ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE

Inquiry into Mandatory Ethanol and Biofuels Targets in Victoria

Melbourne — 31 July 2007

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Mr K. Roberts, Vice President, Australian Lot Feeders' Association, and

Mr K. Shaw, General Manager, Pork Production, QAF Meat Industries.

The CHAIR — I welcome Mr Kenton Shaw and Mr Kevin Roberts to the hearings on the Economic Development and Infrastructure Committee's Inquiry into the Mandatory Ethanol and Biofuels Targets in Victoria. All evidence taken at this hearing is protected by parliamentary privilege; anything you say outside, obviously, is not. Before starting please give your name, business address and whether you are appearing as individuals or representing an organisation, and your position within that organisation.

Mr ROBERTS — I am Vice-President of the Australian Lot Feeders' Association and a practising lot feeder from Dalby in Queensland.

Mr SHAW — I am the General Manager, Pork Production, at QAF Meat Industries, based at Corowa; we have half our production actually in Victoria. I am also a delegate for Australian Pork Limited (APL), the federal organisation overseeing the pork industry.

The CHAIR — I suggest you spend less than half the 40 minutes allocated on a presentation so that we have the chance to actually ask the questions and flesh out what you would see as good recommendations for us.

Mr ROBERTS — I would like to do that as quickly as I can because I think the benefit really is in the question time. We have provided to you a chart of things that we would like to address.

I guess the most important thing is that we think the mandating of ethanol is a very serious flaw in this whole argument, and we believe that the main reason is that it will artificially distort agricultural markets, and that will have a flow-on effect, particularly in the feedlot industry, to the beef industry per se. I hope to demonstrate that as the day goes on. We are not — and I want to emphasise it — against biofuels per se or alternative energy per se, but we think this is a pretty ordinary type of direction to go by mandating, particularly the development of ethanol from grain.

The distortionary impact of a mandated target for ethanol, we believe, will distort not only the agricultural market, but eventually it will impact upon food in the long term. That is the area in which I am sure Kenton will be able to support this argument as we flesh it out.

I would just like to bring a bit of scene setting: ALFA represents 650 accredited feed yards, which is about 1.2 million head of cattle. In December we had 900 000 head of cattle on feed and 34 per cent of all cattle slaughtered in Australia in 2006 come from the feedlot industry. If you look at it from the point of view that there was actually, in value, about 55 per cent of all beef slaughtered in Australia, that came from feedlots — in value. You have in this state about 78 000 head of capacity in 20 accredited feed lots.

The CHAIR — Would you repeat those figures, please?

Mr ROBERTS — The figures are there but I am happy to repeat them. We have tried desperately to make sure that we have supported our information by doing good research. In our written submission, you will receive reports from the CIE — the Centre of International Economics — and in there it shows very clearly the potential impacts on the livestock industry — that is, the beef industry in particular — that I am bringing about. As this ethanol production particularly in the United States moves along and gives us history, we are starting to see some pretty alarming things. The United States of America experience is that food prices have increased by $47 per head, which might not seem much until you start the multiplier effect where you are looking at $14 billion increase nationally.

Mr TEE — Is that $47 per head per year?

Mr ROBERTS — Yes, it is, and a $14 billion increase per year to the nation. That is based on a $1.50 per bushel increase in the price of corn in 2006, and it is believed that those corn prices will go up in 2007–08.

The CHAIR — You have got the increase from what base?

Mr ROBERTS — From about $1.50 per bushel.

The CHAIR — So it has doubled?

Mr ROBERTS — Yes. Effectively what we have seen here in Australia, and I might invite Kenton to make a comment, is that for the last several years the domestic intents of industries have driven the grain prices in

Australia, particularly on the eastern seaboard. However, this year where we have got a potential 24 million tonne winter crop, prices are still going up; that is a direct result of the international prices because of the value of corn.

