 a tonne or you can go to another crop. So 20 per cent.

DR BYRON: We've had one other submission from Ridley AgriProducts that made it clear to us that this whole optimal diet thing was far more sophisticated than we had realised when we wrote the draft report. So we're still learning on that, but thanks.

DR COVACEVICH: Can I just comment on one thing: all the research papers that I've been able to access on the web generally look at lycine and methionine. They do not look at the total essential amino acid profile, and that's a bit of a concern to me, because you need to look at the total amino acid profile. For example, threonine is a limiting amino acid when you're preparing a lactating sow diet, and if you have to use corn, corn has a deficiency in threonine, a relative deficiency, and so you have to supplement - if you're forced to use a corn-based diet for a lactating sow diet, then you have to use a supplementary form of threonine. So it's not just a straight matter of lycine, it's also the other amino acids.

DR BYRON: Geoff, was there anything else?

DR COVACEVICH: Thank you.

DR BYRON: Thank you very much for that. We appreciate your expert professional technical input.

DR BYRON: Mr Hatton? Thanks very much for coming.

MR HATTON: Thank you.

DR BYRON: If you'd like to just take a seat anywhere.

MR HATTON: In front of this I take it.

DR BYRON: Near a microphone for the transcript, and whenever you're ready, if you could just introduce yourself, summarise the main points of what you wanted to tell us, and then we look forward to discussing it with you, and thanks very much for coming today.

MR HATTON: Thanks. My name is John Hatton. I represent Hans Continental Smallgoods in the supply chain. Hans is a vertically integrated pig operation in Australia. We have a sow and grow-out unit in Queensland, substantial interest in a processing facility at Swickers. We have joint venture partners who also have genetics interests in Australia, and substantial grow-out pig operations. We have four value-adding processing plants; two in Brisbane, one in Kingaroy and one in Sydney. We turn over about 50,000 tonnes of pork a year.

We tend to concentrate most of our efforts in the domestic market. We've got one particularly major end user. We do some exporting of pork. We export pork in fresh form to Japan, a little bit to Singapore and also other markets, Hong Kong in value-added forms. So the company has a substantial interest in the pig industry in Australia. We put a submission in on the basis that last year, the industry was doing it in a very tough way. We had substantial droughts which had raised feed prices. We had a lot of imports coming in. I should mention that imports are a substantial part of nearly all the major processing operations in Australia today, mainly due to the lower cost imports coming into the market. So last year was a reasonably tough year. I think that most of the growers would agree in the last four or five months that the pig market has improved.

The Australian dollar has strengthened, which has made it much more difficult for us in the export side. So we put a presentation in on the basis that we thought there were - I know it wasn't part of the criteria for this inquiry that safeguards were something that we thought should be looked at again. I know that wasn't part of the terms of reference, but my reason for visiting today was in essence after reading part of this draft report, that I believe that the industry will still have some significantly tough times ahead.

This morning I had a look at our import prices of what we were being offered in the Australian market two hours ago, and I wrote them down just to remind myself why we put a submission in to the inquiry in the first place, and just to give you an example, domestic legs meat we're using in Australia at the moment is costing between $6.50 and $6.60 a kilo. We can buy imported leg meat out of Canada this morning at $4.90. Shoulder meat, which we're selling for $4.70 a kilo, we can buy imported for $3.30. Middles which we're paying 4.70 to 4.80 for at the moment, we're getting from Denmark at the same price. Middles carry some other interesting issues because of quality. For example, we're not comparing apples with apples. Middles that are Australian middles are not essentially comparable to international middles. Loins for example in Australia - we sell fresh loins in the Australian market, $7.50 this morning, imported $4.95.

So it's a pretty tough market out there, and we're going to be - I think the impact of imports will continue. The significant increase in imports is likely to come in the next few months if the Australian market stays firm. One thing that has crossed my mind is that having worked in other countries - I've worked in China, I've worked in Turkey, I've worked in Europe, I've worked in the United States, so I know a fair bit about its supply chains and how they operate, how subsidies work in some of those countries. I think that there is going to be - probably if there's no help given to the Australian farmers, it will become a fresh food niche market pork supply chain. Imports might top out at about 80 to 90 thousand tonnes, and the rest of the supply would be needed out of the Australian market.

We've already seen in the Australian market over the last few months some rationalisation. People have gone bankrupt and some of the older growers have decided that they'll depart the industries. So the big get bigger and I think they say the rich get richer, the poor get the picture. So that's how we're - I'm seeking that we know that if we read most of the academic books on how we should look, that industry is rationalised in their own way. We come to this commission on the basis that I think that we do require an industry in Australia - pork industry. We certainly need a fresh one, that's for sure, and I'd like to think that there could be some assistance given in the development of supply chains within the industry.

What I mean by that is we should look at improving the genetics. In our submission we mentioned that there are superior genetics offshore. We should be looking at how we could make that a priority to get that into the country with the technology that's changing at the moment. There are other people with much more expertise than myself in feed grains and price of feed, and some of the issues that run with that, and the complexities of ration design and whatnot. I think we could also look at sow housing in Australia. Australia has a hotter climate, as we all know, and the Canadian and other markets, maintaining sow health and herd health is easier in a colder climate. So they get better fertility and conversion. So there could be some areas that we could work on there from an Australian industry point of view.

In the supply chain also, there's the logistical issues. We're a big country. We move things long distances. Certainly from our point of view, there are large benefits in working together with certain supplier groups to pull our logistical costs down. Our investment in factories for example in slaughtering and boning, we know that there's some real benefits in getting capacity utilisation of these plants. If you're going to spend $40 million building a boning room and a slaughter operation, you had better have them full, otherwise you'll be looking for a job.

So from a supply chain point of view, I believe we need to start to follow the trends that are occurring overseas, larger operators, probably more integrated; facilities that are full, facilities that are getting capacity utilisation and lowering their overall costs. On the market development side, I think there's significant opportunities in the Australian market, and Hans is working on this fairly vigorously at this time, for developing a much stronger fresh food base in Australia. From our numbers, fresh in some of our major end users is only about 8 per cent of their turnover; we think we could take fresh pork to 13 to 15 per cent, so it's a significant driver for the business. I know we're competing with other proteins, beef and chicken, so there are some opportunities to drive that.

The other thing that I've thought about a fair bit, having worked in Indonesia and Thailand and whatnot, that our disease-free status is a very important attribute for our product. There's certainly some massive issues right now with regard to bird flu and other diseases occurring in Thailand and Indonesia, so it's not all doom and gloom for the pork industry. The pork industry has some opportunities. We have EPA issues that aren't anywhere near what they are in parts of Asia. We have many hungry mouths to feed in north Asia. China is a massive market, as you know, which will take our offals and particularly more of our lower-priced by-products, so there are opportunities, and I think from Hans's point of view, we'd like to think that coordinating and investing in our supply chains and our efficiencies will be certainly a good way to guide this industry forward. None of us want to be in a business that doesn't grow. If we don't grow these businesses, they wither on the vine, and it hurts all the small communities out there who are trying to survive, so we think there are certainly some opportunities as well as struggling with some of the negatives that we've seen over the last couple of years. So I think that in essence is the way we're looking at it.

I think in your report you were suggesting that there were changes that we could make with regard to industry measures to improve competitiveness. I thought that was pretty prescient - is that the word? Improving the efficiency of production and processing operations, we know we have to drive that and we have to use the latest technology, technology that we're seeing overseas. For example, about six months ago I spent some time in Denmark looking at their new robotic slaughtering operations. I've worked in Europe where they have robotic chicken operations and there's no question that other countries will continue to go ahead in leaps and bounds. We have to be competitive. We'll have to put the investment into some of that and that might involve some R and D in the Australian operations. The other measure was in greater vertical and horizontal integration and I can see that happening here; it'll happen whether we like it or not and whether we're for it or not. Using more long-term supply contracts between pig producers and grain suppliers, I saw that as an interesting area because we've looked this year at supply contracts between pig producers and ourselves, and knowing, after two difficult years, the pig producers needed contracts, we've offered contracts for a very considerable number of pigs in the last three months and in the main, 95 per cent of those contracts have been accepted.

I should state however that there's a little bit of arbitrage in the contracts, in the sense that if the domestic market dramatically drops for whatever reason, we have not a get out of jail free card but we have a capacity to lower the price we pay for pigs. It's paying more than the market but it's still like a fifty-fifty deal, if you know what I'm saying.

MR EDWARDS: Could I ask how far forward those contracts go?

MR HATTON: The contracts we've conducted, only one of them goes to any length; all of them are 12-month contracts, and I think you'll find it's not just our company but others have done the same thing. The other thing, in your report you said about improving carcass measuring systems and quality assurance practices; I've only been working in the pork industry about four years - previously I came from the beef industry and other industries - so one of the concerns I have about the pig industry is they have what they call a P2 measure.

MR EDWARDS: Yes.

MR HATTON: It's inaccurate, it doesn't have a high R-squared, and it only is one measure on a pig. It doesn't tell us much about the leg in particular or the shoulder, it tells us a little bit about the middle. This industry desperately needs a much more accurate measuring system so that when you get that accuracy, the plants that buy it, the value added plants have confidence in the product they're buying. It's like at the moment, you can buy a Mercedes and find that the back half of it is a broken down Cortina, so we just don't want to do that. The other occurs as well, where you buy a Cortina and you get a Mercedes. That is not a good way to do it. So if you can't measure your product, you can't manage it, so we desperately need to spend some money on that and I think that's pretty well accepted within the industry.

Carcass sizes, it's true that if we get larger sizes, our costs come down dramatically; we see that in the States, with 92 to 93-kilo carcasses. Europe is not as high as people imagine. I think the European average is about 78, 79 kilos. Our average is probably about 74, 75 kilos. But I always temper a view on that carcass size with the idea that you have to meet the market. There's no point in producing product the market doesn't want, and the Australian market requires smaller pigs. It's a slow process to change that market. I think there should be more value added; for example, in Canada, we value add - there's a lot of what they call moisture-enhanced product. It allows the product to be cooked without destroying its qualities. One of the problems in Australia, the Australian housewife tends to overcook pork and it becomes tough and it's not the experience they want. So all those opportunities sit there for us to pick up and develop our domestic market. So from Hans's point of view, we think that that's a driver from the inquiry's point of view.

The other thing you mention is about boar taint. I've heard many arguments about whether boar taint exists or doesn't exist, who smells it, who doesn't smell it. Having worked in Asia, I'm very aware of the idea of umami or the idea that we all have different abilities to smell different things. Some people don't smell boar taint, some people do. We've asked our suppliers this year to castrate their pigs which is costly for us, but we believe that long term it will add to the eating quality and eating experience, so we would in essence agree with that concept as well.

Extension and information systems, we believe that there's enormous opportunity within our supply chain to provide information down the line, information coming back from the growers with regard to how many weaners they have, what their growth rates look like, what their supply rates will be, all those sort of things; information coming from our operations showing carcass characteristics and their supply rates and all the things that go with that, meat quality as well. We're putting a lot of work and time into that and I believe that that will continue to make the industry more sophisticated, as it is in, for example, Canada or Denmark.

The other thing, the last point, diversifying income streams, not being totally reliant on pork income, I think we tend to be going more to specialist growers rather than the other way around, so I don't see diversifying income streams as necessarily where it's going to go because if you don't focus on this business, you're not really in it anyway. So anyway, that was our take on what we wanted to present; the rest is in this paper we wrote. That's about it.

DR BYRON: Thanks very much for all that. I should start by saying that I don't think we could take any credit at all for any of the ideas about the measures that industry is already taking itself, apart from - I don't think industry needs any encouragement or anything else from us, but it seems to me that many of those things that are already under way are going in the right direction and industry was already doing it long before we started this inquiry. It seems to me that there's a lot of work already being done to continue to make the industry as competitive as it can be because it is under such pressure. Those prices that you quoted just highlight exactly where the pressure is coming from. I hadn't appreciated that some of those differentials were so great.

