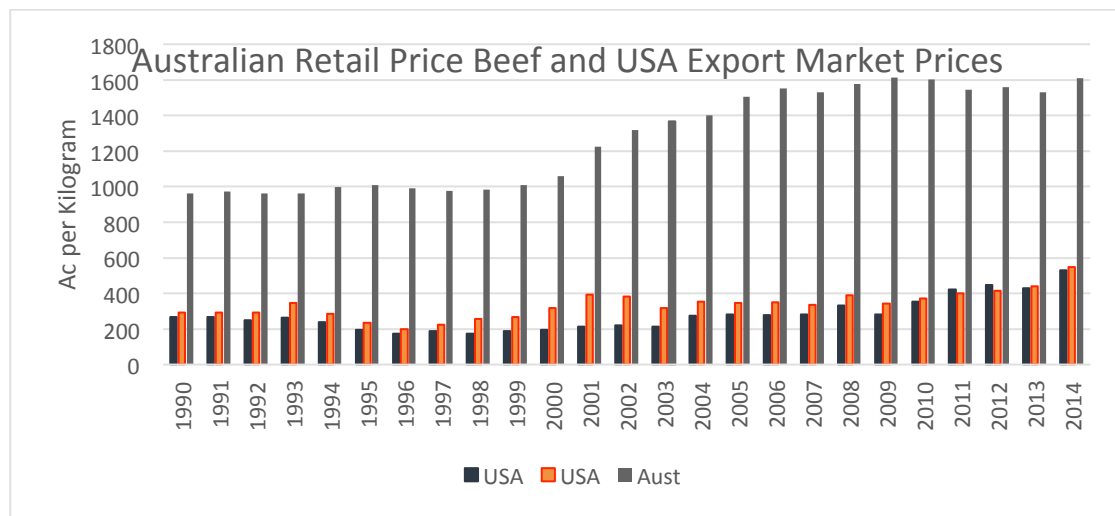


RESEARCH REPORT 40: LIVESTOCK and REGIONAL RECOVERY

Ben Rees



Abstract

In October 2015, the Queensland Government committed to a Task Force to identify causes of rural indebtedness; and, to offer policy solutions. This discussion paper seeks to understand what industry policy options might be required beyond debt and drought policy.

Despite 80% of Queensland being drought declared, stock numbers in the major industry, cattle, appear in a good position to rebuild the industry over the short to medium term. Sheep numbers are at an historical low. Rebuilding a sheep industry will require structured long term policy by both industry leaders and governments.

Major policy focus will need to address the high proportion of beef, veal, and lamb exported. Lack of credible data makes analysis difficult. However, it appears that high domestic retail price of beef / veal; and lamb are difficult to reconcile with low wholesale export prices. This suggests price discrimination and persistent dumping has occurred. The supply of export product at questionable price differentials carries ramifications for domestic consumption and farm incomes. This serious policy issue requires access to authoritative data and industry clarification and access to authoritative domestic wholesale price data.

Regional recovery depends upon debt restructure and credible policies that address what appear to be questionable industry practices beyond the farm gate. Low farm incomes must be addressed. Regional recovery requires also policies that will attract population back to regional areas. Empire building under past policies offers the vehicle to achieve this. Debt restructure could be structured under principles of decentralization that require forfeiture of land tenure by empire builders in financial distress. Forfeited land tenure could then be offered to young and new farm entrants. Regional recovery will require long term policies that delivers reasonably priced animal protein to consumers; and, income security to producers.

1.0 Introduction

On October 19th, 2015, the Queensland Treasurer announced establishment of a Rural Debt and Drought Task Force. The Task Force was charged with identifying the cause of debt and to recommend policy solutions. Rural debt has been recognized as a policy problem since the convening of a Rural Finance Round Table by the then Federal Treasurer, Rt. Hon Wayne Swan, in October 2012. What is in dispute at industry and political levels is the cause of debt i.e drought, inappropriate bank lending, or a combination of both. Establishment of the Rural Debt and Drought Task Force last October seeks to determine causes and offer solutions.

This paper moves a step ahead of the Task Force reporting back to the Queensland Government. Subject concern discussed what might be required of policy to rebuild animal protein industries in regional Queensland. The discussion is broken into two separate parts. The first section analyses livestock numbers and rebuilding potential. The second section seeks to assess how restocking demand will impact upon consumption and expected retail price. Part 2 becomes a difficult exercise due to inadequate availability of data. ABARES Agricultural statistics provides price data across saleyard, domestic retail and export markets; but, not domestic wholesale prices.

Data analysis, demonstrates that the beef industry can be expected to rebuild over the short to medium term. No doubt demand from re- stockers competing with processors for available cattle must create a spike in cattle prices in the short term. Availability of restocking finance will have a large bearing on restocking activity and demand for herd rebuilding. It can be expected that producers in purely pastoral areas could look to alternative animal production such as sheep and goats. In heavier rainfall districts, cash crop alternatives to livestock production should help income generation and dampen the expected initial spike in saleyard prices. Alternative livestock production will be limited by availability to processing plants.

It will be argued that the contemporary boost to wool prices is unlikely to rebuild a serious wool industry. It is long term decline in sheep numbers and hence wool production that is driving current wool prices. As sheep numbers rise and build wool production, it is reasonable to expect history to repeat itself and wool prices return to unprofitable levels. In the political environment that pervades modern policy, it is unlikely that an orderly marketing scheme will be reintroduced for wool. Nonetheless, what appears lacking is any long term plan by either industry or politics for the sheep industry

Lamb consumption is at an historic low. Sheep meat is now dependent upon exports to drive the industry forward. Domestic consumption of lamb has fallen to an historic low below 10 kg per capita. Without a change in industry leadership and marketing direction, sheep meat production will have limited potential to provide cattle producers with a sheep meat alternative.

Heavy dependence upon export markets by both lamb and beef emerges in the discussion. This is a serious and interesting economic policy issue in its own right. In economic theory, price discrimination in favour of international markets is dumping. International dumping is possible only under conditions of imperfect competition. It also requires that domestic consumers cannot easily access product sold into international markets¹. In other words

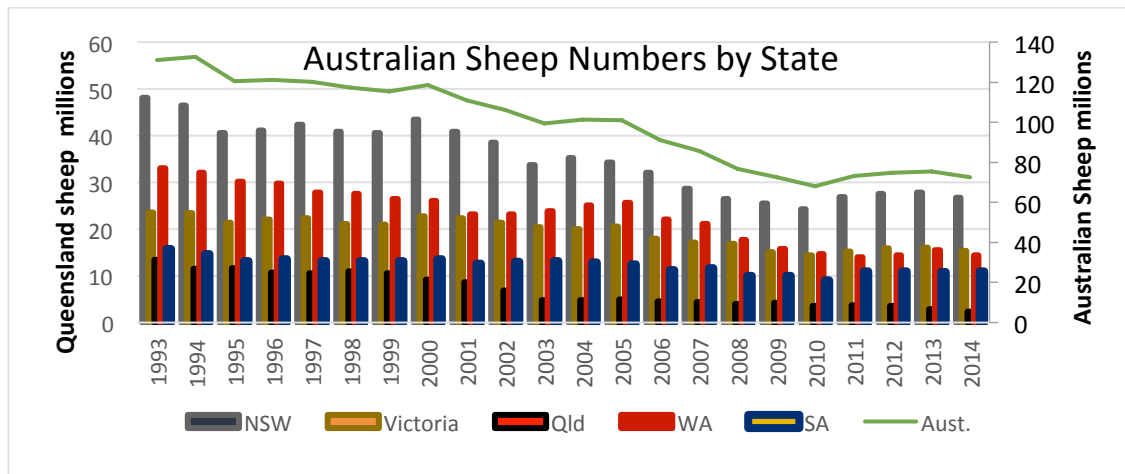
¹ Krugman, Paul & Obstfeld Maurice: *International Economics, Theory and Policy*, Sixth Edition, The Addison Wesley Series in Economics, 2003; p. 142

Australian consumers and producers carry the costs of processors dumping product on overseas markets. It is in this area that data availability is inadequate.

1.1 Sheep Industry

There is a view in western Queensland that ring fencing will regenerate the sheep industry and rebuild regional Queensland. National sheep numbers suggest that rebuilding rural Queensland by regeneration of the sheep industry is not a serious policy option. Long term decline in sheep numbers both nationally and in Queensland raise serious doubt that sheep can rebuild viable regions within a reasonable time frame.

Chart 1²



Source: ABARES Agricultural commodity statistics 2015, Table 149, p. 154

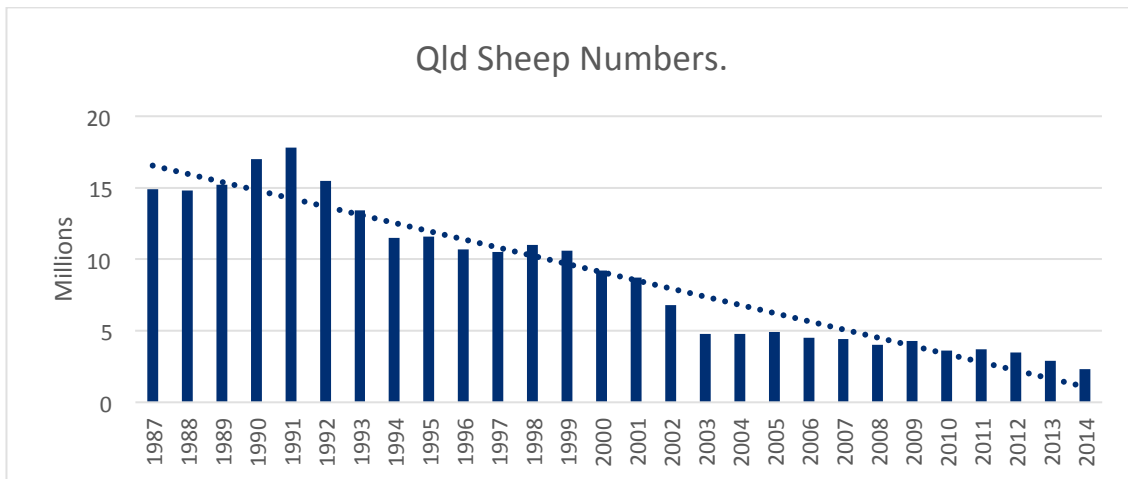
Note that Queensland sheep numbers have fallen from 13.4 million in 1993 to 2.3 million in 2014. To rebuild a substantive industry, breeder sheep would have to be trucked in from NSW. That is not an impossibility; but, would require time.