Mr SHAW — The domestic animal industry consumes between 10 million and 12 million tonnes of grain a year. There is lots of evidence to suggest that there is currently a shortage on the eastern seaboard, particularly of grain. In a normal year, we are seeing grain deficits in Australia, and last year particularly we had a significant drought that increased cost of production and cost of grain, and it certainly had a big impact on the availability and supply of grain, so there was a major deficit across the eastern seaboard.

This year, as Kevin said, we are anticipating a very good crop, but for the first time in 30 years at least, we are seeing future harvest prices of grain going up despite the fact that we are anticipating a very good harvest yield, and that is driven purely at the moment by the futures prices driven out of North America through corn — high demand, up to $5 a bushel I think it is now — and on the back of that you have got wheat grain in the US being pulled up as well. Price influence is already occurring due to ethanol demand coming out of the United States.

The CHAIR — Could I just pick you up there? You are saying it is $5 a bushel?

Mr ROBERTS — In 2006 it has gone from $1.50 a bushel to $3 a bushel, and now in 2007 it is increasing even more so.

The CHAIR — I saw the disparities between a three and a five, but it is the following year?

Mr ROBERTS — It has continued to increase.

The CHAIR — Thank you.

Mr ROBERTS — I really wanted to make that point.

The CHAIR — I understand.

Mr ROBERTS — In our evidence from Iowa State University those numbers — $47 per head per year — are based on just a rise of $1.50. It goes on and on and on, and that is the point.

Mr THORNLEY — I will pick this up if I may, Chair?

The CHAIR — Yes.

Mr THORNLEY — I understand the global grain price impact, and I am assuming the global prices are largely driving the Australian prices. I am struggling a little with how significant an Australian ethanol industry would be in terms of the impact on the global grain price umbrella. It would seem like a pretty small number compared to a very big volume?

Mr SHAW — No, we believe that if you mandate ethanol it will send a signal to the grain producers and the grain market that will artificially inflate the price because at the moment production basically equals demand, or slightly under, in Australia. If you bring in another consumer of grain into the market, that will cause a higher demand, which will inflate prices.

Mr DAVIS — Significant consumer.

Mr SHAW — Significant consumer, yes. At the moment, for example, every $10-a-tonne increase in grain price to the pig industry equals a 2½ per cent increase in cost of production, which to my company — we are a 20 per cent producer of pork — equals about $3 million. There is a fair influence on cost of production based on increases in grain price.

Mr THORNLEY — I do not doubt that. I am trying to probe the extent to which grain prices are going to be influenced by domestic ethanol industry versus global grain price umbrellas.

Mr ROBERTS — The times where it will make the biggest difference is in times of drought. That is when it will have the biggest impact on the intensive livestock industries in Australia because we have already seen that in times of drought the price of grain escalates to the world market immediately. It just triggers it straightaway.

Once you have significant use, particularly if there was a mandate across-the-board in Australia, what you would have then is effectively a drought every year. It would be constant.

Mr THORNLEY — Can I just understand, I am sorry — —

The CHAIR — It is a point that I am interested in, anyway.

Mr THORNLEY — Given that we export the bulk of our grain, when the grain lands at its destination what portion of the price that those foreign customers pay is the freight from Australia to there, and what portion is the grain itself? Because if the freight is a small proportion, then we are really living with a global price whether we like it or not, and it is not clear to me that the domestic demand will change it that much. If there was a big freight buffer — that means, there is a big difference between what you can sell things for here and what you can export it for — then I would understand more.

Mr SHAW — I cannot give the answer on the cost of delivering to foreign countries — Iraq, or wherever. I can tell you that out of the Murray River area it is roughly $50 a tonne delivery to port. In a normal year that is somewhere between 25 per cent and 35 per cent of the cost, delivered to port. That is just to get it to the ship. So whatever it is, it would be quite significant, I think. So there is a fair transport cost on grain delivered internationally.

Mr THORNLEY — The raw grain price is $150 a tonne, or whatever?

Mr SHAW — Yes.

Mr THORNLEY — And it is $50 to port, and then it is whatever it is from port?