Can I start with - if you could elaborate a bit more about the potential for fresh pork in Australia because it does seem to me that that's one area where the domestic producers by quarantine really have the market to themselves and it does seem to me that to a certain extent, perhaps it's been taken for granted. We've been trying to get information from how much of the total 400,000 tonnes of pigmeat production in Australia goes for manufacturing as opposed for fresh meat and the usual answer is, "Well, you know, we think it's somewhere around 60:40," but nobody can tell us where that rule of thumb came from. When we ask about per capita consumption of pigmeat in Australia, they say, "It's gone from 14 kilos to 20 kilos." "How much of that is fresh meat and how much of that is ham, bacon and smallgoods?" "Oh, it could be around 60:40." You know, I'm surprised when there's an Australian fresh meat market there that we haven't been able to find out very much about it, and why is that? Is it just ticking over by itself?

MR HATTON: I think one of the issues would be the wholesale trade. The wholesale trade tends to buy a carcass from slaughter operations and then they drop them into butcher shops; the Chinese community, for example, in Sydney buys a lot of bulk carcass pork. So I guess if you wanted to go down the whole - I'm surprised that those numbers are not well understood and not analysed to where it all goes, but I imagine that - I'm not sure what secrecy lies in the numbers but I would imagine that the carcass trade would soak up a significant quantity of - the butchers are still essentially using carcasses. You see, one of the trends that's occurring now is that the beef fellows have started to convert from using whole carcasses of beef into boxed beef, delivered to butcher shops. We're seeing that wherever you go. The pork industry has been very slow to go to that model and maybe it's because pork is easier to handle. I mean, it's a smaller carcass; you don't have this monstrous 200-kilo thing looking at you. But even so, we're seeing now this trend towards boxed pork.

DR BYRON: Selling in packs, ready to go into display cases.

MR HATTON: Not necessarily that; I think there's going to be a trend and we're seeing it already. They're buying carcasses - that's why it's probably not that obvious as to where all the meat is going. Then they can do it in a three piece, legs, middles, shoulders and maybe in a Cryopak bag to maintain its freshness. If you sell it in a carcass, you've got to get rid of it fairly rapidly. The next trend will be then what's called a boxed pork which is what we're doing a lot of now; it's still in a Cryopak bag but it's undifferentiated. It's not to the end user. The last part of the business is a boxed pork program, to market specification and user ready, prepackaged, predated, prepriced. So we do all those things; we do carcass trade, we do what they call a three-piece trade, we do the boxed pork program and we do customer-oriented prepackaged, retail ready. So when it gets to the store, they just take it out and put it on the shelf. That's the job done. That's probably why the numbers may not be that obvious because I think you've got to track all that through the system, where it's going.

But you're right, there is a big potential I think for pork. I mean, the supermarkets to my mind are very beefcentric because it's a cultural thing. Beef has always been culturally stronger than pork, but I think that if they see an opportunity for improving their cash flow or their returns for using pork, they will. I think APL has done a lot - I'm not up to speed on all the activities of APL - but I know last year they did an enormous amount of work on a pork advertising campaign, fresh in Australia, but that's got to be driven by very committed processors, people who want to make it work, because if you go into a retail ready pack, you have to get the quality right. There's none of this near enough is close enough any more because it will all come back to you at a hell of a rate of knots if you get that wrong. Let's say the cowboy aspect of the business has to go, so you have to be - for example, supplying Japan with beef, the beef guys had to get that right 30 years ago. If they didn't get it right, Japan wouldn't buy any beef off them. That's the sort of level of sophistication and quality that has to drive through the pork business.

MR EDWARDS: If I could follow up on that area, if I heard you correctly, you said that without assistance to the industry, it will become a fresh pork industry only. Did I get that right?

MR HATTON: No, there will always be value added usage of products with pork because the bone-in story - you can't bring bone from overseas, so all your bone-in products into the Australian market have to be - at this stage, the rules could change - but at this change, it has to be domestic pork.

MR EDWARDS: Yes. But that consideration aside, are you saying that unless something changes policy-wise, your side of the industry, the processing sector, is going to find it commercially sensible to source virtually everything from overseas?

MR HATTON: Yes. I think it's even worse than that in a sense because with new technology, fibrous casings, cook in a bag technology, overseas countries can make those value added products overseas and put them into Australia with six-month shelf life on chilled product.

MR EDWARDS: I think we were told by Coles that their policy was to insist on significant Australian content in their processed products.

MR HATTON: Yes.

MR EDWARDS: They said that their customers demanded that, but are you suggesting that that's not going to be a strong enough force to stop the Australian product becoming a very small thing in the processed pigmeat area?

MR HATTON: If Coles took that view and all the other users stuck to that view, I'd agree, that'd be a great fillip to the industry. However, if Coles has got the product for sale for $3.90 a kilo and the fellow down the road has got it for sale for $2.55 a kilo, it puts the pressure on. At the end of the day, I think that's a hard policy to keep if the numbers are substantially different; that's what I'd be saying. I'm not saying they won't keep it, but I am saying that the numbers always tend to find their own home, don't they? You know, at the end of the day if you're getting product for $4 million cheaper in your import division than you are in your domestic division and it happens year after year, there's a huge incentive to convert to an imported product.

MR EDWARDS: In the case of the middles, you said that it's very hard to compare them, it's a case of apples and oranges, but I read you were saying that the imported product is significantly superior.

MR HATTON: Yes. Are you asking me why it's superior?

DR BYRON: Yes.

MR HATTON: Meat quality. Because we buy middles - and essentially they're from Denmark, okay - they are read with a machine which is ultrasonic, so it gives you a better idea of the total meat yield of the middle, rather than a P2 score, which we've discussed previously, which gives you a reading over one small area of a middle. They can then sell us a product that's 65 per cent meat, for example, rather than a P2 score which doesn't essentially tell us that. It tells us that there's that much fat sitting over a loin in a middle. So that difference translates, when you put it through a factory, that we have much better yields out of imported product than we have out of domestic product.

The other issue with domestic product is - maybe it's the genetics - we have bigger saddles, so to speak, more fat between the loin and the belly which makes it less attractive to the consumer. That's another major issue. The other issue we have with Australian product is it's more variable. For example, you might get a run of pigs that are all 12 mils which is considered reasonable by our standards, but it doesn't necessarily yield well when we put it through our value-adding factories.

I gave an example in this paper of - and I think if you want 100 tonne, if we want 100 tonne of middles processed this week for a 100-tonne order, and we've got an 80 per cent return on using imported, 80 per cent I'd have to buy about 125 tonnes of import to make that 100 tonnes product. The other 25 tonne would have to be sold as B grade or whatever. If I use domestic and I get an 80 per cent result that's good, I've only had to buy 125 tonnes. But quite often I get 60 per cent result so I've got to buy 140, 150 tonnes of raw materials to make that product. Then I've got 60 tonnes of second and third grade product to sell as well.

So when we go to the plants, if I said to the plants, "No more domestic product tomorrow, we use all imports," they would - "Great, fantastic." We can run our business a lot more efficiently. We don't have all the bottlenecks in the plant, reworks. We know what our yields will be. I've less customer complaints, all those sorts of issues.

MR EDWARDS: So is that significant superiority of the imported product confined to the middles or does it exist for other components of the pig also?

MR HATTON: No, it's only the middles that that issue arises. Most of the other imported product is boneless and it's also rindless, and in the main it's normally trimmed fairly heavily. So we would buy three-piece leg, C105s. Most of it's 95 to 97 per cent CL which means that there's very little fat on it, so it's trimmed down. Probably one small issue that we could get out of the United States is marbling, too much marbling, intramuscular fat in the meat, but that's not a problem that we've noticed at this stage.

DR BYRON: Can I just clarify on the middles that come in from Denmark, that's whole middles including loin and belly?

MR HATTON: Yes.

DR BYRON: We've been confusing the statistics. Somebody suggested there is the possibility that they're taking the really valuable loin out and then sending the rest of it, and I said, "Well, that's not consistent with the bits of bacon that I see that have a loin."

MR HATTON: No, a middle is made up of a loin and the belly portion which is attached to the loin and over it sits the rind and the fat. So it's basically one third of the pig on one side, sliced with a saw, deboned and that's the product. So every middle comes and looks the same.

DR BYRON: That's exactly what I thought, but we were looking at the prices that the Danish exporter reports for middles and it's a standard sort of eight-digit commodity classification for middles and the prices they get for all other countries.

MR HATTON: Yes.

DR BYRON: It seems from that data that when they send their middles to Australia they get an above average price, not quite as much as they get for sending it to Japan but an above-average price. But, you know, they sell a little bit to China which seems to be at ridiculously low prices and you say, you know, can this possibly be the same product? But it seems to me a middle is a middle, is a middle, to a certain extent.

MR HATTON: I can tell you how that happens.

DR BYRON: Please.

MR HATTON: What they do is, they look at the Australian market. They're basically a monopoly in Denmark. There's only two companies in Denmark, Danish Crown and Tecan, right. Tecan is small, 5 per cent.

DR BYRON: Yes, Danish Crown is 95 per cent.

MR HATTON: Danish Crown, yes, okay. They're a cooperative so everyone is a part - they look at the Australian market and they work out that Australian pigs are selling for $2.40 a kilo. Therefore a middle is worth about $4.80 a kilo. So if they sell these middles at $4.80 a kilo it's equivalent almost to the Australian market, knowing that their quality is better overall. So that's how they work it. Because one trader looks after the whole business into Australia - it might be bought through 20 different outlets but one major company focuses on the Australian market. They get what the market will bear, okay? So that's how it works.

DR BYRON: So they've been commercially smart.

MR HATTON: Yes, and they look at other opportunities, for example they look at what their loin prices are doing into Japan, because you can pull the loins out of these things and tip them into Japan. You can take the bellies out and maybe put them into Korea. You can take other middles and put them into the United Kingdom because the United Kingdom buys quite a few middles off them as well. It's about the only other market they've got.

DR BYRON: The same type of bacon as we eat here.

MR HATTON: Yes. Then they can make a pastrami-like product and tip it into Italy. So all those issues they look at, obviously that's what they're paid to do. The other thing that could be - look at variation, is we also in the Australian - they sell derinded middles which is substantially more expensive than rind-on middles and if they're bulking all those into your middle report you'll see rind-on and rindless middles all in the one result.

DR BYRON: One of the other - well, you might be able to answer another thing that has been bothering me, is that the prices that they report when they export bacon seem to be very, very close to the price that they report exporting middles and the question is, you know, how can they do that so cheap? Why isn't there a greater differential that reflects the conversion cost?

MR HATTON: This is the Danes?

DR BYRON: From Denmark, yes.

MR HATTON: Well, where are they exporting it to?

DR BYRON: Here.

MR HATTON: Cooked bacon in the Australian market?

DR BYRON: That's what I thought it was, yes.

MR HATTON: Any volume?

DR BYRON: No.

MR HATTON: Trial?

DR BYRON: Trial.

MR HATTON: Small trial, put in a base price just to see what happens. I don't think there will be any - it costs at about $1.5 a kilo maybe to process bacon. The Danes have a high cost structure in their own country. They're taking their processing and boning offshore. They're going into Northern Germany and Poland. The bulk of their new operations are robotic in Denmark with the killing of the pigs and the boning is being done and evaluating will start to go into Poland, into the cheap labour countries. They've got EU subsidies which they can use if they need to, to push prices down and move them around and look at new markets. So I would think that it's more likely to be trial product rather than - yes.