Another point to be considered is the impact of Simon Crean's South West Strategy, implemented in the early 1990's following the dismantling of wool industry orderly marketing. The South West strategy was designed to move sheep producers out of wool and into cattle. Consequently, there would be expected an infrastructure rundown on former sheep properties such as fencing, watering systems, and shearing infrastructure. Whilst infrastructure can be rebuilt, it would take time, political will and stable wool prices.

There is a view that the decline in the sheep industry is due to ferrel animal infestation over recent years. Consequently, a government program of ring fencing will restore confidence in sheep; and, the industry will rebuild. This is wishful thinking

² Source: ABARES Agricultural commodity statistics 2015, Table 149, p. 154

Chart 2³



Source: ABARE Australian Commodity Statistics 1997, Table 151, p. 148

- The sheep industry decline in Queensland began in 1991 coinciding with a collapse in international demand for virgin wool.
- Between 1989 and 1995, the international demand for virgin wool fell by 15%.⁴
- The collapse of the Soviet Union saw a 92% contraction in demand from that region between 1989-1995
- The EMI for clean wool collapsed from 1988 to 1999 by 50.8%
- The collapse in EMI price contributed more to the demise of the wool industry than ferrel animals
- Nonetheless, the increase in ferrel animals will need to be addressed for any serious rebuilding of sheep numbers.
- Ring fencing could be funded similarly to the Dingo Barrier Fence in the early 1960's.

A December 2015 online Newsletter by the National Council of Wool Selling Brokers of Australia Inc. claims that the 2015 year end EMI price for wool was the highest since 1988 reaching 1265c clean. In terms of 1988 purchasing power, this price is marginally above half the price required in 2015. To equal purchasing power of 1988, the EMI should be 2486c clean in 2015.

Input cost will have risen approximately in line with the CPI. In 1988, the 2015-16 = 100 index value the CPI was 44. In 2014-15 the index value of the CPI was 97.9. That is a 122.5% increase in the CPI which would reflect rises in input costs over that period.

At best, sheep can be expected to play a supportive role to cattle in rebuilding rural Queensland. The sheep industry would be expected to be orientated towards meat production rather than wool. That presents policy issues around transport and processing plants in regional centres. It also requires a long term industry plan by industry and

³ Source: ABARE Australian Commodity Statistics 1997, Table 151, p. 148; ABARE Agricultural Commodity Statistics 2006, Table 163; ABARES Agricultural commodity statistics, 2015 Table 149; ABARES Agricultural commodity statistics, 2015, Table 135, p149

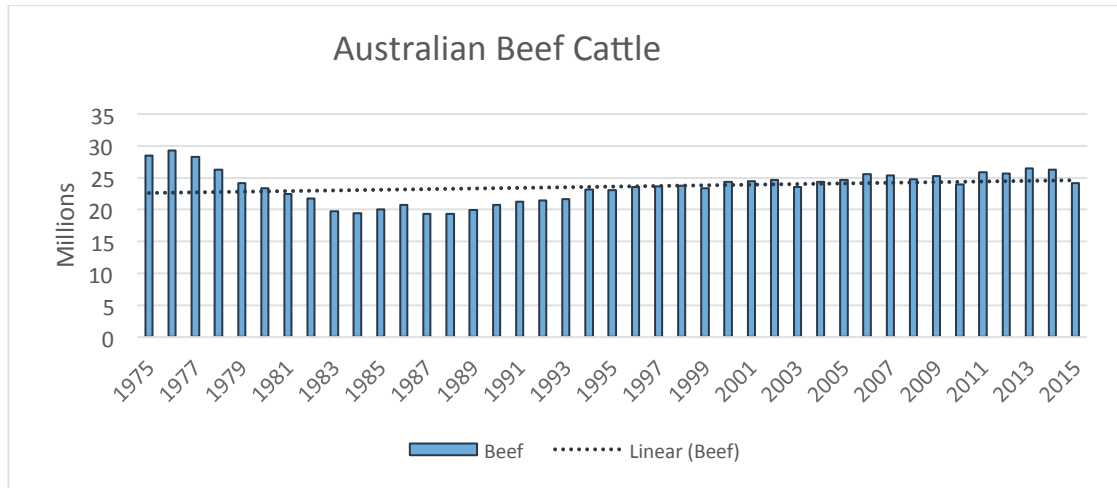
⁴ ABARE Australian Commodity Statistics, 1997, Table 230, p. 229

⁵ Ibid

supported by both State and Commonwealth Governments. So far no industry plan either short or long term is in the public domain.

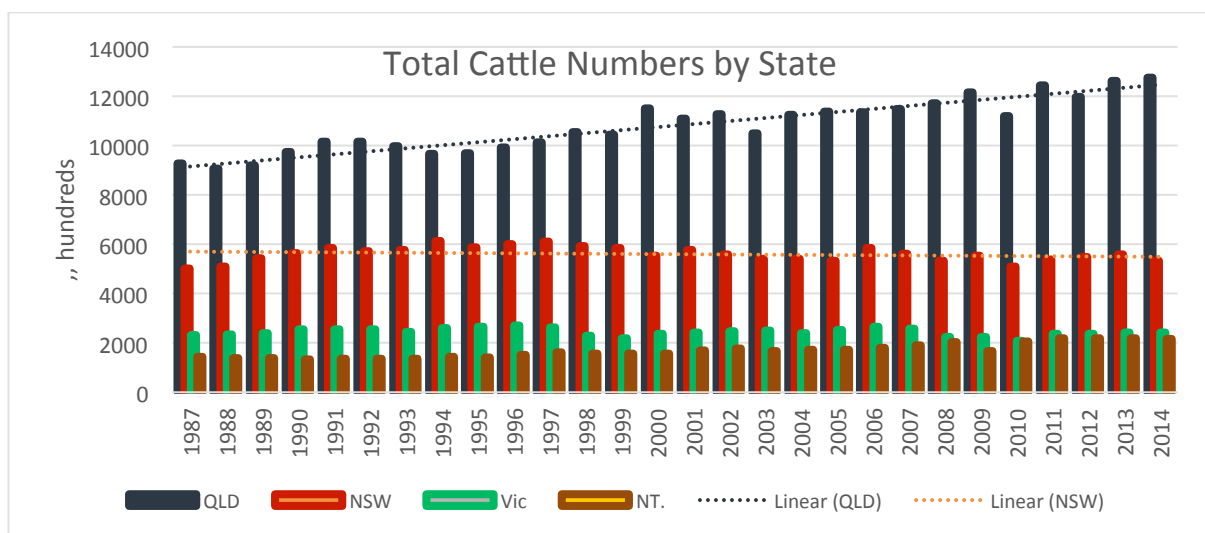
1.2 Cattle Industry

Chart 3⁶



- Fears of a cattle shortage reflecting the 1970's are unfounded.
- Australian cattle numbers in 2015 reflect declines in 1999, 2003, 2010.
- Recovery in these previous examples was a short term phenomenon.
- Cattle prices will respond to competition between re-stockers, processors, and live cattle exporters.
- Contraction in consumer demand for beef should dampen the ultimate price of cattle.

Chart 4⁷

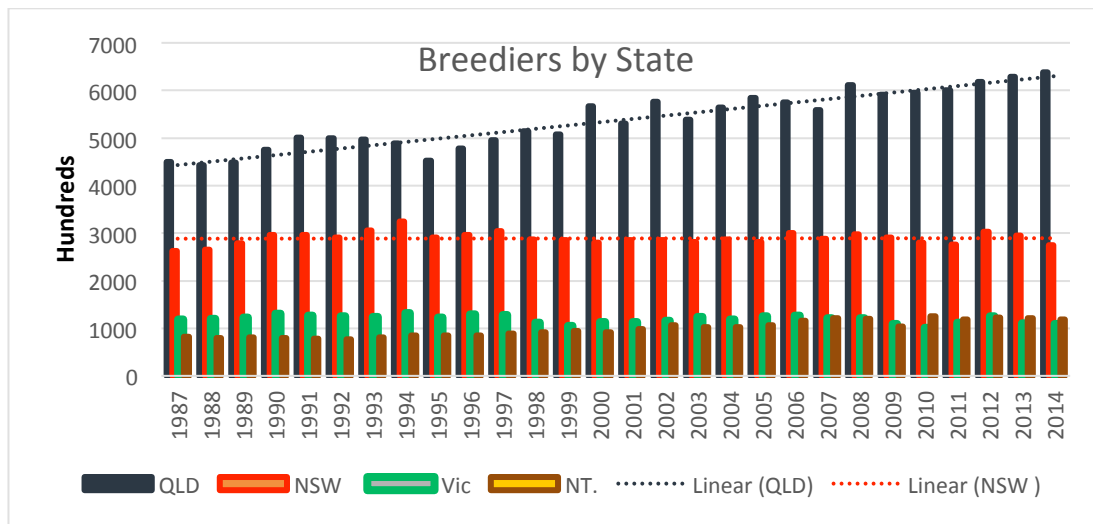


⁶ ABARES Agricultural commodity statistics 2015, Table 20, p.21.

⁷ Source: ABARE Agricultural Commodity Statistics, 1997, Table 151,p.148.

- Queensland is by far the largest cattle producer in Australia.
- Queensland cattle numbers demonstrate a strong long term growth path.
- In 2014, Queensland cattle numbers are above the long term trend line.
- Queensland cattle numbers should be sufficient to restock drought affected regions from within the State.
- The other major cattle producing State NSW demonstrates a long term slow decline in cattle numbers beginning in the mid 1990's.