Mr SHAW — Yes.

Mr ROBERTS — In actual fact those numbers are well gone. The sorts of numbers that we are looking at are — wheat delivered, Darling Downs, for November this year, $270 a tonne. They are the sorts of numbers that the world market has driven it to, and our biggest concern — again I go back to the times of drought — is that we will exceed the world price because there is no ability to import grain up country in Australia. It is only available to those on the seaboard. You cannot actually import grain from anywhere — if there was cheaper grain around you could not import it anyway.

Mr DAVIS — What, because you could not get it to — —

Mr SHAW — Quarantine restrictions is the major one. At Corowa we have the largest feed mill in Australia, and we cannot get grain from overseas to that feed mill because of quarantine restrictions on the grain. We have no choice but to use domestic grain 100 per cent of the time.

Mr ROBERTS — I would like to make a point which I normally would not make, but following the track that you are taking, one of the things that you would have to question about mandating ethanol production, particularly from grain, is the point that we have just made. The ethanol plants proposed are up country, most of them, other than the one in Western Australia that I am aware of.

The other point that I would like to make is: at what point does ethanol production from grain become unviable unless it has government intervention by price? We do not have any ability whatsoever in the intensive livestock industries of getting — I am going to call it — a handout through government support.

That is another concern. We are operating under a world price now and struggling, but if you then have a mandate which is artificially supported by excise until 2011 — and of course, if it is mandated it could well be that the producers of ethanol say, 'We cannot afford to make ethanol for this price; we need to have continued support through excise exemption'. I am looking a bit forward and, as I said, I would not normally make that point, but following Mr Thornley's point, I think it is necessary to do so.

Mr THORNLEY — Can I try and restate the argument as I think I understand it, and you can tell me if I have got it right?

Mr ROBERTS — Yes.

Mr THORNLEY — If we go short on the eastern grain market, then prices are going to go up, and given our inability to import we really have no access to supplies — —

Mr ROBERTS — Internationally competitive grain.

Mr THORNLEY — If the demand keeps growing and there is no new supply, prices could go through the roof — —

Mr ROBERTS — Yes.

Mr THORNLEY — Even if we had the capacity to import, then logically our prices would end up going to world price plus freight — —

Mr ROBERTS — Correct.

Mr THORNLEY — From wherever we were importing them?

Mr ROBERTS — Correct.

Mr THORNLEY — Your concern is that the driver of that occurring in the first place was a public subsidy to another industry, and that would seem perverse?

Mr ROBERTS — That is the bottom line.

Mr THORNLEY — I've got it now.

Mr ROBERTS — For instance, in the drought of 2003 wheat prices went to $355 a tonne, and sorghum was trading at around $330 a tonne. That was without any mandated ethanol production. Those are the sorts of numbers. We had good fortune, particularly in the beef industry where we had the United States of America out of our two prime markets due to BSE — and that was the Japanese market and the Korean market. The feedlot industry had a holiday for about three years and it was a great time while the USA was not in there, but it is back having spent a fair bit of time in the wilderness.

Mr TEE — In terms of the cost impact, do the American incentives there not give you a holiday back here in the sense that its cost of grain and corn and so on is more expensive because it is competing with the ethanol market?

Mr ROBERTS — Again I will speak specifically for the beef industry. The feedlot industry has to market into Japan and Korea with what we call full sets — in other words, the whole animal. The USA has a massive domestic market, and it is able to have select cuts direct to the market. That is why it is able to be more competitive than Australia even with the marketplace being significantly higher. I might also add that in 2006 I visited the USA. Its beef industry was only just waking up to the fact that its cost of production was going up due to the ethanol usage of corn. It is starting to wake up that it is costing it more.

One of the things that has happened is that in the USA they used to put calves, as they call them, on feed at about 800 pounds and then feed them for about 120 days and take them out at 1100 pounds. They are now putting them on feed about 100 pounds higher, so they are trying to lower their cost while they are in the feed yard because of the cost of corn et cetera — the cost of production. That is the point that we come back to again. It is the cost of production, and I am sure Kenton has already made that point clear.