DR BYRON: Okay. On value added when most of the legs coming into Australia from Canada are used for making ham here, it occurred to me, well, why don't the Canadians make the ham and export that to us?

MR HATTON: That's the significant issue for the Australian industry. If the Canadians or the Americans turn on their plants for another half an hour at the end of the day and just pull that lever and say, "Okay, we'll have another 25,000 tonnes we'll tip into Australia," which they can do, "We'll put it into fibrous casing." It's got six months' shelf life, say, in some of those products. Why don't they do it? That's the worry. They've got the factories and people working in those factories, and that would be a substantial issue for the Australian industry, and I would imagine that they would be looking at that.

DR BYRON: And that affects the growers and the abattoirs and the manufacturers rather than just the growers and the abattoirs.

MR HATTON: Yes, that would be a concern.

DR BYRON: Yes. Well, it's not obvious to me why it couldn't happen. Most of the things I was going to ask you about - you know, improvements in the supply chain, but you've already elaborated on that.

MR EDWARDS: Perhaps I could go to a different area. Under your heading Feedstuffs you've pointed to the differences in the price of feed grains across different parts of our country and you're suggesting a recommendation that, "The government set up a reserve price for grain with a variance account related to the market to smooth the significant variation in grain and protein costs across Australia." I find this an intriguing suggestion.

MR HATTON: Yes. I'm not sure whether I had a brain explosion when I wrote that, but I put it in because I think it was - I didn't know whether you'd pick up on it or not. Okay, I've got to answer the question. It just seemed to me that one of the issues that drives our industry, we buy pork out of South Australia, we buy it in New South Wales, we buy it in Queensland, it's such a big country that there has been an issue this year for example where probably you can produce a pig in South Australia in the last months for $1.90. But in Queensland - and I'm sure there are some Queensland growers here today - they might be punching them out at about $2.30.

I mean, grain is a massive driver of cost, as you know. So it crossed my mind: was there a way of evening out the pricing of grain as your major cost input without it becoming a subsidy. So we've got a two or three or a five-year plan to even out those grain costs, so that people don't get this whiplash effect of getting up and down in their returns. It's very hard to talk to a bank manager if you're having one bad year in two or one bad year in three - if you can go to a bank manager and say, "Look, I've got the reserve price tucked in on the price of the grain, I've got a contract with Hans Smallgoods for this, I can build a business, I'm a professional at what I do." So it crossed my mind: is that possible?

I mean, for example, I knew in Canada that they have been able to, in some ways, work the market so that if grain gets too expensive you tend to be able to get some sort of soft loan or whatever to get through the process and then you repay it when the job turns or the meat price goes to a certain level. I know there are subsidies overseas or adjustments overseas that look after these sorts of issues for people. Even in Turkey where I worked for a while the grain is enormously expensive but they have those structural ways of - so certain industries can survive the differential in price, you know.

So I just threw it in as something to think about, so to speak because, I mean, I'm certainly not in the grain business and I have no knowledge of how the grain industry essentially works and, you know, we've got this single-desk selling and all the other issues that I've read in some of these reports. But I thought maybe that's a mechanism. There's probably as many growers think it's a silly idea because if they think they guy better than the next guy then it makes them more competitive than their neighbour in the marketplace, so be it. Maybe there's a potential for those who want to be part of it and those who don't. Maybe there's some way of structurally putting that in place.

MR EDWARDS: If we believe in markets - and I guess most of us believe that markets will take us a long way to getting a good use of resources - then we would be attracted to the idea of the industry growing a bit more in South Australia if grain prices happened to be lower there than in other states.

MR HATTON: I think that's true and I think the industry has moved to South Australia, to a certain extent. But then we might have five or 10 good seasons in Queensland. We've got a tremendous sorghum crop I think at the moment and so our inputs could drop in Queensland over the next few months, down to significantly as cheap or cheaper than South Australia.

The thing that crossed my mind is, when you work in the United States we can buy futures price on the beef, we can buy corn futures. We can do all these things to manage our business more efficiently. The Australian farmer, the poor bloke, he goes to work every day; he's got no way of hedging what's happening to his grain. He's got no way of hedging what's happening to his inputs or even his outputs because his outputs, he can't say, "I'm going to sell cattle futures tomorrow," unless he gets into a very small market, a small cattle market operation.

So he's sitting there, he's working the world marketplace now, and he's got no real mechanism of easily managing it. If he wants to go offshore and start playing games with corn futures and what not, he's got to manage the exchange rate risk and he's got to manage a lot of other risks, and you've got to be pretty damn sophisticated how you run all that. But he needs the ability to do that. If we're going to grow this business in Australia he needs to be as sophisticated as those guys sitting in there, in Chicago. He needs to know what they know. So I was thinking in the sense that this is something that should be laid on the table and looked at, because if we're going to work in a world market we'd better be able to run our risk strategies as well as the next bloke.

MR EDWARDS: Well, although it's certainly true that Australian farmers don't have the risk management opportunities that exist in North America, you have mentioned that contracts between growers and processors are becoming more significant. Other people have mentioned that, and in particular there is one hedge that applies in the pig industry that is of some interest I think and it's a hedge that growers don't have to take any action to realise. It's the automatic hedge, the natural hedge if you like, that occurs because when the Australian dollar appreciates, reducing pigmeat prices in Australia, that also reduces the price for grains which is the largest single cost item for farmers.

So I think sure, you're right: the farmers don't have the same chances to take risk reducing strategies that some of their competitors do. But there is that natural hedge through the exchange rate.

MR HATTON: Yes, I agree with that and over the years there's a natural hedge just by living a long time too.

DR BYRON: When we have been engaged in long and complicated discussions with people in the OECD who are doing the estimates of the producers' subsidy, producers' support in Europe markets and one of the things that struck us is that the OECD has used one number for the processing costs between the farm gate and the wharf basically, and it works out the current exchange rate is about 60 cents Australian. This is from five to six abattoirs in Northern France and they said, "Well, it's probably average for Europe because it's halfway between the Scandinavian north and the Mediterranean south and besides it's the only number we've got."

MR HATTON: Yes.

DR BYRON: Now, have you got any idea at all whether that would be a wildly high or low number?

MR HATTON: Is that per kilo boneless product delivered port or bone in?

DR BYRON: I think it's boneless but I've already been warned that there's different degrees of boneless too, whether it's very crude or very microsurgery stuff.

MR HATTON: If you looked at ex-farm gate what's it going to get it to an abattoir? You know, that depends on your location, okay, so there's some logistics involved there. Slaughter costs 22 cents a kilo maybe, depending on the size of the pig. The heavier the pig, the cheaper the slaughter costs, because most of it's done on a per unit basis. Boning costs, just for a simple bone out packed into a bag, in a box, into a freezer, 42 cents a kilo to do that. So we're now up to - and then you've got chilling, freezing costs about 7 cents a kilo, distribution cost about another 7, so we're talking 40, 54, and that's about 20 on a bone-in product which you're talking about 25.

So we're talking about 79 cents now and then you've got to get to the port, so you've got your two - 79 input to get there. So say it costs 7 cents to get to the port, we're up to 86 and it's cost you 5 cents to get it there if you're a farmer. We're up to about 91 cents a kilo to put that supply chain stuff together. That's without packaging. Then if you add packaging, packaging is about 16 cents a kilo, so you're now up to $1.07 a kilo to take it from there and put it at the port without insurance and all the other issues, border costs and what not.

DR BYRON: Can you comment whether the Australian process of getting from the farm gate to the wharf is more or less expensive than what it would be for an American, Canadian or Danish product? Are we comparable? I don't need to know exact numbers but I'd like to know.

MR HATTON: Yes. Freight costs in North America are cheaper than here. But then again one of the advantages we've had, most of us live on a seaboard so we can tip it onto a ship fairly easily. It might be travelling 3 or 4 hundred K's. If you're in the middle of Canada or Iowa you've got to stick it on trains and they chuff it across the States and then into a port somewhere. So there's a lot of what they call inter-naval stuff being done. So I don't think that they have a competitive advantage mainly because of the logistics of how far they've got to move a product.

When they put it on a ship, however, they do get some advantages because the trade, the North American trade, is larger than the Australia-Asia trade for example. So if they're tipping it in Japan it might cost us, say, 40 cents a kilo to get it to Japan on a ship. I'm just not sure of those numbers, but going back, thinking back two or three years, out of the States it's substantially cheaper, normally because there's an enormous amount of back loading being done.

DR BYRON: I was going to ask you about that. We did an inquiry into international container shipping and the amount of refrigerated cargo going out of Australia is something like 15, 20 times what's coming in.

MR HATTON: Yes.

DR BYRON: So there's an awful lot of repositioning of empty refrigerated cargo containers and it occurred to me that maybe one of the few products that comes into Australia refrigerated might be pigmeat, in which case if you've got containers, reefer containers, that would have come back empty from Europe or North America there's an obvious opportunity for back loading.

MR HATTON: Yes, and that's what happens. That's what happens. If you're smart about what you do, you will back load your Canadian and US product out of Australia with agreements with major shipping companies, you know, the P and Os of this world, and you'd do that deal based on the volumes that you could offer them. So if you said, "I'm going to import 25,000 tonne of meat," that will be a back load compared to what they've got to take, because most people don't realise, but a lot of containers come into this country empty and you've got to still bring a whole ship here to get it here. So it's a significant cost to those companies.

DR BYRON: Well, the shipping lines told us it's something like one-third of all the containers on the ships coming in are empty ones being repositioned.

MR HATTON: That's it. There's other issues about roads. We talked for hours about this, you know, using B trains, using 40-foot containers, not 20-foot containers, another two-tonne load limits which will get us into Korea and Japan and other countries which will accept the heavier load limits - may not necessarily be part of America or - and all those issues. Working at the margins there's certainly significant opportunities, working on the logistics side, and I think that's the issue for the pig industry. I mean, I think that we're going to be in the pig business for a long time to come. Let's make sure that we're smart about how we run the whole supply chain - you know, a cent here and a cent there, you know.

I think one of the US senators said a few years ago, "You know, a billion here and a billion there and soon it turns into real money," talking about one of his budgets. In Australia we have to be a bit more refined, a cent here and a cent there and guess what: a farmer has got an extra 20 grand in his pocket at the end of the year and that might be the difference between him having a good lifestyle and coming to pork industry inquiries trying to work out how to make a buck.

DR BYRON: Okay. I think the time is beating us. If there's anything else you'd like to say, John, just by way of conclusion, otherwise we'll - - -

MR HATTON: No, that's - - -

DR BYRON: Well, thank you very much for coming and sharing all your experience and knowledge with us.

MR HATTON: Thank you for having me.

DR BYRON: Thanks. Okay, I think we'd better adjourn now for a lunch break and maybe we can crib a few minutes and start again at 2.00. Thank you.

(Luncheon adjournment)

DR BYRON: Thanks very much, ladies and gentlemen, if we can resume the hearing. Neil, if you'd just like to take a seat there, anywhere. If you'd like to introduce yourself and then maybe in 15 minutes or so summarise the main message that you want to give us and then we can discuss that for a while.

DR GANNON: Yes.

DR BYRON: Thanks very much for coming.

DR GANNON: You are Neil Byron, I guess?

DR BYRON: Yes.

DR GANNON: And, sorry?

MR EDWARDS: And Geoff Edwards.

DR GANNON: Yes. Neil Gannon is my name. I'm the chair of the Queensland Stockfeed Manufacturers Association. That's just an association of stockfeeders in Queensland. Each state has an association and then two representatives from each state also sit on a national council and we deal with both local and state based issues and also national issues. For my real job, I am the technical manager for our pig business within Ridley AgriProducts, and Ridley has also made a submission to the inquiry through Robert Parkes last week.

DR BYRON: Last Tuesday in Melbourne.