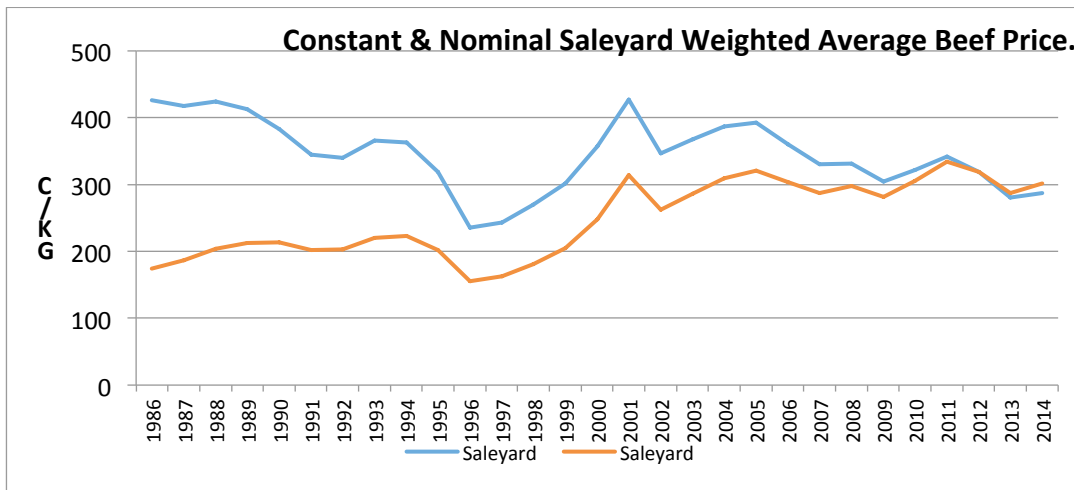
Chart 5⁸



- Queensland breeding herd demonstrates a strong long term growth path.
- Over 2013 and 2014, Queensland's breeding cattle numbers are above the long term growth path.
- Any marginal decline from drought in 2015 is unlikely to affect ability to rebuild the State herd.
- NSW breeding herd demonstrates a long term declining growth pattern.
- From 2012, NSW breeding herd falls from 3 million to 2.75 million in 2014.

⁸ Source: ABARE Australian Commodity Statistics, 1997, Table 151,p.148.

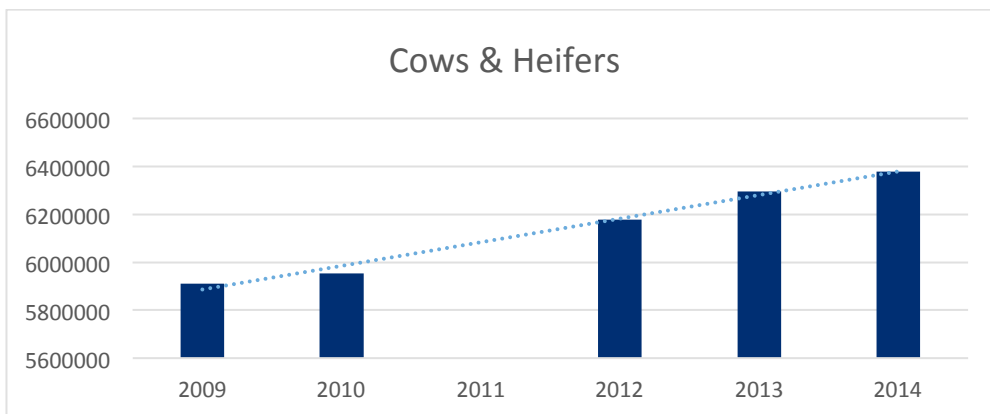
Chart 6⁹



The collapse in saleyard prices between 1993-1997 explain the fall in Queensland cattle numbers over that period

1.3 Breeding Herd Queensland 2008-2014

Chart 7¹⁰



The Queensland breeding herd appears well positioned to rebuild the industry after the drought breaks. Any change over 2015 would be expected to be marginal. When drought areas return to normal seasonal conditions, breeders held in those areas would need time to recover and rebuild necessary fertility body weight. Probably a time frame of two to three years after the drought breaks and the breeding herd would be expected operating as normal.

Normality for regions will depend upon the type of cattle enterprise operating in geographical areas. Regions geared to young animal production for the domestic market would be expected to return to normality relatively quickly. Regions geared to heavier animal

⁹ Compiled from ABARES commodity statistics 2015 Table 128.

¹⁰ Source: ABS Cat. No. 7121.0 (data for 2011 is unavailable).

production to meet export and live cattle markets will take time to grow numbers and body weight. Heavier animal production regions present a policy problem.

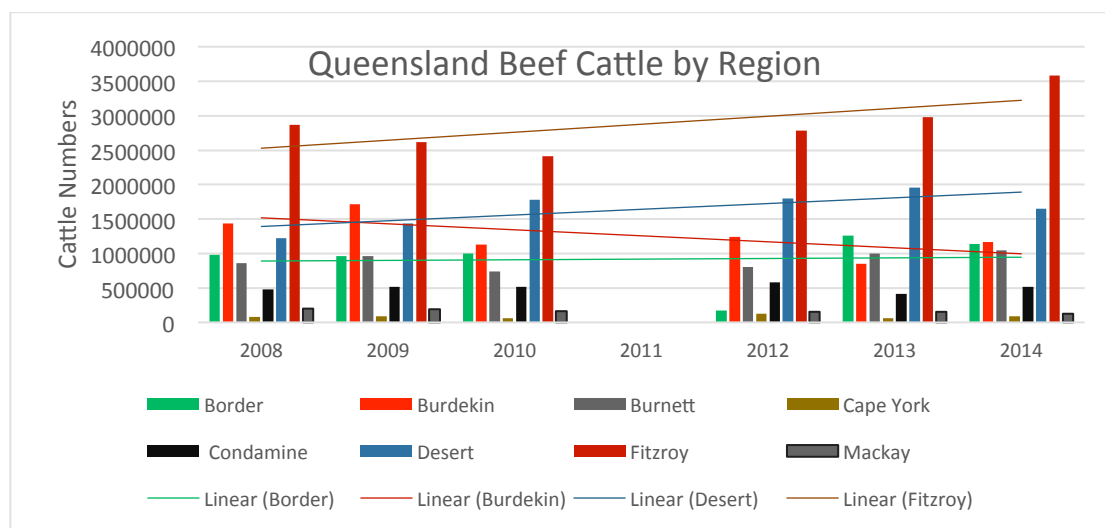
What should help will be heavier rainfall areas that have agricultural cash crop options. Potential for cash crop production should offer alternative income streams thereby alleviating restocking demand in these areas.

1.4 Distribution of Cattle Queensland

Queensland cattle numbers increased by 5% between 2008/09 and 2013/14. The distributional change in cattle numbers becomes important in rebuilding strategy after drought. Contraction in numbers in drought-affected areas will have impacted upon expansion of numbers other regions. Areas in which cattle numbers expanded hold the key for re-stockers and backgrounders seeking to rebuild enterprises.

After a decline in numbers between 2007/08 and 2009/10 of 455 181, Fitzroy staged a strong increase of 1.2 million by 2013/14. Fitzroy has the appearance of being an attractive region for drought affected areas seeking feed for stock. By contrast, Southern Gulf cattle numbers began a long term decline from 1.53 million in 2008/09 to 1.2 million in 2013/14. Whilst change in numbers in other regions appear driven by seasonal considerations, the post drought contribution of Fitzroy to rebuilding drought affected areas must be considerable

Chart 8¹¹

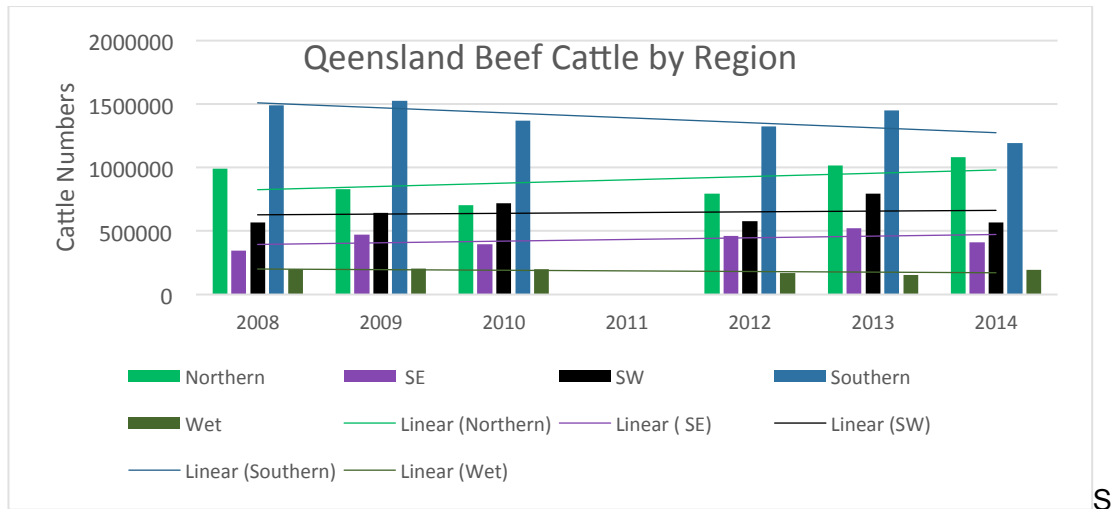


- Fitzroy cattle numbers reflect a cyclical pattern of decline then rebuild.
- In 2014, Fitzroy is well above the long term growth trend line.
- Border Rivers Maranoa is above the long term stable trend line.
- Expansion has occurred in the Burnett Mary region.
- Desert Channels lost 15.8% over 2013-14 and cattle numbers have fallen below the long term trend line

¹¹ Source: ABS Cat. No. 7121.0 (data for 2011 is unavailable).

- Burdekin cattle numbers have been in long term decline ; but, remain above the trend line in2014

Chart 9¹²

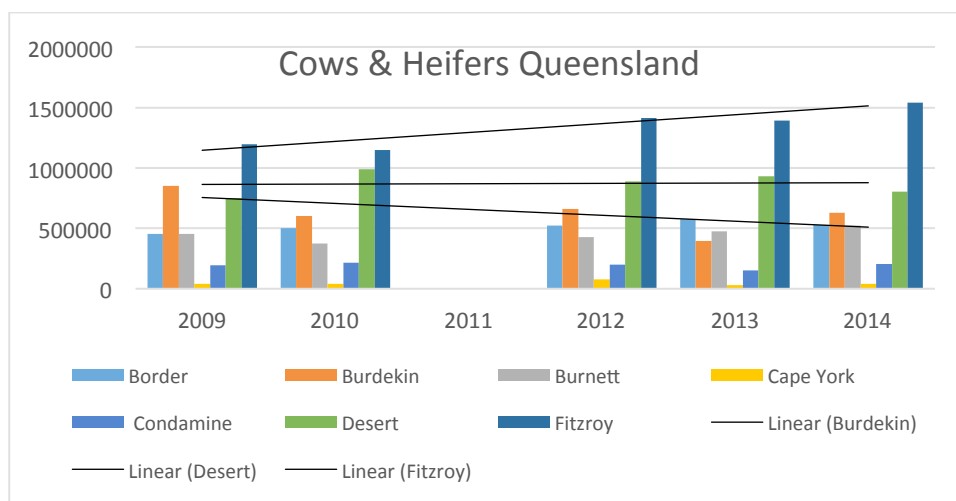


- Southern Gulf is a volatile region; but, below the long term trend line in 2014.
- Both SEQ and SWQ are below the long-term trend in 2014.
- Northern Gulf cattle numbers expanded and are above the long term trend line.
- Wet tropics is stable.