Mr SHAW — Could I just add that we believe that the mandating of ethanol has had a significant impact on the USA grain industry. The Australian industry is a bit different, but just to put you in the picture for the first six months of this year, since harvest last December, it has been more expensive to purchase grain on the Murray River, for example, than it has been out of Melbourne, in theory because world prices were a bit lower.

The lack of supply had a major impact on what was available and the domestic demand because you cannot fill the gaps through imports. It is a different market situation so if we had another significant player who is going to want constant supply and our production is not consistent, we will have even greater price distortions in the Australian market, if you like.

Mr TEE — I think this hike is reasonably critical, and I just wonder if you are able to make available to us any economic analysis around these sorts of issues?

Mr ROBERTS — The CIE report — —

Mr TEE — You will make it available as part of your submission?

Mr ROBERTS — Very much so. It is the one that clearly demonstrates the impact particularly down the chain in our business.

Mr TEE — I suppose just to be clear because the other point that has been made is that our grain — I think the figures we were told is that 24 million tonnes is produced; and of that, only 7 million tonnes is used domestically so the view was I suspect that the export was such that if demand increased here we would just export less. The other point that has been made is that essentially 50 per cent of the ethanol product is waste product which producers such as yourself do not use.

Mr ROBERTS — This is a particularly interesting point and one that the pro-ethanol people have made and distorted, if I may say so. First of all our estimates are— —

The CHAIR — Feel free to say what you like. You are under privilege.

Mr ROBERTS — Thank you, Chair. I am not used to holding back anyway, publicly even.

The CHAIR — You are under parliamentary privilege.

Mr DAVIS — It is a rare opportunity; go for it!

Mr ROBERTS — Frankly we think the numbers are closer to 10 to 12 million tonnes used domestically, not 7 million. That is the first point because otherwise in recent years the price would never have been able to escalate to the prices it has. As I said, in 2003 we saw the price of wheat escalate to $355 a tonne. That was on domestic demand alone.

The waste product — they have got a pretty fancy price on waste product, if I may say so. In fact they have inflated the ability for our industries to be able to use it. I will speak specifically to the feedlot industry. We have spent an inordinate amount of time and in studies in the United States as well that we can use approximately 20 per cent on a dry-matter basis in our feed — 20 per cent only on a dry-matter basis. We are after energy. The only energy left in DDGs or dried distillers grain or wet distillers grain is in the form of fat. Bovines can only absorb so much fat in their rumen and then they start decreasing intake.

Let me tell you, I am evidence that you can only get fat if you eat a lot. That is our business — feeding cattle and pigs is about feeding as much as their intake can take, so they grow and get fat. If you try to force more than about 20 per cent on a dry-matter basis into their diet, then their intakes go down and you start having a cost of gain. So this is where the balance comes. Really today if I can put to you — it is about balance. We believe that in mandating and even with the distortion we have got currently from the excise the balance is all wrong. I can assure you the feedlot industry if this was another player that was not coming in and being supported by government mandate and support, we would say ‘well hell, we have got to go and do business with this’.

But this is artificially supporting something — that is the point I want to make. I am sure that Kenton can tell you how much they can use in the pig industry. It is a lot less than the likes of John Honan’s group, Manildra, would like to give you. It is not a fact what they are telling you. We feed them; they only want to feed them.

Mr SHAW — Over 80 per cent of pig diets are grain in any normal process. We can include DDGs at a maximum of 7 per cent, an average of 5 per cent of the diet — that is it. We cannot go any higher for four reasons. One — it has quite low digestible energy and we are buying energy; that is what we are buying, as Kevin said as the grain provides us. It has particularly low digestible energy compared to the equivalent out of corn in the US so it is a different product.