DR GANNON: That's correct.

DR BYRON: He told us that you'd be coming today.

DR GANNON: Yes. So on behalf of the stockfeed manufacturers, we've put in a submission which I think you've had a chance to have a quick look at and there's particular issues that affect the Queenslanders as opposed to all the stockfeeders. A lot of things have already been outlined in the draft report.

Just to go into some of the background as listed in my presentation, stockfeeders represent about 101 feed milling sites and we represent about 90 per cent of all the feed that's produced in Australia. There's about 4.6 million tonnes of feed manufactured annually through our members, so we've pretty much got all the important representation, both across the large and small producers. Within Queensland, we have 17 full members and 24 associate members and we actually account for about 95 per cent of the stockfeed produced in Queensland, so again it's a significant representation of the industry.

There's about 21 and a half per cent of the sows of the Australian sow herd located in Queensland and you've probably heard all that information this morning, and obviously the feeding of these pigs is vitally important to our members. One of the particular issues that has an impact on our business is that Queensland is ideally situated for export of pork into both Singapore and Japan as opposed to our southern neighbours, and then when that export market disappeared for the various reasons identified in the report that you've heard ad infinitum no doubt, one of the biggest aspects was on the Queensland pig producers as opposed to, say, some of the southern people where the markets weren't really designed to cater for those larger pigs. In my presentation there, in figure 2, I've just shown the data presented from APL which shows that the average slaughter weight in Queensland has dropped off at a much greater rate than it has compared to the Australian average and the representation that export pigs are larger pigs; if that export market disappeared, then we'd produce a smaller pig. The importance of that for the stockfeeders is that if a smaller pig is produced, then there's less feed, so ultimately we end up feeding less animals - we feed the same amount of animals but less meat required.

So as part of all that restructure, smaller pigs, less profitability, a lot of our members have found it very difficult to maintain their businesses and in particular, a lot of our members have carried large debts and actually lost a lot of money on some of the more notable people who've gone into receivership. There was one producer in the Southern Downs that had a combined debt level of about $5.4 million when his business went under and stockfeeders were left holding about nearly a million dollars worth of that debt and it was unsecured because the banks had the first right. So the stockfeeders are particularly concerned about the debt level that we're servicing which is directly related to the profitability of the pig industry.

The other thing that obviously we're particularly involved in as stockfeeders is the supply and cost efficiency of raw materials. Certainly the industry is doing some things to address that through this Premium Grains for Livestock Project through the Pork CRC, but there's also some other things that would improve the efficiency or the cost effectiveness of utilising of brains and they're things like standardising of railway lines between New South Wales and Queensland, improvement of shipping rates around from the western and southern states, through utilising of boats with foreign flags instead of Australian flags - - -

DR BYRON: Cabotage.

DR GANNON: - - - cabotage and that sort of thing. The ethanol industry is another one that I've made reference there to and Myles covered that this morning, I believe. A review on import restrictions on feed grains, that goes across the whole of Australia but also obviously Queensland. Queensland tends to be a net importer of grains much higher than certainly the southern states, and obviously on an Australian basis, there's plenty of grains for all of the animal users and pigs in the country but if you've got to pay excessive freight to get it to where the animals are, then that has a big impact on the profitability of pig feeding. The single desk exporting of grains and the effect that has on grain prices has probably been mentioned and again it's another one that impacts on the profitability, particularly in drought years as occurred two years ago.

They're basically the things that we particularly wanted to cover from the stockfeed manufacturers' point of view and I think you've got some questions in regard to some of the other things like Robert mentioned down south.

DR BYRON: Thanks very much, Neil. That is very helpful. As I said to Robert last Tuesday, we're very interested in getting submissions from people who know a lot about the industry but who are not pig producers themselves and can therefore be perhaps a bit more objective about what's going well and what's not going so well in the industry, so we appreciate the insights that come as a very well-informed observer in the industry. One of the things that struck me when you were talking about the large pigs that have been intended for export coming back on the domestic market, did I catch you correctly in saying that Queensland was affected more by that than the other states?

DR GANNON: Yes. When the exports opened up, it was new markets but particularly the proximity to Singapore, we could get product fresh into Singapore through planes much quicker than we could, say, out of Victoria, so the Queensland industry ramped up for the export market much quicker than the southern states and the requirement for export is a heavier carcass, so a larger pig.

DR BYRON: But Western Australia told us I think that something like 25 per cent of their total production goes to Singapore and they're only a three or four-hour flight, so - - -

DR GANNON: Yes, they're even closer.

DR BYRON: Yes. But QAF also told us that there's 100 tonnes of pork in the belly of every Qantas and Singapore Airlines plane that goes out of Tullamarine, so it may be a long way, but I suspect that anybody who is producing the heavier carcasses for export might have been adversely affected by - - -

DR GANNON: Yes, everybody is affected, but certainly in the numbers there, it appeared - and it may have been for other market forces as well - but Queensland's average slaughter weight dropped from January 04 - or probably rose from, say, May 03. It was about 76 and a half kilos and it dropped down to 75 and a quarter, whereas the average for all of Australia was only 73 and a half, dropping down to 72 and a half.

DR BYRON: I'd never appreciated that there was that much difference between them.

DR GANNON: Again if you go back to September 01, on that figure 2, the bottom graph for Queensland, you will see that that was really when exports took off and you will see that average slaughter weight prior to exporting opportunities was only about 73 kilos and it ramped up quite quickly to 76, whereas on the same graph above, there's an increase but it's not nearly as great. Again, this is not really my area of expertise but certainly with the customs that we have, the people, how they attune their markets, they seem to have been - again, I can't say whether they've suffered more, but they certainly have felt the impact of the exports.

DR BYRON: If we can get back to grain and feed which clearly is your area of real expertise, I think your comments about transportation infrastructure is something that - I mean, the commission for years has been talking about improved logistics and mobility and flexibility, but the argument was put to us in South Australia that pig producers there have located an area of cheap grain and they see that as part of their advantage and so they're not terribly happy when somebody from Queensland starts buying all their cheap grain and it's not so cheap any more, or even worse, if the drought is declared and so all the cheap grain that they located suddenly is bought for drought relief in New South Wales, Queensland or Victoria, and so they're saying, "We wanted this low-cost grain, that's why we're here, that's part of our long-term advantage in being there," so I guess to the extent that transport infrastructure and logistics frees it up and there's sort of a more uniform grain price across the whole country - you know, as a single market rather than regional markets - then the South Australian pig producers would to a certain extent lose from that. They wouldn't necessarily get their grain cheaper than others.

DR GANNON: I think that's fully true. That's where if you go back to dairies being located on the outskirts of the cities and then moving away and poultry farms are still there and all this sort of thing - that's the normal geography of things - I guess the issue with Queensland is that pig producers have located on the Downs because of the sorghum. The same argument can go for the South Australian guys when there's no grain, but in the last 10 years, they have had, through quirks of nature, very reliable grain. They have never actually been without grain. But the pig industry and the dairy industry and the beef industry developed in Queensland because of the sorghum, which is the only dedicated feed grain in Australia, but when it's in Moree or Narrabri and just can't get across of the border because - you know, graphically it's only 200 kilometres away but it gets to Goondiwindi and it's got to go from a train onto a truck with all the associated costs. So the industry is located in the area where the grain is but it just can't get it delivered as cost effectively as probably South Australia can.

DR BYRON: But obviously anything that frees up the mobility and the flexibility and getting the input where it's needed is going to improve the long-run efficiency and competitiveness of the industry.

DR GANNON: I think so, and the submission was really a call for looking at it from a national perspective more so than from just getting the Queenslanders sorted, but it certainly has been an issue more so for Queensland in recent times because Queensland has had less of those good years compared to South Australia. The other thing, certainly for South Australians, the cabotage, they would suffer just as much in South Australia getting grain around from the Western Australian ports as Queensland and New South Wales would.

DR BYRON: Sure. On a dedicated feed grain industry, someone this morning said why does a grain grower grow feed grain if he can make more money growing grains for human consumption, so to see the emergence of a dedicated feed grain industry in Australia, is it one of the prerequisites that it has to be at least as profitable as growing hard white biscuit wheat or whatever else that we've been doing up till now?

DR GANNON: The problem seems to be I think in the culture, and again it's probably as much anecdotal rather than factual, but certainly there's a stigma associated with growing grain. If you talk to grain growers, they want to grow bread wheats, and there's no profile associated with growing feed wheats. Feed wheats are often downgraded bread wheats. There is a classic example where a red wheat was developed in Victoria which was actually a feed wheat and it was designed to grow in low rainfall areas, marginal cropping country, but you would get a yield that was quality that was not bread-making quality, which pigs and cattle don't need, and they released this red wheat, people started to grow it for a couple of seasons and all of a sudden they said, "This cropping game is not too bad, we'll take our chance growing the real wheat," so within a number of years, the red wheat feed industry just disappeared because people started growing bread wheat and they knew that if they played their chances, "Well, if there's one in three years I'll get the premium wheat, I'll take it and I'll still end up with feed wheat anyway which is what I was growing."

The other part of the cultural change is that the grains that we require for feed actually will yield much higher and so grain growers have to get around the mentality of dollars per tonne and look at dollars per hectare. There are gene pools at the moment of grains that will yield 50 to 70 per cent higher than the current hard wheat varieties and so they could have a 20 per cent reduction in price but get 50 per cent more yield, and so dollars per hectare - they would also not require the same degree of fertiliser input. They would still need herbicide treatment and that sort of thing, but it's really about dollars per hectare rather than dollars per tonne and overcoming that stigma associated with growing premium qualities.

DR BYRON: Geoff, did you want to ask some questions?

MR EDWARDS: Could I ask, what's your take on a single desk? I think you did allude to it but you didn't go into any detail. Do you think it is a significant factor impacting on feed grain costs in Australia?

DR GANNON: Certainly during the drought, that was probably when the effects were most noticeable. Grain was grown in Australia at - you know, the costs of production were no different to any particular normal year and the grain board probably brought them in at a price slightly higher than a normal year, but when they came out of the storage, they were significantly elevated and they were factored in at a price equal to what we could import them, from overseas, and that was the whole issue, that it was probably a $100 a time increase in the cost of the grain because of the single-desk marketing as opposed to - and I don't know enough about the economic side of it, as opposed to whatever other model there is. But certainly in particular years that single desk did have a significant impact on all animal producers, particularly pigs.

MR EDWARDS: Are you talking there about animal quality wheat?

DR GANNON: No, the thing is that we basically - animal users use wheat and there's various grades of wheat. At the top end there's the pastas and the semolina type wheat. Everything else is a variation of proper bread-making wheat and when it goes into the pools it's often - well, they do have feed grades and they have other grades. But out of the pools it all comes back to us as a feed wheat and it's not necessarily just - you know, it's not grown as feed wheat, put into the pools as feed wheat and comes back out as feed wheat. It might go in as general purpose or blended but it will certainly come back out to us as wheat and in years when there's not any feed wheat, which is downgraded product, we have to buy bread-making wheat. That's just the wheat that's out there.

MR EDWARDS: But the wheat that was classed, I think you said, at import parity when it came out of storage, was that human consumption quality wheat or off wheat?

DR GANNON: It could have gone to human consumption. It could have gone to human consumption, yes.

MR EDWARDS: So your view is that the single-desk arrangement is raising feed prices for the pig industry?

DR GANNON: Yes.

MR EDWARDS: You see that happening mainly in drought years or in all years?

DR GANNON: Well, the single desk means that there is only one place for export and if the single desk actually buys the grain in their pools then they sell it out at the price of export parity. But in a year, like now, we try and buy grain directly from the farmers so it short-circuits that whole grain pool concept. During the drought year, when the grain pools had bought all the wheat and there was no other wheat to buy directly off farm then you have to buy through the pools and that's where the price was elevated and one of the risk strategies that certainly most stock feed manufacturers do is, they will enter into a long-term agreement with a grower and particularly that grower has some on-farm storage, then we short-circuit the whole grain pool part of the system.