¹² Source: ABS Cat. N. 7121.0 (data for 2011 is unavailable).

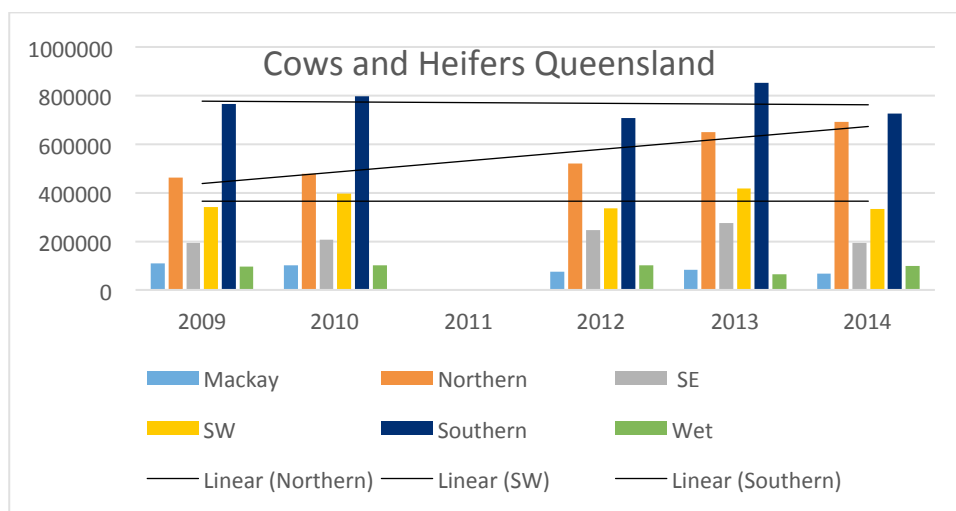
1.5 Distribution of Breeders

Chart 10¹³



- The major cattle region Fitzroy is on trend growth path in 2014.
- Desert Channels is marginally below long term declining trend in 2014.
- Burdekin is the fifth largest breeder region is above long term declining trend line.

Chart 11¹⁴



- Southern Gulf is the third largest breeder region in Queensland
- Decline in Southern Gulf breeders from 2013 to 2014 would be the effect drought.
- The northern Gulf region is the fourth largest breeder region and is above the long term growth path.

¹³ Source: from ABS Cat. No. 7121.0 (data for 2011 is not available).

¹⁴ Source: from ABS Cat. No. 7121.(data for 2011 is not available).

1.6 Summary

The Queensland breeder herd would appear well positioned to restock the beef industry following improved seasonal conditions. Demand for restocking and processors chasing supply will no doubt generate substantial upwards pressure on cattle prices. Nonetheless, it is reasonable to assume that restocking and revitalization of the Queensland beef industry will be achieved over a relatively short time frame. Availability of restocking finance will be critical in the rebuilding phase.

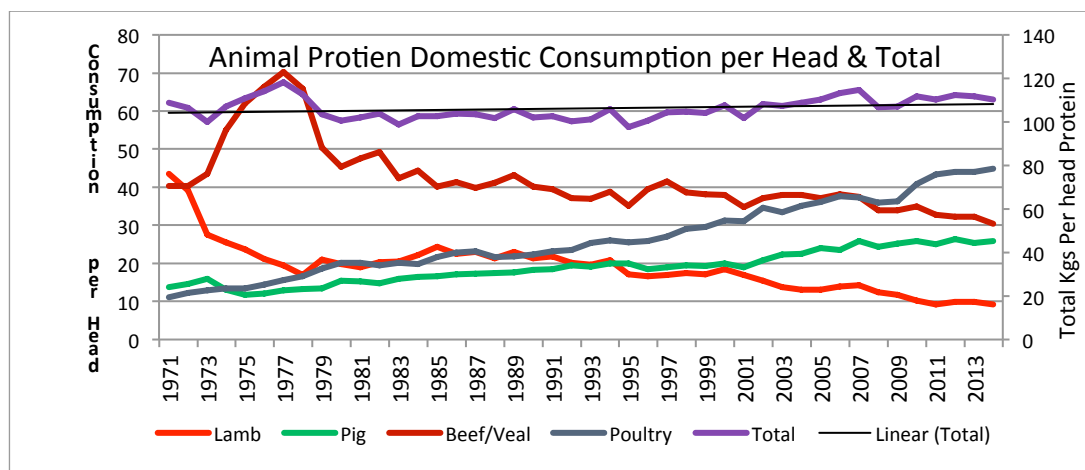
Sheep rebuilding offers a support industry; but, sheep numbers and stability of wool prices remain a question mark surrounding this industry's role in rebuilding regional districts. Huge expenditure to control feral animals challenges the view that either wool or sheep meat industries can be rebuilt more rapidly than restocking with cattle. A long term plan for the sheep industry needs to be spelt out

In regions with adequate rainfall and land fertility, cash cropping offers opportunity to generate a cash income during the restocking phase. This should lessen the demand upon restocking finance in the early stage of rebuilding cattle numbers.

2.0 Consumption patterns

2.1 Domestic Consumer Demand for Animal Protein

Chart 12¹⁵



- Total animal protein consumption per head has remained stable over decades.
- Consumer preference for the different animal proteins has changed over time.
- Consumer preference for beef has declined substantially over time.
- Mutton consumer preference appears almost terminal.
- Both pork and poultry enjoy rising consumer preference.
- There is a clear preference for chicken protein.

These changes in consumer preference, and hence demand for a particular animal protein, can be quantified by calculating the proportionate change in demand of a protein for a proportionate change in retail price. This measure is known as price elasticity of demand.

If the numerical value is greater than 1, then demand is elastic. This means that the proportionate change in demand will be larger than the proportionate change in price. If the numerical value is less than 1, then demand is inelastic. Consequently the proportionate change in demand will be less than the proportionate change in price.

¹⁵ Compiled from ABARES commodity statistics 2015 Table 127. (Total Protein consumption is summation of the set of proteins)

Table 1

Price Elasticities for Animal Proteins¹⁶

Commodity	Elasticity
Beef	ep = 2.1
Pig Meat	ep = 0.4
Lamb	ep = 1.2
Chicken	ep = 0.4

For beef, a change in price will result in a larger decline in demand. For example, rising beef prices will produce a contraction in domestic consumer demand for beef. The fortunes of cattle producers rest upon export markets

The same result is evident for lamb. As a domestic protein supplier, lamb and mutton is particularly concerning given the interest in rebuilding rural regions with sheep. Unless export performance supports the industry, it does not make economic sense to spend taxpayer money upon an industry with such a low domestic contribution to protein consumption. The sheep industry needs to look closely at industry policy and marketing.

Both pig meat and chicken have inelastic price demand responses. Chicken has a more steeply rising consumption curve than pork. The difficulty for the pork industry is that post deregulation overseas imports have decimated the domestic industry. The pork industry contribution to regenerating regional industry would be constrained to a limited number of regions close to grain and cattle feedlot districts.

By calculating cross elasticity of demand, it can be shown which products benefit from price rises in another protein. The sign of cross elasticity can only say whether a product is a substitute product or a complimentary product. Based upon the consumer consumption chart, cross elasticities have been calculated for chicken for the other three animal proteins. Cross elasticities are written e_{xy} .

Table 2

Cross Elasticities

Beef/Chicken	$e_{xy} = 0.3$
Pig Meat/ Chicken	$e_{xy} = 0.4$
Lamb/Chicken	$e_{xy} = 0.4$

Cross elasticities show that chicken is a substitute protein for beef, pork, and lamb. As retail prices rise for all three animal proteins, consumer turn to chicken. As price of beef, pig meat and lamb rise, then consumption of chicken would be expected to increase.

What will emerge in the analysis of consumption and pricing of both beef and lamb is a marked differential between domestic and international pricing. It is important to understand that differential pricing is no accident. Theoretically, different pricing of product in different markets is price discrimination¹⁷. International economic theory discusses international price discrimination under the classification of dumping. "Dumping of product on international

¹⁶ (Calculated from ABARES commodity statistics, Tables 127, 129 2015 & 2012/2014 data. Calculations are arc elasticities.

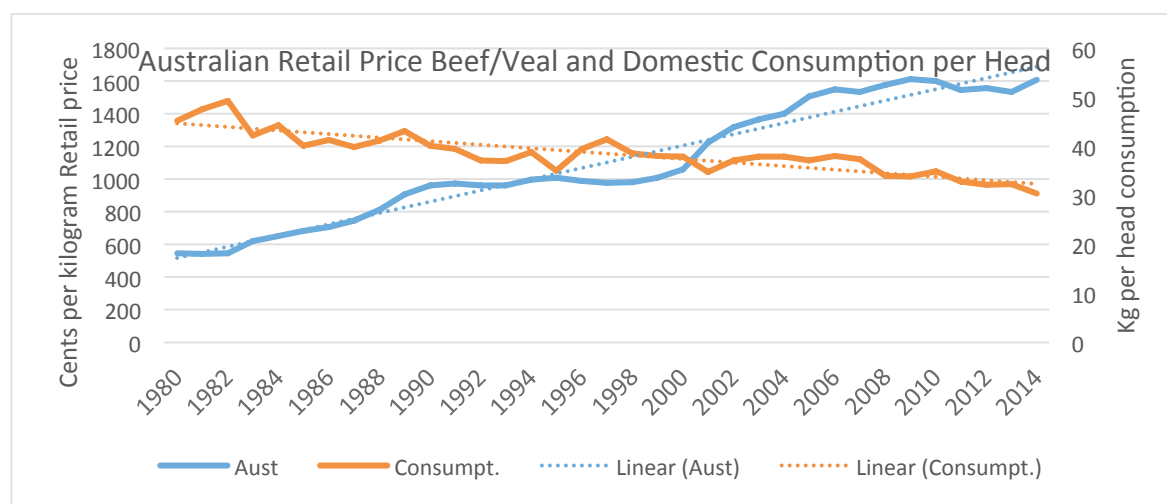
¹⁷ Krugman, Paul & Obstfeld Maurice: *International Economics, Theory and Policy*, Sixth Edition, The Addison Wesley Series in Economics, 2003; p. 142

markets is defined as the sale of export goods at a price less than that charged at home, or, alternatively, at a price less than that of production and shipping”¹⁸

2.2 Domestic Consumption of Beef/Veal

The saleyard price for cattle ultimately is driven by consumption demand for beef and veal. Processors, re-stockers and live cattle exporters determine the saleyard price ceiling; but, it is the level of demand across both domestic and international markets for beef and veal that determines price. Saleyard price is in turn becomes dependent upon processor access to markets, transport and associated production costs.