It has very poor amino acid profiles, which are basically the protein mix, and we have to actually supplement amino acids when we use DDGS, particularly with lysine. It has very variable digestibility, between 30 per cent and 70 per cent, so you have to pick a level that you are confident in. It has a fairly high moisture content and is actually difficult to include — particularly in pellet diets, which are the majority of the form in which pigs are fed in Australia — in a diet form. So for those four reasons it has a maximum inclusion rate of 7 per cent in our diets. We currently use it at QAF now, out at Manildra, at about its maximum rate, an average 5 per cent.

The CHAIR — Just picking up on what you have both said, Mr Roberts and Mr Shaw, if you were making the recommendations from this committee after the evidence you have just given and your challenging of previous evidence, what would be the three key recommendations you would make?

Mr ROBERTS — I think you would need to deal in the facts and not in what has been made up by those looking for a handout. That is the first thing I would say. The facts are as we have given them today, and there are some other facts that will come in our submission. The multiplier of — —

The CHAIR — So what would your recommendation be?

Mr ROBERTS — Look very closely at the evidence that has been given and make sure you have good support in sifting through the facts. That would be my biggest and single — —

The CHAIR — Presuming we have sifted through the facts, what would your recommendation be?

Mr ROBERTS — Not to mandate the production of ethanol from grain.

The CHAIR — I picked that up. Mr Shaw?

Mr SHAW — My recommendation would be not to mandate biofuels, because it is sending a false signal to a grain market that this country utilises to produce a lot of products. Employment is critical for the bush. There have been figures quoted by the proponents of it saying that it will create employment. For every 200 000 tonnes of grain utilised in the ethanol industry they claim it will employ 35 people at a plant. QAF uses 200 000 tonnes of grain a year and employs over 1000 people, and they are all in the country. We do not believe mandating will provide better opportunities. We are not against biofuels per se, but they need to stand up on their own and compete in the marketplace with every other user of grain in the country.

Mr DAVIS — It seems to me what you are saying is that the mandating of biofuels of this type, and ethanol in particular, is going to be costly, that it will impose a cost on your industry and some other industries.

Mr SHAW — Yes.

Mr DAVIS — What do you think the cost would be to your industry in Victoria, and what would the cost be to other industries? Can you put some estimates on that?

Mr ROBERTS — I would not like to try and do that today. I would rather that be in our submission, if I may.

Mr DAVIS — Fine.

Mr ROBERTS — But the thing that it does is it has the ability to have the reverse effect on this regional employment deal. We believe that it could actually close down some feedyards, and I think Kenton would suggest piggeries as well. That, I think, is just detrimental to what is trying to be achieved. People are saying they want to see jobs. Well, we are suggesting to you that you are putting jobs at risk where they use less tonnages and employ more people. The feedlot industry has the same situation. A 30 000-head feedyard employs 50 people and uses approximately 100 000 tonnes of grain.

Mr DAVIS — I get the point, but what I am asking you to do is to try to quantify it for me.

Mr SHAW — Can we supply it?

Mr DAVIS — Maybe in your submission. Thank you.

Mr ROBERTS — In the submission would be the only way I would want to do it, because I do not like guessing.

Mr DAVIS — No, that is all right.

Mr THORNLEY — I presume that if we were importing the ethanol, your concerns would disappear?

Mr ROBERTS — Yes, again, if it was open and fair competition and the ethanol was able to be imported into the country, then it would be facing world competition. To us that would take away our greatest — —

Mr SHAW — It would come in at world parity price.

Mr ROBERTS — Exactly.

Mr SHAW — We are simply concerned with the cost, as grain users, to industry.

Mr TEE — That is right. To clarify the point, if you got ethanol-blended petrol from Brazil, you would be quite happy to use it as part of your transport mechanism? You do not have a difficulty with ethanol per se?

Mr ROBERTS — Absolutely not. We want to be very clear about it: we are not against ethanol. We are against the distortionary effect that the mandating and the current — there have been significant dollars already going out to particular proponents, particular producers of ethanol. They have been getting 38.147 cents a litre excise holiday.