But it's when there's no grain to buy, as in a drought year, when all that grain has already been committed and the only place you can get it from is the pools in significant quantities. I mean, the smaller feed millers, they could probably buy 200 tonnes from here and 200 tonnes from there. But it's when you start looking at it from the whole, you know, large requirement that it becomes harder and harder. The other thing is, if the price is being sold through the export single desk and that's the market price, then the grain grower that has the grain, he will sell it obviously at market price as well. So even though the grain is not physically going through the books of the Wheat Board it will be traded at the same price as what they're setting. So again there's an elevation in the cost there.

MR EDWARDS: But that's a natural thing, isn't it?

DR GANNON: Look, that's a natural thing that, you know, supply and demand forces will gauge where it is. But I guess it's not an equal supply and demand in that the grain boards have that right to sell their product and there's no competition in there. If you had two players, maybe there was some collusion or who knows. But I just get the impression that if there was two people there that could have exported that grain and arrange for some of it to be used locally then the price may not have escalated as much as it did.

MR EDWARDS: Is it possible to make a generalisation on the proportion of stock feed grain that's sourced directly from farms and the proportion that's sourced by other means?

DR GANNON: It varies so much on a company by company basis. But in Queensland our members - see, some of our members actually have trading arms as well where they actually buy the grain themselves and move it on. So it's difficult to estimate - it would vary so much, I would think.

MR EDWARDS: But would it be right to say that most stock feed producers would only buy wheat from the AWB as a last resort?

DR GANNON: No, because we need grain - you know, grain is harvested, you know, started in November and goes through till now; it's all done now. You've got to get grain in August and even, depending on the price of sorghum, we'll still use wheat in August. So somebody has got to warehouse that product and that's where a lot of grain growers don't have the ability to store their grain for long periods of time, whereas the wheat boards and the likes will do that.

So in a normal year I would suspect that most stock feeders would probably buy half of their grain from the pools and half up-front, buy as much as they can and store it themselves or get contract storage on a farm. But then during the year they would have to - - -

MR EDWARDS: Go back to the pools.

DR GANNON: Back to the pools and depending on the arrangements - again it comes back to supply and demand and when you buy the grain - you might even buy it from the pools and distribute it throughout the year as well. So there's so many considerations as to where you actually get your grain but it's a matter of having grain throughout the whole of the year because it's - and that's where Queensland and all Northern New South Wales have the advantage of having a summer crop and a winter crop, sorghum being the summer crop, wheat being the winter crop. Down south the guys down there probably buy 80 per cent of their grain through the pools because they will actually have great big bags and they will warehouse it and you will distribute it out, and the growers would have some more.

Up here, because there's always the risk or always the chance of a summer crop, people only buy on a six-month basis rather than a 12-month basis because they know that in summer they will get sorghum and they will re-establish their contracts then. So it's a different marketing risk strategy management.

DR BYRON: I was going to ask for your opinion on what would be the two most useful or effective things that a government might do with regard to feed for the pigmeat industry. There's all sorts of things have been suggested and I'm just trying to - - -

DR GANNON: Rank them.

DR BYRON: Rank them.

DR GANNON: It's about having supply at the right price, so a supply of grain at the right price. The problem I see is that in a good year none of the market forces or mechanisms really need to be - or none of the government interference for want of a better word needs to kick in.

DR BYRON: Yes.

DR GANNON: Normal supply and demand - sorry, if I could go back to - this feed grain advisory group, this was set up I think in 1999 or something like that, when there was a drought year and the similar sort of problems that the industry was facing the last couple of years was evidenced then. The problem was, by the time the group got established, identified its outcomes, the next year came along. It was a bumper year, plenty of grain around and everything was sweet, and that's part of the problems of the cyclical nature of things and to some extent when this Productivity Commission was initiated, you know, it was through a bad year.

But then, as the graphs and things you've had access to show, it's now actually a pretty good year. It has been a good year for wheat and sorghum. The pig price is very high, so pig producers are actually making a little bit of money. In terms of your question about the two priority things, it would be, I guess, facilitating the mechanisms so that in a bad year when interference of some sort is needed then we can have access to it and that would be in relation to import protocols for grain. If Australia has a bad year and there is not enough grain for all the users then we have to import.

The chicken meat industry was able to use one of those imports because they were close to port but the rest of the stock feeders, you know, we benefited because we could then use the grain that was up-country which the chicken guys weren't accessing. If you feed up those requirements, even in a good year, depending on the price and availability grain might be imported as well. So it's a bit hard to know whether you're doing something for a one-in-five-event or one in two years. So the forecast for animal production used to significantly increase. The beef guys are going to increase the potential for pigs perhaps. The chicken guys are going to increase.

So the net requirement for feed grains is somewhere up around 20 million tonnes or something, I think is the estimate and that has got to come from somewhere. So for the future I think if we have those infrastructure and arrangements in place then that will take out a lot of these highs and lows that the industry finds difficult to cope with.

DR BYRON: I'm just wondering about - you know, we've had a few examples in the past and a lot of other countries have had, where government sort of steps in to try and fix something and occasionally makes it even worse.

DR GANNON: Yes.

DR BYRON: You'd want to make sure that if we were going to set up systems for solving problems in the bad year that (a) they actually did solve the problems and (b) they didn't create worse problems.

DR GANNON: Yes. I think on the import side it was the fact that it took a long time to actually get the importation protocols approved and by that stage the AWB maybe had a chance to sort of run with its pricing. If those protocols had been approved already and if there had been adequate forecasting mechanisms and having a real handle on how much grain was actually - people knew how much grain was in storage but there was not enough information on how much was actually committed and this is where the AWB held the industry to ransom to some extent. They said, "Oh, we've got all this grain but it's all been committed."

Well, had it all been committed or was some just waiting to come out later at a higher price? If there was good information on what the grain stores in Australia were and what was available then there might have been some lead time, because it takes you six weeks to get the grain from England to Australia in a boat. So you need at least two months to even start contract negotiations and two months is a long time in terms of elevating the price. So if the industry knew that we could import grain and we could see that there was a potential there, we could organise some boats to come in and just take some of that heat out of the market and just stabilise it for everybody. So that would probably be one of the most practical things I would think from our point of view.

DR BYRON: But those import protocols are sorted out now. I mean, you said it took a while to sort them out in 99 but is it a case that once the rules are known you'd be right next time?

DR GANNON: Well, from my understanding there was very limited importation of grain in 99 but certainly there was a fair bit imported just recently, and again the protocols had to be re-established and then also individual people had to be licensed. Inspections had to go on, to make sure that the facilities could handle it, all those sorts of things like that. Also I guess those people that brought grain in were only at the ports, you know, Brisbane, Newcastle, down in Melbourne and for the broiler industry, whereas the stock feeders certainly could have used some of that grain if the protocols had allowed us to take the grain up-country.

I understand the risks that some of those products could have potentially brought to Australia but with particular processes in place - and this is where the government would need to step in to work out what are the appropriate protocols to allow grain to go from Brisbane port to Toowoomba for example, where a lot of the stock feed manufacturers are located. If there was knowledge of that and it was basically just a quick audit to say, "Yes, you still meet the requirements," then people could actually go out and start buying grain together.

DR BYRON: Just a system that could move much more quickly rather than having a long lead time?

DR GANNON: Yes, and basically what happened with the pricing, if you were to look on the system, price of grain basically it was about - to buy grain from England and cart it out was about $355 a tonne for wheat and the price went to $350 with AWB because they knew that that was still different, and that's just supply and demand and that's what they're entitled to do for their shareholders and whatever. But had there been a lead time and we could see that the price was going, well, we might have been able to bring that grain in.

We could have also maybe organised some regular importation, regular shipments, and so the price of that $355 of grain, tonne of grain, I think somewhere in the order of about $150 was just in loading the grain and getting it transported because it was just a one-off business, whereas if there's regular supply routes there then the price would actually come down. It may have been that it might have been $300 a tonne to import grain. We still would have put a cap on the single desk or what people would have used.

MR EDWARDS: Neil, before lunch we heard from Myles that Australia was missing opportunities to move in a GM direction for feed grains.

DR GANNON: Yes.

MR EDWARDS: Do you have a view on that one?

DR GANNON: I do, and I think I agree with Myles in that the soy that we're importing at the moment is all US or South American soy and it could be GM, we don't know. But it's not segregated so we already have a precedent in the stock feed industry of using genetically modified products. If we intend to feed the large amount of animals that ABARE and others are forecasting, and we've got limited yield and limited grain growing areas in Australia and limited quality for what we want in the animal species, then I think GM is the only way of doing that.

Although some of the seed pools at the moment, as I mentioned before, can have 50 to 70 per cent increase in yield on current varieties they're not GM. but if you want to get some of those grains that have drought tolerance or have specific lycine or other amino acid characteristics or specific non-starch polysaccharide levels, which are what we're trying to target in terms of the animal, then genetically modified grains would be the answer for all that.

I think we're getting enough techniques in the animal industry, certainly out of Premium Grains For Livestock Project, to actually assess what animals want. Just to recap, we would buy wheat on a protein - it will be 12 per cent protein, it's this price. 13 per cent is a different price. That has no bearing whatsoever to what animals want and this is where it's such incongruous - that we buy downgraded wheat specs but it has no bearing on what the animals really require and we group animals together as buying grain, but actually chickens have a completely different requirement for grain as do pigs, as do cattle, and sometimes a specific downgraded parcel of wheat, even at 20 or 30 dollars a tonne discount, is still of no value to a pig producer.

But we don't know what parcels will be and what parcels aren't, so if you could use genetically modified grain which had that characteristic that we can now start to identify and rapidly through NIR techniques, then we would be able to structure a feed grain or structure grain that producers could use. In a good year it might still go to bread, in a bad year might go to feed. But I think that a feed grain industry is really the only way that Australia will survive and certainly the stock feeders are looking at doing that. QAF, for example, have already commissioned some of the growers to grow specific variety of wheat for their requirements this season.

Certainly we'll be looking at those sorts of things as well, so that we take out some of that requirement on downgraded human product for our needs and genetically modified would accelerate that ability to have regular supply of good eating quality grain for our animal livestock industries.

MR EDWARDS: Has your organisation put to government the view that liberalisation of the current position on GM crops would be advantageous?

DR GANNON: At the national body I'm not aware, if I could just defer to Myles. I'm pretty sure that it would only come from our National Stock Feed Manufacturers Council of Australia, which we have an executive director and whatever. There has been no formal position appointed in that way. We had our bi-annual conference in March of 2004 and certainly genetically modified grains was high on the agenda and the opportunities that it presents, so certainly that's our position. But it has not been formally stated, as far as I know, to the government.

DR BYRON: Well, thanks, Neil. Is there anything you'd like to say by way of closing to wrap up? We don't have any more questions.

DR GANNON: Just one thing that I would like to reiterate from what was presented by Robert Parkes in that I'm not aware in certainly reading the draft report and the level of understanding of actually what goes into pig feeding. I mean, there was a comment in box 1 in the overview that says that corn is a great grain because it's got a higher feed conversion ratio. Well, actually the way higher feed - that's actually a bad thing, but that's just the words.

But corn only has a better feeding value in the US because it has higher energy which in a castrated animal where there's no fat requirement it's not of any value and it's really a combination of a feed conversion, the growth rate the animal gets and the carcass characteristics that you elicit from those grains and that goes for proteins, that goes for everything that we feed. So that was why we do need a feed grain industry where we utilise those particular things rather than just saying, well, it's human by-product, you know, corn and soy is the answer. "We don't want yellow fat, we don't want separating fat." We've got to change the consumer preference for white fat to yellow fat before we start going down the corn industry.