Chart 14¹⁹



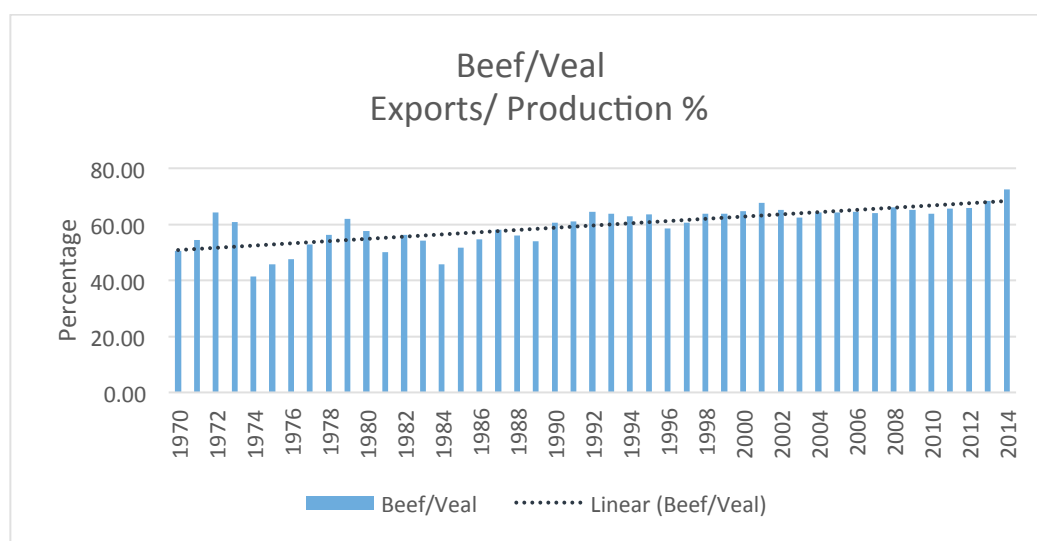
- Price elasticity of consumer preference for beef/veal is confirmed by the curves relationship.
- Increased domestic consumption will be dependent upon realistic pricing of beef/veal.
- Long term declining domestic consumption requires export markets to absorb rising production.

¹⁸ Feenstra Robert C. & Taylor Alan M; International Economics; Worth Publishers; 2008; p.273-274.

¹⁹ Source: Consumption data from ABARES Agricultural commodity statistics 2015; Table 127 Retail Prices from: ABARES Australian Commodity Statistics 1997; Table 144; ABARES Agricultural commodity statistics 2008, Table 155; ABARES Agricultural commodity statistics 2015 Table 129.

2.3 Export Beef/Veal

Chart 15²⁰



- Exports dominate the sector.
- Exports have risen from 50.5% in 1970 to 72.5% in 2014.
- The addition of Live cattle export industry makes the cattle industry heavily internationally dependent.
- The beef industry becomes highly sensitive to changes in international demand and movements in the \$AUD.
- Falling domestic consumption would appear a second order consideration for industry policy.

This industry behaviour reflects emerging international research that argues large export orientated industries do not “feed a nation” 21.

2.4 Comparison Between Export Prices and Australian Retail Prices of Beef

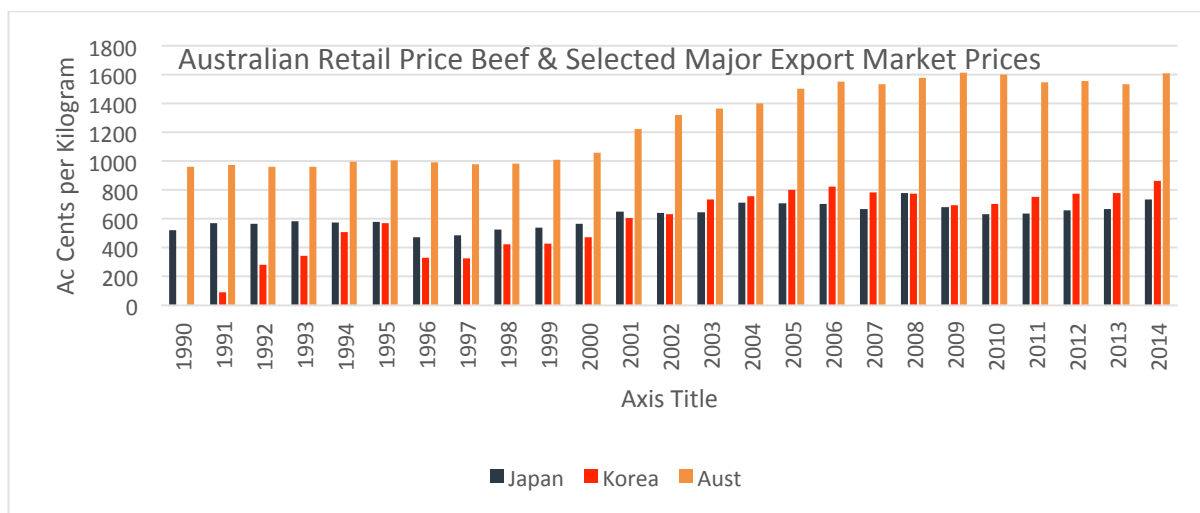
Whilst it can be legitimately argued that the quality of product is very different sold into overseas markets to domestic markets, price differential becomes important in explaining processors preference for markets. By volume, overseas markets have become the preferred domain of beef and veal processors. This section examines price differential between domestic and overseas markets.

²⁰ Compiled from: ABARES Agricultural commodity statistics 2006-07, Table 175; ABARES Agricultural commodity statistics 2015; Table 148; ABARES Australian Commodity Statistics 1997, Table 150.

²¹ Grain Report, Hungry for Land: small farmers feed the world with less than a quarter of all farmland, May 2014, [online:grain.org/article/entries/4929](http://online.grain.org/article/entries/4929)

Price discrimination between domestic and export markets is difficult to quantify. Domestic wholesale prices for animal protein are not provided by ABARES. What cannot be denied and requires industry explanation is the very large price differential between domestic retail prices for beef and veal and export wholesale prices. Subsequently, if a retail margin of 30% is assumed, then some measure of price comparison is possible

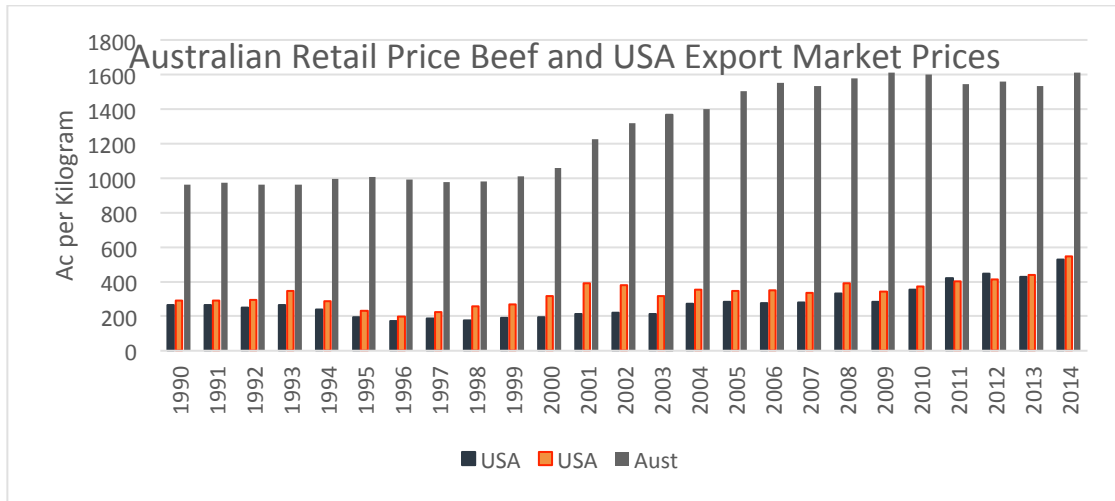
Chart 16²²



- The large difference between domestic retail prices and export prices raises the question of dumping in international markets.
- In 2014 assuming a 30% retail mark up, the Australian wholesale price becomes 1238.4 c per kg
- That leaves 43.% wholesale margin to explained for Korea and 68.75 % for Japan
- Only difference in quality remains to explain the assumed wholesale margin price discrimination
- Price discrimination between domestic and international markets constitutes dumping
- At the processor level, it would be reasonable to assume production costs are averaged across systems in place for both markets.
- By inference, producer farm gate prices are lowered by persistent dumping of product

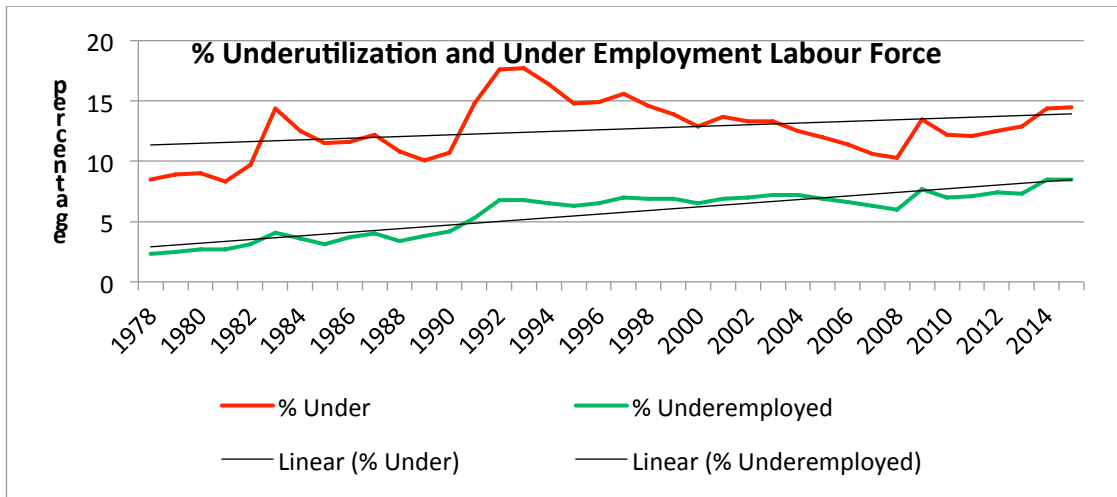
²² Compiled from: ABARES Agricultural commodity statistics 2015; Table 138, overseas markets; ABARES Agricultural commodity statistics 2015,

Chart 17²³



- Employing the same assumed 30% domestic retail margin, USA exports can be analysed
- For boneless chemical free, the wholesale margin to be explained is 126.7%
- For boneless frozen USA exports, 134.2% price differential remains to be explained
- Large historic price discrimination between domestic and USA prices becomes difficult to deny.
- Both beef industry leaders and processors need to justify apparent dumping in overseas markets ignoring Australian low income nutrition and health needs
- The moral question in economics is entrenched in the international marketing of beef

Chart 18²⁴



The underutilization rate reflects; but, understates the low income problem in Australia. The export of beef/ veal into low priced overseas markets rather than develop domestic low priced markets begs the moral question in economics

²³ Compiled from: ABARES Agricultural commodity statistics 2006-2015; and, ABARES Australian Commodity Statistics 1997.