So at the moment, there are a lot of things that we can do in terms of feeding animals from a nutrition point of view, and my background is as a nutritionist. It's just a matter of being able to have the industry there, the profitability in industry for these people to actually embark on some of these things. Liquid feeding might be a solution, use of enzymes. These are always being developed and improved and we're doing a lot of these things already at the moment to try to extract that extra value out of the feed conversion, but we need people to have money to actually change their feeding systems and to really make it a long-term thing, rather than just being an ad hoc industry where people come in this year because the prices are good and they disappear next year.

I think you've heard lots about supply chains and I think that's where the feed industry is an integral part of the supply chain and it goes back then to the grain growers. If the grain growers can be part of that supply chain, they will grow feed grains at an agreed price; we can then get that feed into our feed mills, offer our customers feed at an agreed price for a year basis; they can go to their processor, get their pigs sold at an agreed price, and the whole supply chain works. That's really where we've got to get to.

DR BYRON: I said to Robert in Melbourne that you're right, our understanding of feed issues was pretty simplistic and naive the first time, but thanks to you and Myles and Robert and a few other people, we've got a far better understanding of the sophistication of getting the optimal diet for the industry now, so thanks for that.

DR GANNON: I think the government has to be commended on approving the Pork CRC and the investment that's sort of also come partly out of industry resources for the Premium Grains for Livestock Project, and those two projects, I think it's going to be five or seven years before the outcome is really going to be obvious in the industry but it's certainly the way we need to progress, and certainly the Pork CRC will build on that good work to date. But no, thanks for the time to present our views of the world and hopefully it just enables you to be a bit more aware of the whole picture and make some valid recommendations.

DR BYRON: Thank you very much.

DR GANNON: Thank you.

DR BYRON: Next is Mr McLean here. Take a seat. Can I thank you for the submission that you gave us last year and thanks very much for coming today. If you'd just like to summarise the main points you want to make today and we'll talk about them.

MR McLEAN: Okay. Yes, in my submission I spoke mainly about our cost of production and how we compare against the companies who we're now competing against in supply pork to the Australian industry. McLean Farms have 2 and a half thousand sows. We have an investment in the pig industry of probably 8 or 9 million dollars and we see it as a very viable business and an integral part of our business as well.

Over the last seven years we've been developing our export business into Japan mainly through a group that we're in called the CHM Alliance; that's Cameron's at Goondiwindi, Hall's at Millmerran and McLean's at Pittsworth. We began this originally in conjunction with Woolworths and Chisholm Manufacturing, and then Chisholm Manufacturing got sold on to another business and now Hans Smallgoods owns what was the Chisholm business and we're still exporting pigs through that same business to Japan.

In the early years, the exchange rate was a lot more favourable than what it has been in the previous few years and we've been exporting virtually at a loss or a break even over the last three to four years, I guess because we've got ourselves into a situation where if we stopped or if our group stopped exporting, that would put more pork back on to the Australian domestic market and then that would have put excess pork on to the Australian market, making it worse than what it already was, so we were committed to continue in the export, and at a time when the domestic prices were slightly better than the prices we were receiving for our export business. So when we had to make that decision, we knew if we'd pulled out of Japan, we'd have never regained those markets back again, so we were committed to continue to supply at our own detriment, but we would hope for our benefit in the long term.

So I guess the more imports that were envisaged to come in, the more we see export as important, and the more we exported, if the price of the pigs looked like increasing in Australia, we believe the importers probably would then be more inclined to put in more import orders, therefore we would then in turn need to export a higher percentage of our pigs to try and maintain an equilibrium of price, but unfortunately we could see there was no real balance because imports were unlimited and our exports were limited by our own production, abattoir capacity and also boning room and packaging capacity, as well as import orders. We were constrained by whatever orders we could fill. So we felt it was a very unbalanced system but nothing could bring it to a supply and demand situation which we believe should be a normal marketing position.

As far as the cost of production is concerned, we use a pig recording system that's fairly well used around the world, it's called a PigCHAMP program, and in that, we get comparisons with producers in the US and in Canada. A lot of the main KPIs or the key production indicators that indicate our cost of production, our piggeries are equal to the top 10 per cent on that PigCHAMP recording system that is used fairly widely throughout the US and Canada.

So we see ourselves as being well competitive on the production side of things. We have our own Australian costs and our own building costs, fuel, labour costs, prices of products, the prices that we pay for goods and services in Australia. The only real difference or the only real product that changes our cost of production is the price of feed which is generally influenced by the price of grain. The price of grain is the main factor contributing to feed price which is the main change to us to our cost of production.

We do compete against the Canadians and the Americans in Japan but we don't seem to be able to compete against Canadians in Australia. That's a question that I can't sort of find an answer to or understand.

DR BYRON: Yes, that was one of the questions that I was going to ask you. You say in the submission that somehow they land product in Australia cheaper and I'd say, well, what do you mean by "somehow"?

MR McLEAN: I guess they export a certain cut or a leg meat only. From what I understand, that is their least valuable cut on the pig as against in Australia, leg meat is the most valuable end of the pig.

DR BYRON: When you say "compete with US and Canadian producers in Japan", is that for the same products or is that for cuts of the meat other than legs?

MR McLEAN: That'd be for cuts of meat other than legs, yes. We do export leg meat into Japan as well but it's mainly on an as-required basis. It's generally a five-cut set that goes and the leg meat is optional when we export. When they're a bit short or if the price is right, the leg goes; if it's not right, it stays in Australia.

DR BYRON: We've heard quite a lot about how legs are much desired in Australia and sort of the opposite in Canada, so it seems fairly logical that they see Australia as a fairly attractive place to get rid of legs that aren't particularly sought after in North America or Japan.

MR McLEAN: Yes, it's excess.

MR EDWARDS: From your point of view, perhaps that's an unfortunate reality of the marketplace, that differential value in the legs in North America and here.

MR McLEAN: Yes, it's reality, I accept that, but we need to be able to do something about it because we need to survive, to keep producing pigs to keep supplying the Australian market with the rest of the pig, because you can't grow pigs without back legs, being - you know.

Okay. So our cost of production is really influenced by feed prices. From comparisons of our key production indicators, our production rates well with the Canadians and the Americans. We see ourselves as being as good as the top 10 per cent of the American and Canadian producers. It is only our costs, like I say, of feed ingredients, Australian labour prices, energy, products, hardware and consumables that we use that we have to buy Australian or at Australian prices.

I guess you've heard a lot about the price of grain, but we are grain farmers ourselves; we produce probably about 40 or 50 per cent of the grain we use. When I left school in 1972, we were receiving $120 a tonne for feed grown then. Equipment - harvesters and tractors - were worth between 30 and 40 thousand dollars. Fertiliser was 10 cents a unit, and nitrogen fuel was 24 cents a gallon, and that comes back to 4 cents a litre. Today, again, grain is worth $120 a tonne, the same equipment is probably worth $300,000, fuel is what it is, so the grain farmers can't necessarily continue to produce grain at the prices that the feed industry or the pig feeding, cattle feeding and poultry feeding industries need to buy it at to compete against imported product that may be the tail end of their marketplace or may be their lowest value product. So I guess we need to stay in business and consume a couple of million tonne of feed grain that's produced in Australia for the pig industry, or if there isn't a pig industry, yes, there's going to be excess grain production and we'll need a market for the grain as well. The feed costs account for 63 per cent of our cost of production, or last year that was our figure. The next biggest cost is labour at 9 and a half per cent of our cost of production.

Pig production facilities are usually built in the rural areas or the grain-growing rural areas. They're an integral part of the community and of I guess the financial flow of communities and how rural Australia survives. If the likes of pig businesses are not making money, there are flow-on effects that would be accelerated and multiplied. Our fear is, if imports are to continue to be allowed to come into Australia uncontrolled, unrestricted or I guess just openly or freely, the Australian pigmeat industry may need to retract back to the supply of fresh meat only and all processing meat may then be able to be imported. If that was to happen, then any kind of disease outbreak, any trade embargos, wars or anything else, then Australia would be very short of meat then. So maybe allowing imports I see is a very short-term easy way out for processors in the marketplace to sell cheaper meat to the Australian consumer but it may not be the best strategy in the long term.

I guess to put it into a summary, we do pay Australian prices, we do pay

Australian labour, we do pay Australian taxes, so we expect to sell our product at Australian prices.

DR BYRON: On that last point, Allan said earlier this morning that we're selling at world prices but paying Australian prices for imports. That's the same as what you just said.

MR McLEAN: Yes. I thank you for the privilege of coming down and talking to you today. I only just sort of got here just before, so I haven't been able to hear any of the other speakers.

DR BYRON: Can I just ask a couple of questions for clarification. I completely accept your benchmarking figures that you're in the top 10 per cent compared to North America because one of the things - I've said this lots of times before - that struck me, the piggeries, small, medium and large that we've been to around Australia, seem to me to be incredibly well managed and people know to the fourth decimal place exactly where every penny is coming from and where it is all going to, but it also occurred to me that you could have the best-run piggery in the world, but if you don't have the right logistics and processing facilities between your farm gate and the consumer or the export market, there's a lot of things that can go wrong and you might still not end up with the most competitive price.

So one of the things that we've been trying to explore is, well, okay, even if the growing side is very well managed, is the process inside as productive and efficient and low cost as possible? We looked at the big Danish co-op and we know in the US there's a single business on a single location that's the same size as the total Australian industry put together, and so saying, okay, if it's hard to get the final product to the export market or to the retail customer at the right price, is it possible that some of that extra cost is occurring in our processing sector, the logistics and transport? Is there anything you can shed light on there?

MR McLEAN: Only opinion, not facts or numbers. I mean, we are shareholders in the Swickers operation up at Kingaroy. It's just been built, it's been purpose built in the last couple of years, as you've probably been told.

DR BYRON: Yes.

MR McLEAN: You've been through that. For the few trips I've done outside of Australia and being through pig abattoirs - it probably would account for about six or seven different plants in the world - I see the Australian operation on the surface as being as good as or as efficient as anything that I saw of a comparable size. The Americans of course - and I've only seen the American processing side of things - just sheer numbers control their scale of economies. The cost of labour and the cost of having labour in the abattoir I see is a huge - it may be a disadvantage in Australia as far as costs are concerned. I mean, labour has to be looked after and all the rules and regulations with workplace health and safety and super and on and on it goes, they are our costs. I feel that probably our competitors don't have the same costs with their labour as what we do. As far as equipment, machinery, buildings, processors, it's all just as good - well, it is. It is European and American gear.

DR BYRON: The same machinery.

MR McLEAN: Yes, it's the same equipment. So the only thing is our labour, the speed that our people can work at and the quality that they work at, and from what I see, it's as good as - quality-wise and speed of operation - any of our competitors that I saw.

DR BYRON: Okay. If we cross that out as an explanation, another possible explanation is that even if the cost per kilogram of carcass was the same in Australia or Canada or whatever, or Australia and Denmark, hypothetically, they may be able to get sort of premium prices for certain cuts and therefore a certain part of the pig they can sell at a lesser price because they're getting a top price; in Denmark's case, for the front and the back end, they can sell the middles pretty cheap.

MR McLEAN: Yes.

DR BYRON: The average cost of production for the whole pig doesn't tell you much about what you're going to get for individual cuts. The price for specific cuts is going to depend on supply and demand for each of them, isn't it?