²⁴ Compiled from ABS Statistics Labour Force, online Excel Historic Table 22.

“The moral problem is concerned with conflict between individual interest and the interest of society” (Joan Robinson)²⁵

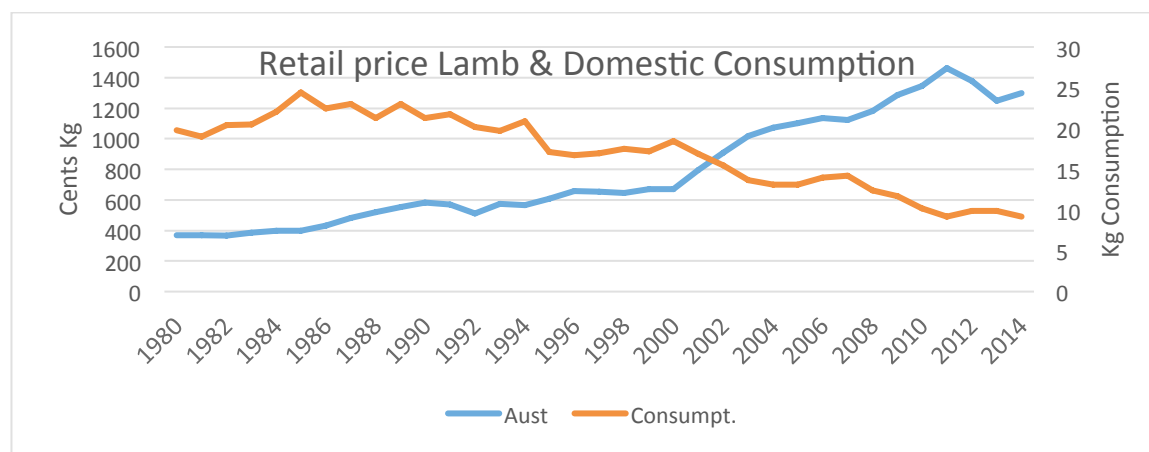
Questions

- Are Beef processors acting in Australia’s national interest?
- How damaging to beef producer profitability is processor behaviour?
- Should processors be permitted to continue persistent international dumping ignoring the nutritional requirements of Australia’s low income groups?

These economic theory questions become particularly pertinent to policy development for rebuilding regional Queensland. Industry leaders and major political parties owe Australian consumers and producers an explanation that can justify persistent dumping at the expense of producer profitability and protein needs of Australia’s low income groups

2.5 Lamb & Mutton Domestic Consumption

Chart 19²⁶



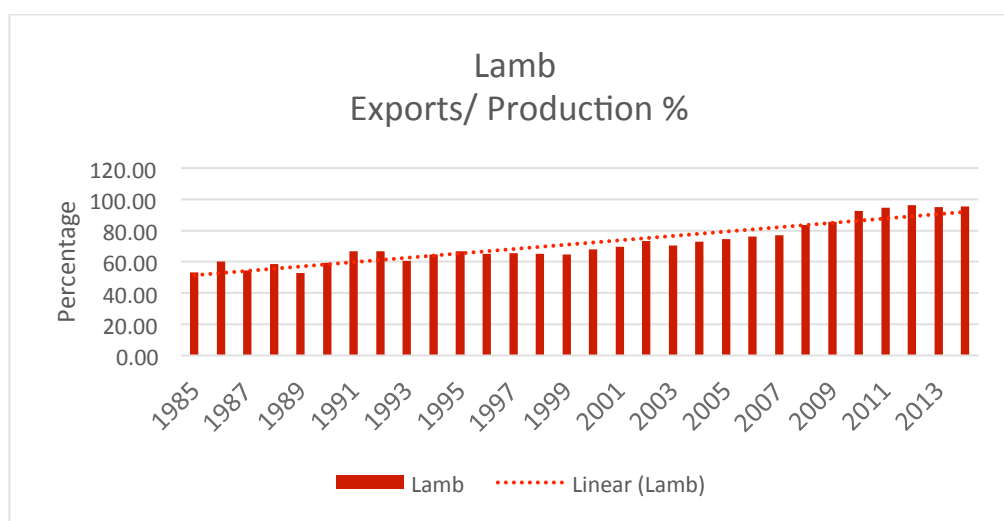
- The relationship between the two curves confirms that domestic consumption of lamb is price elastic.
- Consider the behaviour of the two curves at the point 2000
- From that point to 2014, domestic consumption halves
- The sheep meat industry needs to review industry leadership and marketing strategy

²⁵ Robinson Joan, *Morality and Economics*, Economists View, online, 2007/07, p. 1

²⁶ Compiled from ABARES Agricultural commodity statistics 2006-2015.

2.6 Export of Sheep Meat

Chart 20²⁷

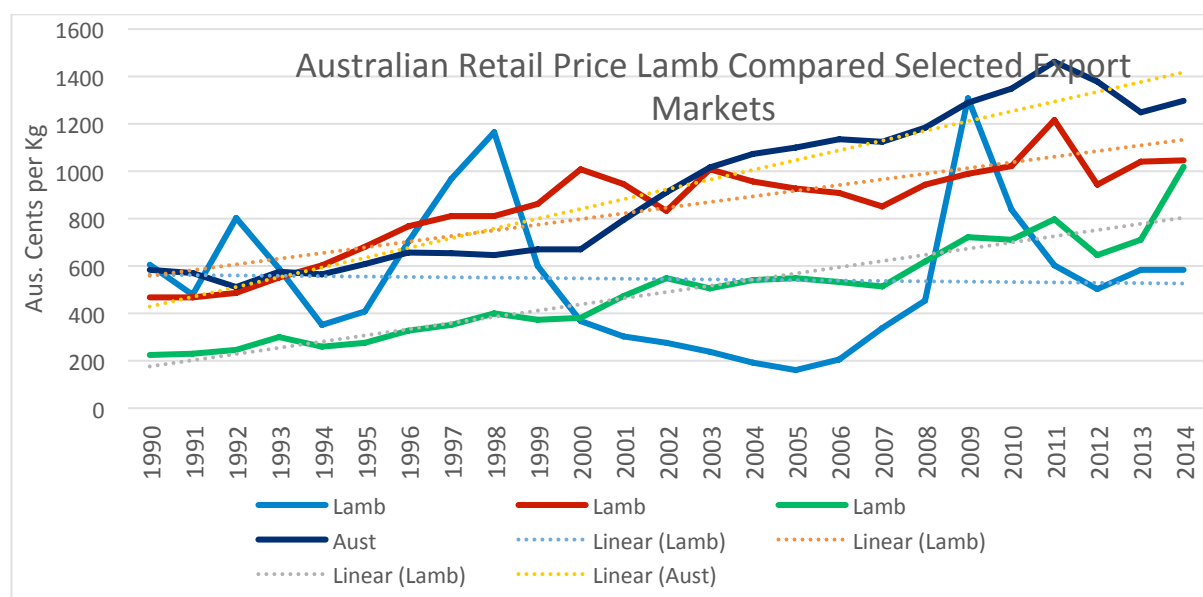


- Long-term export dependence has been structured by the industry.
- The point 2000 identified in domestic consumption is again significant.
- From 2000 to 2012, export volume rose from 68.1% to 96.4% of production.
- With such high international dependence, an answer to the moral question in economics becomes important.

²⁷ Compiled from: ABARES Agricultural commodity statistics 2006-2015; and, ABARES Australian Commodity Statistics 1997.

2.7 Comparison of Domestic Prices with Export Prices

Chart 21²⁸

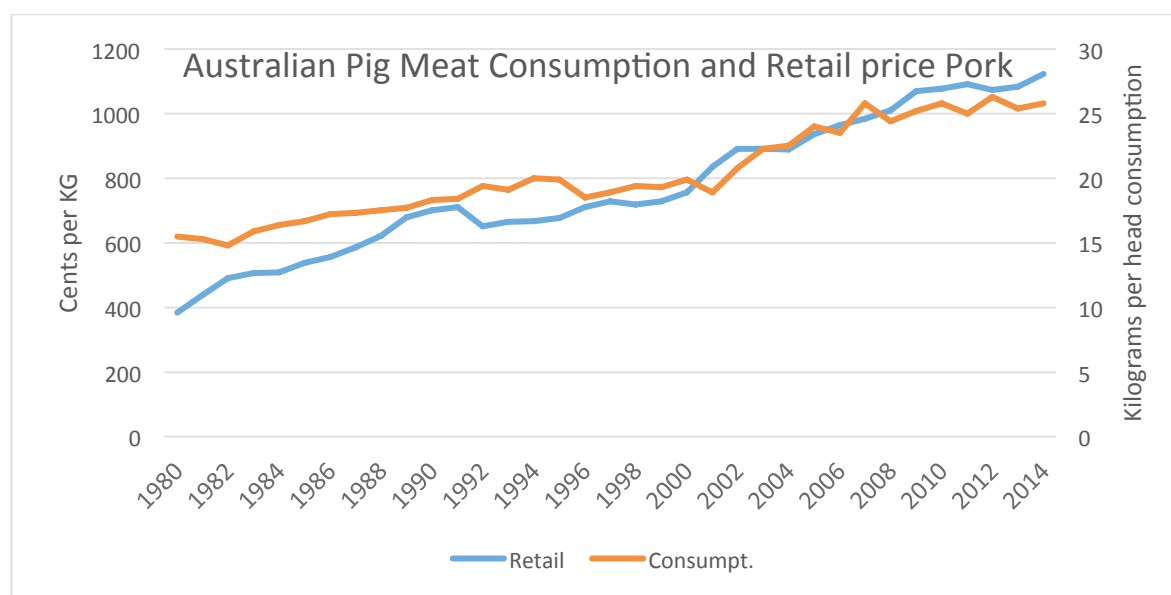


- Until 2001, it was more profitable to sell into the USA bone in chilled market than domestic market
- Post 2001, the domestic market looks competitive
- The other markets are of concern
- Until 2014, the bone in frozen would be well below an assumed 30% domestic retail margin
- The Chinese market has been volatile and only in 2009 would the price this century not generate concerns over dumping
- Dumping when required appears to have been an industry strategy in the lamb export sector.