MR McLEAN: Yes, that's right. One plant we saw in Canada was skinning their pigs and they were getting about 10 or 11 dollars per skin. Australia, if you skinned a pig, you'd be lucky to get a dollar or so for the skin. I guess they had a certain market for that. So I mean, straightaway that's $11 off the price of a pig that allows that processor to then either make more money or to sell things at a better price somewhere else, or if a pig can be broken up in 50 different ways and there's all different prices for all different products, yes, if you sell one at a higher price, you can sell something else at a lower price. Offal is a prime example of that; there's not a very big market for offal here in Australia. You need a certain quantity to be able to pack containers to be able to export to Asia, so hopefully now with throughput of numbers, that can be done, so that's going to then lower the cost of slaughtering and/or processing pigs.

DR BYRON: Just on the export of offal to Asia, somebody told me that there was a problem with the meat export standards that were sort of written with a view to selling prime cuts to North America or something. I'm not sure which bits they were but there was something that the Chinese wanted to buy and the Australian meat industry went, "You can't sell that stuff, that's not good enough for human consumption," so they wouldn't let it go, even though the customer wanted it. Have you ever heard of any stories like that?

MR McLEAN: No, I couldn't - - -

DR BYRON: Okay, doesn't matter, forget it.

MR McLEAN: Not the quarantine but the standards for collecting offal I imagine would be or are fairly stringent, yes, and it can only be done out of an export-accredited plant. I guess that is a high cost that an export abattoir has where, as against a domestic abattoir, the cost of licensing and the AQIS inspections and the standards have to be obtained or attained to be export accredited and I can't comment on what the cost is, but it is substantial.

MR EDWARDS: You've stated that the last few years have been very difficult ones for you. We've heard generally, as we've talked to people in the industry, that since around about September of last year, things have been significantly better, both through improvements in product prices and through lower grain prices. Is that your experience also?

MR McLEAN: We supply to the export - well, to the Japanese market and to the domestic market and prices have not improved. Actually the prices that we've been obtaining for our Japanese export product have remained relatively the same for the last five years, but unfortunately we sell in Japanese yen, so as the yen has been getting stronger against the Australian dollar - is that right, whichever way it is, anyhow - so five years ago, we were getting about the same price for the products and the yen was at 65 cents to the Australian dollar; now it's at - I don't know what it is today but it's about the mid to high 70s, and so we're receiving sort of 20 per cent less than what we were five years ago for our export product which has been about 60 to 70 per cent of our production. We made a decision to continue with our export because of the long term and the risk of if we didn't supply in any one week or month, the Japanese - to maintain markets, you have to maintain markets. You can't pull in and pull out. Yes, the domestic market has improved. Unfortunately, we haven't been able to take advantage of that because we've been export orientated.

MR EDWARDS: But on the feed cost side, your situation would have improved?

MR McLEAN: Yes, it has improved markedly over the last six months, and going forward, the feed grain prices are becoming very cheap, which as a pig producer, that's fine, but we are also grain producers and we see that if Australian grain farmers do not get reasonable prices for their feed grain, they will not grow feed grain. They will turn to alternative crops. So it's unsustainable for Australian grain farmers to be growing grain at $120 a tonne, type of thing, in this day and age. They will go out of business.

MR EDWARDS: Thanks.

DR BYRON: Well, I don't have any more questions but thank you very much for coming. Was there anything you wanted to say by way of conclusion, wrapping up?

MR McLEAN: No, just thanks for the opportunity to speak to you.

DR BYRON: We do appreciate the time and effort you've put into the written submission and coming here today. Thank you very much for your time.

MR McLEAN: Thank you.

DR BYRON: That's the advertised agenda for the day. As I said this morning, we always give anybody in the room at the end of the day the opportunity to come forward and put any observations on the record. So now is the time, gentlemen. You've seen the form, if you just introduce yourself, whatever you want to say.

MR FEARON: My name is Peter Fearon and I'm currently manager of the Queensland Pig Consultancy Group which has got approximately 60 members, paying members, that service the pig industry. They're not actually pork producers but they're people that service the pig industry such as Neil Gannon, pig company representatives, consultants, drug company people, and we were going to put in a dot point submission but didn't get around to it. So I'd just like to comment on some of the things that we've heard today, if that's all right with you.

DR BYRON: Excellent, please, that's what the hearings are for.

MR FEARON: The first person up today was Pork Producers Incorporated. I've just got a few dot points here that are sort of answering some of the questions you asked, I think, that price trends show direct correlation - pig price, there is a direct correlation between fresh and processed pigs for the fresh market and processing. There's usually a constant in fresh, in differentials between light and heavy pigs of about 30 to 50 cents, and that's roughly what the difference in producing the two different weight pigs is and that's sort of as a mindset I think. It could be a little bit more than that. I think producers of lighter pigs need a higher price for their pigs.

Another point that came up was about pork consumption and the high price the producer was receiving last year. I think a lot of the price of pork is related to the price of lamb. Now, lamb went through the roof last year and pork relatively was a lot cheaper. People bought more pork because it was cheaper. Then there was a bit of talk about the quality of pork. The fact that pork has subcutaneous fat and beef has marbling, has intramuscular fat, makes a lot of difference to the eating quality. So if you overcook pork it's dry, whereas with beef it's intramuscular fat and it's always succulent and that's why they're talking this morning about - what was it called?

DR BYRON: Moisture enhancing.

MR FEARON: Moisture enhancing. Yes, that's what they're doing, is actually putting more moisture in it so it doesn't dry out; it makes it more tender. Then there was a question about the structure of the pig industry. Well, I didn't mention before in my introduction that I used to be in the Department of Primary Industries. I was an extension officer for 35 years, so that I've collected figures over the last 40 years that shows that on average herd size in the last 40 years there has been a linear increase in average herd size; it's gone linearly up. In other words, the number of producers have gone down and the number of pigs has sort of stayed static, so a lot of smaller producers dropping out every year, those that can't handle the squeezes on them.

There was also a question about the number of the distribution of the pigs in

Queensland. About 95 per cent of the pigs are produced from the Darling Downs in Burnett. The other 5 per cent is distributed between Townsville North, about 2 per cent, and then there's about 2 per cent around the Boonah area and 1 per cent in Central Queensland. So it's about 95 per cent.

Then this is just a comment on what Alan said about government programs. He was saying that research and development was essential. No-one argues with that. But what is missing is the "e" in R, D and E. Having been an extension officer for quite a few years I've seen the demise in the state government extension services. Queensland used to have 10 - I think it was - yes, 10 extension officers; it's now two. As far as the federal government is concerned, in the 60s and 70s the federal government gave the state governments grants for extension, for an extension service known as CESG which is Commonwealth Extension Grants and they have been abolished, obviously, in the 80s.

With the current situation it's a smaller - when I say smaller, it's the producers that can't afford to pay a consultant $100 an hour, probably like you, are missing out on keeping up with the latest technology and information because after a hard day's work probably the last thing they want to do is sit down and read the latest research on whatever it is, and try and adopt it or to know whether they should adopt it or not. I think there's a great need for some sort of extension service, whether it's by APL or - I mean, they have got extension at APL but it's just putting articles in papers at the moment and researchers' reports that people have to sit down and read. There's no-one visiting farmers any more.

There's room for extending information on breeding and genetics and all sorts of things. Workshops are a thing of the past, that we used to run. Discussion groups are non-existent. We used to have benchmarking discussion groups where producers would bring their figures along and they would discuss them and talk to each other about how to improve and get things off their chest and feel better a lot of the time. We used to do cash flow budgets. They have to go to a private consultant to get all this done now and the bigger producers can afford it and they're better off with a private consultant. But some of the middle-sized guys, they probably need that assistance.

To finish up, still on the supply chain - sorry, I've got a little note here that, "Sorghum price is determined by corn futures of the USA," I think is right, in this country. That wasn't mentioned. So our price of sorghum is determined by what the futures price is in Chicago, I think. The supply chain, there are more of them being developed and a lot of the problem is conservatism or not trusting each other or one another. I think one of the biggest problems is transport and logistics. It's all right for the Danes. They've got only 30 or 40 mile to travel from the farm to the factory. It doesn't matter where you are in Denmark, whereas here we've got really two big processing plants. There's a lot of distance involved and so we have tyranny of distance.

I think some producers need assistance in facilitating a supply chain or an alliance. There are a lot of producers getting together, forming alliances. There are a hell of a lot out there that probably haven't got the - don't know how to go about it or are a bit reticent or introverted and need somebody to go out and help them formalise it, because if they don't they will be history, because they need to have a sort of selling group or buying group and get tied up with a feed manufacturer and a processor. Even people selling to butchers, you know, someone should look at getting four or five butchers together and four or five pork producers together to supply them their needs. That's all I've got to say. They're just some observations from today.

DR BYRON: They're all excellent observations, Peter. Geoff, did you want to raise anything about any of those points?

MR EDWARDS: Well, I found them very interesting. I'm not quite sure how one would go about tackling, say, the tyranny of distance.

MR FEARON: What I'm saying is it's an impost that we have that the Danes don't have and some of the other countries that we're competing against.

MR EDWARDS: Well, you call it an impost. Impost often means a government imposition whereas it seems to be part of the natural environment if - - -

MR FEARON: No, it's not - it's affecting the profitability of the pig industry here, because they've got further to travel so there's costs they've got.

MR EDWARDS: Yes.

MR FEARON: They've got hotter weather.

MR EDWARDS: Yes, but in thinking about the broad economic and commercial realities, the distance factor works against us. If our labour costs are higher than labour costs somewhere else that works against us. If it's a bit easier to meet environmental constraints here than it is in Europe then that works for us. You have all of these factors. Some of them go our way, some go our competitors' way.

MR FEARON: Very shortly it won't be easier here environmentally because there's legislation coming in that's going to make it just as tough. But sorry, so what you're saying is that that's just a fact of life.

MR EDWARDS: Well, I don't want to be dogmatic here, but it does seem to me that some of these things you mentioned are, yes, facts of the economic and commercial environment and I'm not sure what, if anything, it would be sensible for government to try to do about them.

MR FEARON: No, I'm not suggesting you do. I'm just - you know.

MR EDWARDS: As far as the formation of alliances, very interesting that you mention that is a concern. Do you see that as something that governments should be helping private people to do?

MR FEARON: Yes.

MR EDWARDS: Or is that a situation where you would expect the private people to get together and do it themselves?

MR FEARON: Well, as I said, they need motivation. Some people need a bit of motivation or help and assistance. Well, they're not doing it and they know they should be, but they just haven't got around to doing anything. Yes, there are some producers out there I think that need assistance, yes, and I think that some of the alliances that are already formed, once they're formed and that, then they can employ their own person to run it or manage the alliance and do whatever they like, to facilitate the groups and what have you. But having been around the pork business for a long time, there are a lot out there that are stuck on their farm and they don't get out much. They don't know who to contact or what to do. Do you know what I'm trying to drive at?

MR EDWARDS: Yes. I mean, this is something that - - -

MR FEARON: You know, you can take a horse to water, you can't make it drink. So I think someone needs to take the horses to water.

MR EDWARDS: Well, I guess there's always the question: to what extent do you expect the individuals to take initiatives that are important for their success themselves or to what - - -

MR FEARON: Yes, I agree. I think most of them should. But as you know, we're all made up of different personality types and some personality types just don't know how to go about it or get involved, or they need encouragement.

MR EDWARDS: So you wouldn't go so far as to say that the government should subsidise personal trainers for producers lacking motivation?

MR FEARON: No. I think it could and if it's in an area, say, like Boonah where there might be 4 or 5 hundred-sow piggeries just sitting there, working away, beavering away, maybe it just needs someone to get them together to talk about it and if they've got the enthusiasm, help them through the processes of starting up and talking to people and leave them to it.

MR EDWARDS: Would you apply this same argument to people trying to make a go of running a restaurant or a fruit and vegetable store?