²⁸ Compiled from: ABARES Agricultural commodity statistics 2006-2015; and, ABARES Australian Commodity Statistics 1997.

2.8 Pig Meat Domestic Consumption

Chart 22²⁹



- Pork has a price inelasticity calculated in Table 1
- The relationship between pork retail prices and demand appear better managed than beef and lamb sectors
- Retail price of pork is heavily influenced by imports

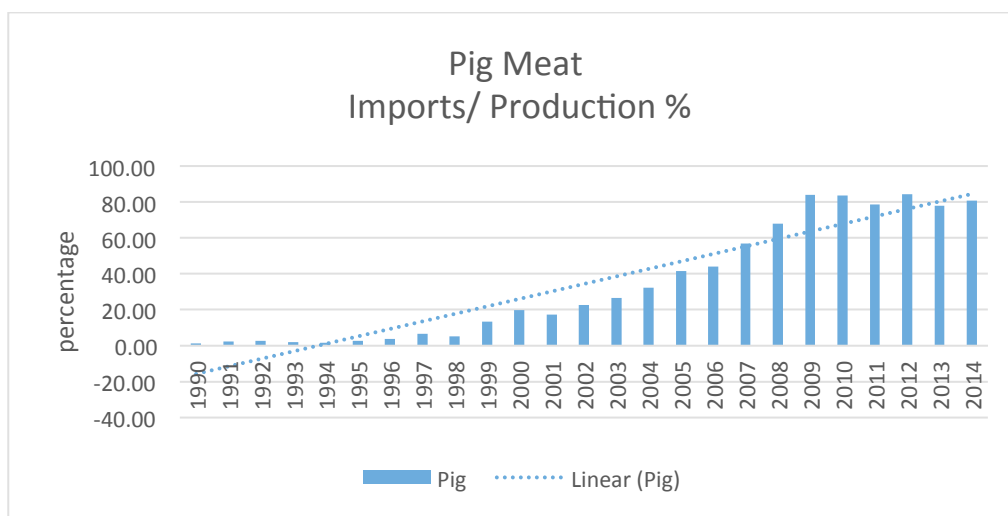
2.9 Pork Imports

In the late 1990's early 2000 domestic pork production was exposed to international competition. Barriers to imports were dismantled to a minimum. Large retail firms then became importers of processed product from overseas. Consequently, despite a population growth of approximately four million extra mouths, domestic production of pork fell from the 2003 peak of 418.9 kts to 362.2 kts in 2014. It is import price competition that now drives domestic retail pricing of pork. The decision to import pork is in the hands of major retail chains that offer animal protein to customers.

The decimation of the domestic pork industry should be a salutary example to both beef and mutton industries. Free market policies can be as easily written in Canberra for beef and mutton as was the case for the pork

²⁹ Compiled from: ABARES Agricultural commodity statistics, 2006-08 Table 155; ABARES 2015, TABLES 127; 129; ABARES Australian Commodity Statistics 1997, Table 144.

Chart 23³⁰



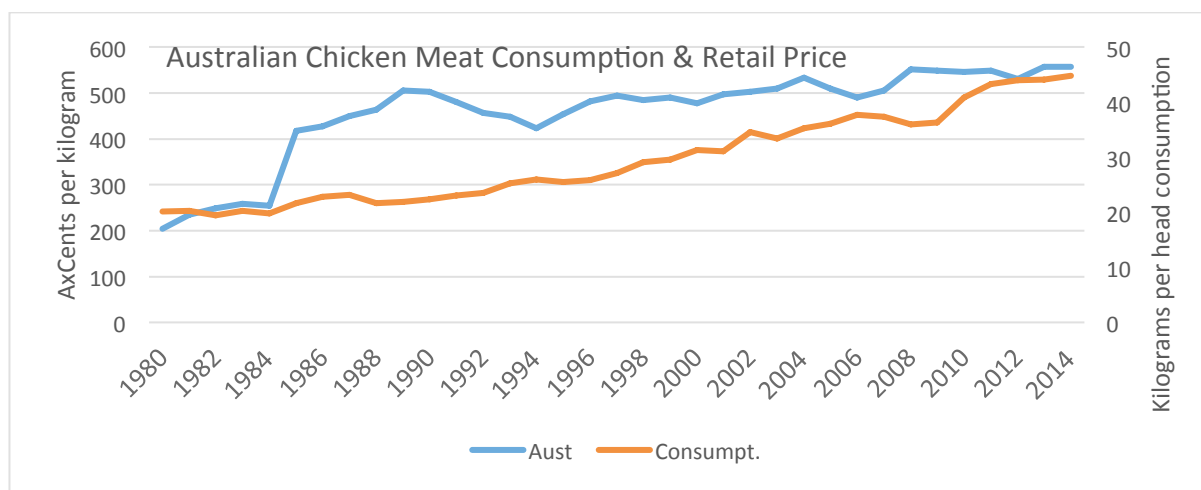
- Since deregulation of the industry, the domestic industry has been decimated by imports
- Imports peaked in 2009 at 84.1%
- By 2014, the import component of domestic consumption had fallen to 80.7%
- International prices determine domestic pig and pork prices.
- This is almost the converse to both beef and lamb industries.

There is a lesson for both the beef and lamb industries in the pork industry: deliver competitive priced protein onto the domestic market; or ultimately, free market economics could open up the domestic markets for beef and mutton to international suppliers. They would fare little different to the pork industry. Regional communities should recognize the potential dislocation that could follow from such a political sell out of their base industries. Rebuilding of beef and sheep industries needs to be owned by regional residents and communities - not international meat processors, retail giants; and, urban based politicians

³⁰ Compiled from: ABARES Agricultural commodity statistics, 2006-07 Tables 171; and, 2015, Tables 144 ABARES Australian Commodity Statistics 1997, Table 158.

2.10 Chicken Meat Domestic Consumption

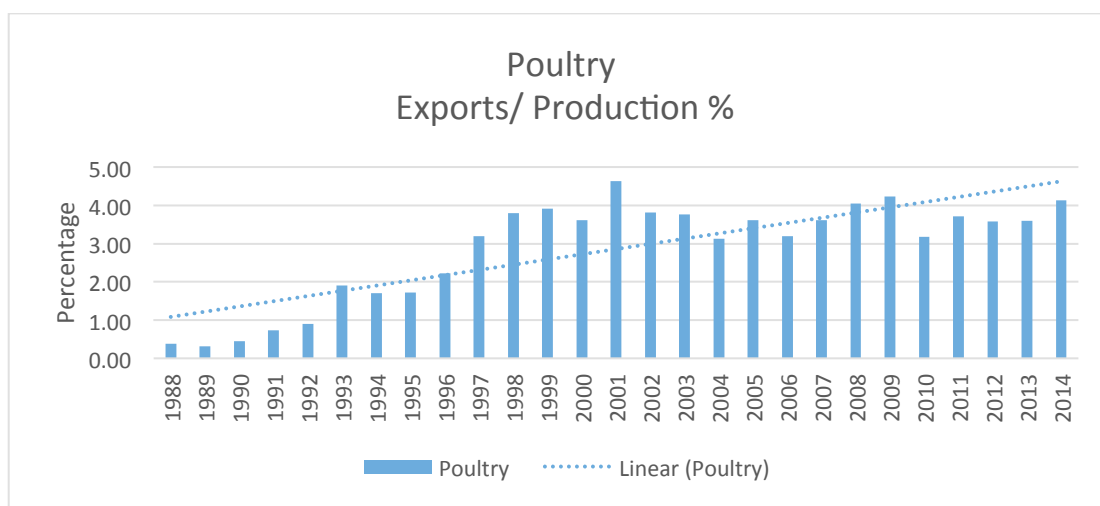
Chart 24³¹



- Consumption of chicken meat has risen steadily over time
- Retail price rose in 1985 directly from data base change.
- Cross elasticity of demand confirms mathematically that chicken meat consumption benefits from price increases in both beef and lamb.

2.11 Exports Chicken Meat

Chart 25³²



³¹ Compiled from: ABARES Agricultural commodity statistics, 2006-08 Table 155; ABARES 2015, TABLES 127; 129; ABARES Australian Commodity Statistics 1997, Table 144.

Note: Measurement of chicken price changed in 2007. They changed from Retail Frozen to an index of Fresh Whole Chicken. The recalibration was back dated to 1985 prices. Hence the change in retail price curve.

³² Compiled from: ABARES Agricultural commodity statistics, 2006-07 Tables 171; and, 2015, Tables 144 ABARES Australian Commodity Statistics 1997, Table 158.

- With domestic consumption above 95% of production, international markets have held little attraction for the chicken meat industry to this time.
- Exports are confined to waste products into specialist overseas markets.

3.0 Income Support

Internationally, in the mid 1950's onwards, it was recognized that agricultural sectors declined proportionately to the wider economy as economies matured and continued to grow.

In the aftermath of the Second World War, national Governments sought to maintain their food producing sectors. In Europe, the Treaty of Rome enshrines the rights of farmers to participate and share in rising prosperity of the EU.

Article 33 defines the objectives of the common agricultural policy as

(1) To increase agricultural productivity through technical progress and rational development of agricultural production through the optimum utilization of the factors of production particularly labour. .³³

Thus to ensure a fair standard of living for the agricultural community particularly by increasing individual earnings of persons engaged in agriculture:

- To stabilize markets
- To assure availability of supplies
- To ensure supplies reach consumers at reasonable prices

(2) In applying the common agricultural policy, instruments of policy will recognize the need for adjustment by degrees. Furthermore, in the Member States (EU), agriculture constitutes a sector closely linked with the economy as a whole. From 2013, the EU moved from a system of decoupled income support to direct payments to deliver income security whilst meeting social goals such as environmental policies.

The US holds a similar view of agriculture comprising an integral component of an overall food and fibre system. These overseas perspectives of agriculture and the wider economy are in stark contrast to Australia's simplistic microeconomic view of an industry which must meet market theory and thrive through efficiency, productivity, and international competitiveness.

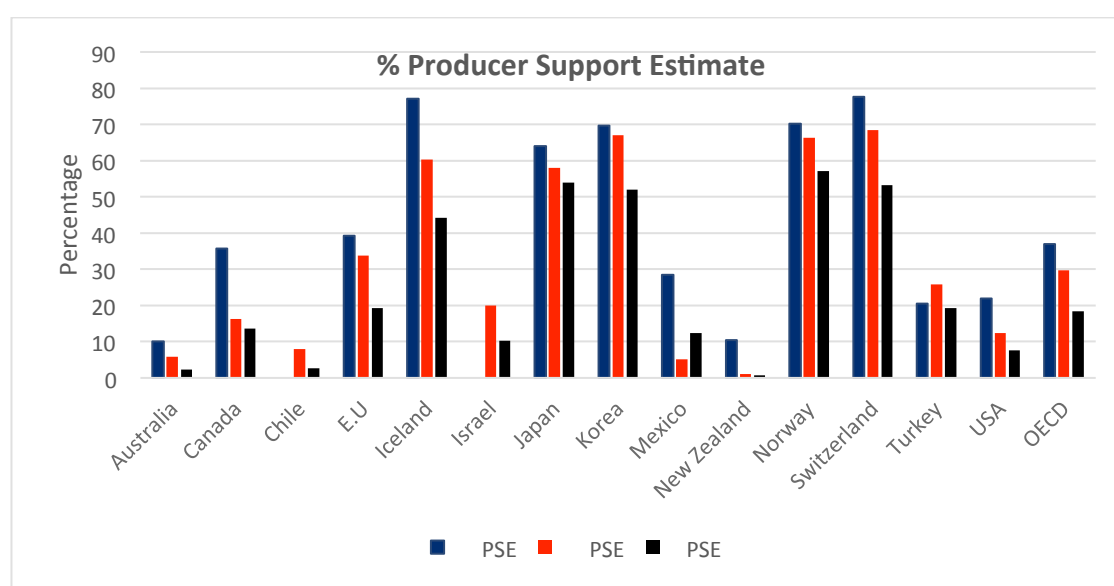
Article 33 will come as a shock to most Australian farmers. The requirements for farm incomes to increase through productivity is not all that different to our own approach. However, the stability of markets to ensure supply reaches consumers at reasonable prices sets out the rationale for programs that permit a range of intervention measures from supply constraint to subsidization of production and consumption when necessary. This is incompatible with Australia's policy approach

³³ Rees ben, *Treaty of Rome*, Beef Improvement news, September issue, 2003

Article 34 sets out the mechanisms to be employed in achieving Article 33 objectives. Policy instruments comprise: regulation of prices; production and marketing aids for various products; storage and carryover arrangements; and machinery to stabilize imports and exports.

In the USA, farm policy is set every five years in their Farm Bill omnibus legislation that covers support from farmer to food stamp support of consumers. Farm policy recognizes three tiers of farming: hobby farms, intermediate farms; and commercial farms. Policies are structured to support all three sectors. Until 2014, the USA employed decoupled income support. The 2014 US Farm bill, Multi Peril Crop Insurance has been adopted as income support. At this stage, MPCl is an unproven income support instrument. Both decoupled income support and MPCl are sanctioned by the WTO Agreement on Agriculture.

Chart 26³⁴



Support for Australian farmers by international standards is abysmally low. New Zealand and Australia appear to be living in the days of the Old Testament translating the David and Goliath story to farm policy. It is now more reflective of libertarian political philosophy than economic policy

Australia's farm policy now favours Multi Peril Crop Insurance to establish some certainty to farm income. There are many pitfalls in this move. Multi- Peril Crop Insurance does not address the underlying force that drives ongoing decline of rural sectors in modern advanced economies. That is driven by an established law in economics: Engel's Law³⁵.

Multi-Peril Crop Insurance can offer only insurance for a given annual income. As Engel's Law erodes farm income over time, insurance risk must increase. Over time, insurance premiums will rise to fund increasing risk to insurers. It is reflective of a "fools gold" approach to a serious economic policy problem

In the USA, Multi- Peril Crop Insurance premiums are subsidized to a level of 65% of premium. The USDA provides reinsurance under a statutory authority: Federal Crop

³⁴ Compiled from: OECD, Agricultural Policy Monitoring and Evaluation, OECD Countries 2014, p.77.

³⁵ Ress Ben, Australian Agriculture the real story; Charters Towers Rural crisis Summit, 2015, benrees.com.au

Insurance Corporation. Consequently, any proposed market driven scheme for Australia is more likely to compound international un-competitiveness than solve an uncertain income problem.

Income support with Multi-Peril Crop Insurance is an unproven policy instrument. It will not address what appears to be protein processor dumping of product on low priced international markets. Policy intervention here could prove more fruitful than MPCI

4.0 Findings and Policy Issues

Industry Policy Issues

Fears of a repeat of the cattle rebuilding exercise post the 1970's industry dislocation are unfounded. Data shows that herd rebuilding will be a short to medium term exercise. It appears rebuilding can be achieved within the State. Cattle numbers have moved around regions no doubt as a result of drought pressures; but, the breeding herd numbers appear in relatively good shape

Processing Policy Issues.

excessive preoccupation with export markets by both the beef/veal; and, lamb industries should be explained by both processors and industry leaders

Overweight in exports into cheap overseas markets at the expense of high priced domestic markets meets the theoretical definition of persistent international dumping

There appears persistent international dumping of beef, veal and lamb by foreign dominated processing plants. It would be no accident that they position themselves along the east coast and south east corner of the State. Such plant positioning passes back transport costs to producer farm gate prices whilst minimising forward transport costs to overseas shipping ports

The establishment of public abattoirs strategically distributed throughout production regions to deliver competitive priced protein to domestic consumers should be a policy priority. This could reduce producer costs, raise on farm incomes and boost average regional incomes

Long term failure of rural policy driven by economies of scale theory has encouraged empire building in the beef industry. Large empire builders are in trouble with both debt and drought imposts.

Empire building policies have contributed to both low commodity prices and demographic change in regional areas including the exodus of young people.

Policy now needs to rebuild regions and encourage young people and new farmers back to rural industries. A properly structured reconstruction policy could achieve this

Financial Policy Issues

Debt reconstruction will be essential in stabilizing a debt debilitated sector

Debt reconstruction could be accompanied by some tenure forfeiture. Forfeited tenure could then be made available for young farmers or new farmers. This policy of decentralization could help rebuild viable regional communities

Once reconstruction is delivered, development funding will be required to build enterprises in both rural and non-rural industries

Restocking loans will need to be designed around capacity to fund repayments particularly in the early years.

Income Stabilization

Income stabilization is a second order policy priority after debt reconstruction. The populist Multi-Peril Crop Insurance is a doubtful solution.

Multi- Peril Crop Insurance does not address the ongoing decline of rural sectors in modern advanced economies. That is driven by an established law in economics: Engel's Law.

Multi-Peril Crop Insurance can offer annual insurance of a given income level. As that income level diminishes over time under Engel's Law, insurance risk increases with a subsequent rise in insurance premiums.

In the USA, Multi- Peril Crop Insurance is subsidized to a level of 65% of premium; and, USDA provides reinsurance under a statutory authority

The proposed market driven scheme for Australia is more likely to compound international un-competitiveness than solve an uncertain income problem.

Income support with Multi-Peril Crop Insurance is an unproven policy instrument

Addressing what appears to be processor dumping on low priced international markets would likely improve both income and income stability

Drought Policy

Drought policy requires urgent design change. Post 2014 drought policy failure based upon doubtful risk management theories can be evaluated by the dependence upon urban charities by drought stricken communities. This dependence on urban charities is historically unprecedented; and, is nothing short of a political disgrace and a blight on all major political parties and industry leaders. There is no place for libertarian political philosophy in rural policy and particularly drought policy

5.0 Comment

Major political parties besotted with foreign investment and international competitiveness should take note of emerging overseas research which is saying that smaller farms are more productive than mega farms designed primarily for export markets³⁶. This research also implies that if nations want to be self-sufficient in food, then productive smaller farms provide an answer.

Smaller rural properties made viable through income support will build diversified enterprise, employment, and growth in a fast disappearing rural landscape particularly if broadening of industrial bases becomes policy. It is time Australia forget “one shoe fits all” rural policy; and, adopted a model that seeks to rebuild regional Australia with a diversity of farm businesses capable of delivering decentralized population that supports a broadening and deepening of regional industrial structures. The USA model of three tiered policy structure supporting: hobby farmers, intermediate farmers; and commercial farmers should be considered.

The free market push for income support by grower purchase of Multi Peril Crop Insurance is another example of ideology triumphing over common sense. Multi peril Crop insurance is heavily supported by governments in overseas farming sectors. To ask Australian farmers to shoulder full or substantial costs of this income support policy is nonsense. It can only further erode international competitiveness. Engels Law is the pervasive force that drives rural decline in advanced growing economies. It is time Australian policy makers accepted economic theory beyond neoclassical free market modelling structurally dependent upon Say's Law of markets.

If rural Australia is not sufficient evidence of failure of neoclassical modelling underwriting economic policy, then consider the inefficient use of the Australian labour force. The underutilization rate is revisiting the worst years of the early 1990's. Lift employment and income distribution in Australia and domestic consumption of Australian agriculture will lift farm gate income

Persistent dumping appears a contributor to low farm income. Dumping is supported by free market enthusiasts who claim it delivers cheap product to consumers. That is fine; but, consumers that are benefitting from international dumping of Australian animal protein are not Australian consumers. In fact Australian consumers become the victims of international price discrimination. Domestic price discrimination is an offense under Australian Trade Practices Legislation. It is a reasonable question to ask free market enthusiasts why domestic consumers should accept international price discrimination whilst being protected from domestic price discrimination which disadvantages them at the retail counter.

The same argument can be mounted for cattle and lamb producers. Why should they be asked to bear the costs of processors practising international price discrimination charged back to farm gate prices. Foreign Aid is the policy arm for delivering aid to overseas nations. It is unreasonable for free markets enthusiasts to support Australian primary producers accepting lower farm gate prices to benefit overseas consumers.

It is time to accept that the policies of the last century have failed both farmers and the nation. This century offers an opportunity to rebuild the damage wrought by those years of

³⁶ Grain Report, Hungry for Land: small farmers feed the world with less than a quarter of all farmland, May 2014, [online:grain.org/article/entries/4929](http://online.grain.org/article/entries/4929).

political ideology, flawed economies of scale theory, and empire builders. This opportunity should not be passed up.

The moral question in economics is very much alive in Australian rural policy in the twenty first century.

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