MR FEARON: People often use that. You measure it yourself. The pork producer is a price taker, not a price maker. They are disadvantaged compared to other commercial enterprises, all primary producers.

MR EDWARDS: I'm not sure just how much ability a restaurant proprietor has to make prices. There's a lot of competition in that game too.

MR FEARON: He's got his inputs and he knows how much it's costing him and he knows the margin to add on and he comes up with a final price. Primary producers can't do that, they're price takers and I think this argument has often been used.

MR EDWARDS: Okay, the fruit and veg shop, they don't get an extension service or advisory service, why should farmers?

MR FEARON: For the simple reason they are the only people that cannot set a price for the product.

MR EDWARDS: I don't agree on that one. I think there are lots of other markets where people have very limited ability to set prices. Anyway, your views were very interesting. Thank you.

MR FEARON: Thank you.

DR BYRON: Thank you very much, Peter.

DR BYRON: Alan, you want to come back? The same invitation goes to anybody else who wants to come back with anything else, any comment they've heard on what someone else has said during the day or something you forgot to say this morning.

MR STICK: Would you like to reintroduce myself?

DR BYRON: I think you just have.

MR STICK: Alan Stick, producer from the Boonah district. Once again, thanks for the opportunity to say something. I've come here grossly unprepared, but I do find this discussion quite interesting, very interesting in fact. Whether anything will come of it, I don't know. But at lunchtime I left my notebook there, came up and sat down here, but I've heard some very interesting things and what I'd like to comment on - I've sort of got them in order - but I'm starting now at the other end following Peter's comments. Peter said there were four or five pork producers 100 sow type producers in the Boonah district where I come from and he said we may need motivation to get ourselves together and get our act together.

Peter, I understand your point but I think that selling groups, the people forming alliances and selling groups are a primitive form of a cooperative. Do you think that applies? The cooperative goes one step further, they create the market which then processes the pigs to a greater or lesser degree and split the profits hopefully. Cooperatives seems to have a habit of not being very profitable. KR Darling Downs was a cooperative for how long, 50 or 60 or 80 years or something, I'm not sure, and I don't think it ever paid a dividend to its shareholders. I'm not sure, but I don't think so.

Some people, the local farmers, approached me about joining a buying group and I said - three, four or five years ago it was a bit of a buzz word, it was something we could do - and I said, "Sure, tell me more about it." He said, "Write down your feed requirements, your sow feed right through to weaner feed and we then tell the stock feed manufacturer how much we'll want and he'll work out a price for the bulk deal." They came back to me with a price for the feed which was dearer than I was buying from my stock feed supplier. So joining a buying group in that case just wasn't worth it. That's why I'm not in a buying group, that's one of the reasons I'm not in a selling group. So, Peter, yes, we do need to get our butts kicked now and again, but not always.

The extension services that Peter mentioned. I said earlier that a lot of these government programs don't have direct benefit to me as a small time individual producer. In recent years they don't. The services that were provided, extension officers were a state service and years ago I found them quite invaluable, especially when I was starting and a little bit inexperienced et cetera, they were quite good things. But now it seems to me that a lot of the government programs that are available are token things, they're done by the governments so that the government of the day can say they helped us. The pork producer exit program I read in the draft findings of the three and a half thousand or whatever pig producers in Australia, was there 90 applications and 70 that made it? It's not much help. You had to be broke to benefit from that program. I keep saying I'm a small producer, I like to think a good businessman - whether I am or not, I'll leave others to judge. But I hope I don't get so broke that I've got to go back on the dole and that's what this thing is.

The Pork Biz program must have benefited a few people. Again, the uptake was 32 or 50 or something out of three and a half thousand people total. Was it the wrong program? Were they preaching to the converted? What was wrong? I don't know. What I found out about the Pork Biz program was fairly elementary bookkeeping. If we don't know that we have to have a budget and we don't have a cash flow and so on, then I think we would have gone out of business already and would have qualified for that exit program. Anything more serious than that and I take the problem to the accountant. I think we're all generally aware of taxation requirements and taxation deductions. We know a lot of those things. So while the government can say, yes, we put that program there to help, who really needs that sort of help and how much benefit is it? Again, having said that, don't let me take it away from those who need it. Like research and development, it must happen, they must be available.

Neil Gannon talking earlier was talking about imported grain. A couple of things I observed at the time, when the grain got here it was selling at the same price as that very expensive drought shortage grain. It was selling for $300 or $320 a tonne or whatever it was. I don't know the purchase price ex-farm America or England. I believe it was around 80 or 100 dollars a tonne and I would certainly stand corrected. I have no idea of the transport costs, none whatever. So the retail cost here of $300 a tonne, was that genuine cost or was the importer maximising his profits. If he was maximising his profits, good luck to him. He should. I would, anyone would. But it's no benefit. Imported grain with its quarantine restrictions, yes, they must happen. We must have those quarantine restrictions for the grain. But if it can't be landed here cheaper than that, then it hasn't served a purpose for us.

Single desk sales, we've covered this topic a few time, I think. Once again that single desk is maximising the profit for a certain group of people and if I demand the right to maximise my profit, then I must extend that same right to him, so I can't see any benefit of abolishing a single desk system. I think it would lead to chaos ultimately. Mr McLean said the cost of importing labour and having labour, and I think that's a pretty key issue, not just the cost of having labour, but the cost of doing business in Australia is very high. I've mentioned this in a few different places on a few occasions. It costs you more to keep an employee or meet the conditions of employing somebody than it does to actually paying that wage. You're paying $10 an hour, it will cost you another $10 an hour just to have him. Why?

Why are transport costs so high? Why are insurance costs so high? Several things, but it is a key point, I think. You asked again - you've asked this question a few times - about processor efficiency. You said to me words to the effect, "I can produce a top quality pig and the carcass may be ruined by the processor." Yes, sure, that can happen.

DR BYRON: Or it might just charge too much for the process and make your product uncompetitive at the end.

MR STICK: Yes. Now, as one of the 3500 producers who don't fit into the top 3 per cent category, again I'm a price taker but if one purchaser doesn't pay enough for my pigs, if he doesn't meet market price, I go elsewhere. The only thing is that I'm really limited in practice to two buyers. If I had a choice of 10 then so much the better. If I sell them at Toowoomba at the live weight auction I am paid a price, live weight, there and then regardless of the condition of the pig or regardless of how the carcass may finish up. If I sell them a price per kilo dress weight which is the more common thing, then whatever he may have done to the carcass is his problem, he still pays me for the cost per kilo of dress weight unless his operator slips with the knife and chops a hind leg off and ruins it and throws it away and then they only want to pay me for three-quarters of the carcass.

But I know what my pigs should dress, the dressing percentage so I know what weight to expect. If I don't get it, I ask him why. Having said all that, do you have some particular motive for wanting to know why processors are efficient or otherwise? I have heard you ask the question a few times one way or another.

DR BYRON: My simple argument is that the price at the end of the chain depends on every link along the chain. So, as I think I said, I've been impressed that the piggeries themselves, people particularly know on the biological side the animal husbandry, the grains, the nutrition. That, I think, is very, very impressive. But if there isn't a decent, competent efficient and sufficiently large scale to be low cost processor, then you're not going to get meat at the right price at the end of the chain. I accept what people have been telling me about, "My piggery is efficient. My piggery is as good as a Canadian or Danish piggery," but if you look at the prices at the end of the day you say, "Well, okay, how come our prices are higher?" It may be that something that happens between the farm gate and the retail is affecting it.

I might have mentioned to you at the coffee break, there's the chart in the APL statistics book that talks about the 20 largest pig abattoirs in Australia. Basically I think there's only 12 or 10 or something that are actually large and numbers 13 to 20 you wouldn't even call mid-size.

MR STICK: Yes.

DR BYRON: So what we're seeing is that the pork processing industry is also rationalising. It's not just the growers that are rationalising and consolidating and amalgamating, but the processing is too because they know that they're under the gun to be as efficient and low cost and productive otherwise they're not going to be there either. I'm just trying to go all the way from growing the grain to putting it on the supermarket shelf and say, "Why does it end up being more expensive than the imported stuff?"

MR STICK: Yes, right. Does that mean that you haven't had too many processors responding to your inquiry?

DR BYRON: That's correct, I guess. We visited them but they haven't given us a lot of information on the public record that we can quote from.

MR STICK: Yes.

DR BYRON: It may simply be that they saw this mainly being about piggeries, rather than about abattoirs and boning rooms, although the terms of reference is quite clearly that we're to look at both.

MR STICK: Yes, I take that point entirely and, yes, thank you for clarifying that. I would have thought our processors are efficient for reasons that I sort of said this morning. Economies of scale have happened where people sort of have shut down. If our industry was not necessarily larger but more profitable, then I think more processors would enter the market and competition there then would create efficiency. Do you agree with that idea?

DR BYRON: I don't know, but I think the trend seems to be a reduction in the number of processing rather than an expansion.

MR STICK: Yes, there is a reduction but why are they reducing? Because they find it not economic to continue.

DR BYRON: It seems to be that there are real economies of scale in the abattoirs and boning rooms, and even some of the big new processing facilities that benefited from that Commonwealth government grant are now saying that they can't get enough pigs.

MR STICK: Yes.

DR BYRON: You've got centres that were designed to have two shifts a day, five days a week - you know, 10 shifts - but they're actually only running four shifts and as a result of that, their unit costs of killing are actually much higher than they should be.

MR STICK: Yes.

DR BYRON: Then you say, "Well, can't they get enough pigs?" That's another - and around we go.

MR STICK: Yes, around we go. Yes, I agree. Should they have had better foresight when they were expanding their production facilities? That thought crossed my mind a couple of times.

DR BYRON: They obviously thought that the piggeries would be expanding too.

MR STICK: Well, yes. I mean, we have been producing in Queensland around about 20,000 pigs per week for quite a few years. KR, prior to expansion, was killing about 5000 pigs and they expanded, wanted to go to about 10,000 on a single shift I think with obviously double shift, and I thought then that they want to go to 10,000 pigs which is half the weekly kill. Swickers at the same time were talking about expanding and wanting to do about half the weekly kill. Two plants wanted to kill all the pigs that we were producing in Queensland and there was a lot of other plants around at the time, albeit small fellows who were doing 100 a day or something.

DR BYRON: I guess the only thing that's worse than being a small processing centre with moderately high costs is to then have a big processing centre that only runs at 20 per cent capacity and has got extremely high costs.

MR STICK: Yes. The only thing worse than being a small pig producer is being a big one - you lose money twice as quick.

DR BYRON: No comment.

MR STICK: Thanks very much for this opportunity. The one thing I would like to add simply: vertical integration, which is obviously happening and will, to me remains a little dream and I think for those 3000 of us who are in that lower category, to be able to vertically integrate, to be able to buy a butcher shop and put our products through it, is simply creating another job. I'm busy doing one job, I can't do both. Vertical integration becomes a dream for three and a half thousand of us producers. We're stuck where we are. As you're discovering, we're quite efficient by world standards. There's always room for improvement.

I'd like to think that our processing sector is fairly efficient too apart from unit price. But actual - the bodies killed per hour or whatever per man, I hope that's running efficiently; I think it is. We probably can't reduce costs much further.

Unless we can increase our selling costs there's not a lot of future. We will never increase selling costs while people can buy cheaper elsewhere, so that puts a cap on our selling price.

DR BYRON: Yes, okay.

MR STICK: Thank you.

DR BYRON: Thank you very much, Alan. Is there anybody else in the room who wants to put something on the public record? If not, thank you very much for your participation today. I can now adjourn these proceedings and the commission will resume in Sydney on Wednesday morning. Thank you very much, gentlemen.

AT 3.45 PM THE INQUIRY WAS ADJOURNED UNTIL
WEDNESDAY, 2 FEBRUARY 2005

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