Mr SHAW — Competing against industries, as grain users. We compete on the world market against imported pork coming into this country in quite significant volumes. We compete — —

Mr DAVIS — It is subsidised independently — imported pork.

Mr SHAW — It is subsidised. We are not allowed to import grain, so we cannot import costs reductions. Our playing field is not level. If we add this, it will significantly impact on the ability of the Australian users of grain to be competitive, which previous governments have forced us to do through their open door policies — in theory, level playing fields.

The CHAIR — You have made your point extremely well. Could I just flesh out something that was said earlier in previous evidence where it was put to us, from memory, that a by-product of ethanol after the carbs were taken out was good for feed for — —

Mr ROBERTS — That is the point, Chair, that I made before.

The CHAIR — Mainly protein, and you are saying that is a nonsense?

Mr ROBERTS — There is a limit — —

The CHAIR — You have made that clear.

Mr ROBERTS — It is absolutely essential that you understand that there is a limit to the amount that all of the industries, the combined intensive industries — the feedlot industry can probably use the most in a complete diet, and that is a maximum of 20 per cent on a dry matter basis. Kenton has told you 5 or 6 per cent. The chicken industry has also got a limit, and the main reason is that all of us, particularly in growing beef or growing pork, are chasing energy, and if the only form of the energy is in the form of fat, then it limits the amount the animals can intake.

The CHAIR — And whilst we have been provided with evidence that the by-products of ethanol can be used elsewhere in the marketplace, are you saying that at the moment the by-products are not fully utilised, they are ending up as waste somewhere else?

Mr ROBERTS — Let me put this to you: the United States — and their industry is expanding daily — already cannot consume the wet distillers grain and the dry distillers grain. They have to export it because they cannot use the product. They just cannot absorb it. In visiting the United States one of the things that I learnt about particularly wet distillers grain — and we have not talked about the environment, and I am not going to dwell on it, but you cannot stack it, and you cannot store it.

Mr SHAW — And it is very expensive to transport.

Mr ROBERTS — And then, once you dry it, that is when we start getting into, for instance, Professor David Penington — —

Mr DAVIS — And greenhouse impacts.

Mr ROBERTS — You then change the numbers again, because once you try to dry it, in the United States again — and it would transfer for here on about the same dollar value — it is about $65 per tonne that it costs to dry wet distillers grain. The drying effect is an enormous cost. Transporting it, there is a limitation to how far you can transport it in the wet form because it is 70 per cent wet and 30 per cent dry matter, so there are huge logistical problems that come into it as well. In the case of the previous commentators, theirs is already dried because of the process that they are using in making theirs.

If I could go back to the recommendations: add up all the things that are happening and the amount of water. It takes about 1000 litres of water to make a litre of ethanol. We have a few problems with water. I think the cabby told me that you are on level 5 here in Melbourne.

Mr TEE — Don't believe the cabbies.

Mr SHAW — Close enough.

Mr ROBERTS — I think that really I would hope, and Kenton would hope, to be able to say to you: add up everything before you just — I heard the words as I sat down — for the public good. There is some public harm as well. If food prices do rise — and there is evidence already that they will — that is not public good.

The CHAIR — I want to just keep exploring the public good from one more aspect. In terms of the health benefits for the citizen of the product of your feedlots using the by-products of ethanol production, is there a variation in your animals being fed that percentage versus pure grain?

Mr ROBERTS — No, none whatsoever.

Mr DAVIS — They will eat anything?

Mr ROBERTS — Within reason.

Mr SHAW — They will not perform on anything, though.

Mr ROBERTS — It is performance that goes out the window. In relation to the feedlot industry, thankfully so far in this inquiry no-one has said, 'But all your cows have a greenhouse effect by belching et cetera'.

Mr DAVIS — They are belch free, are they?

Mr ROBERTS — No, they are not, but per kilo of beef produced, our cattle belch a lot less than those in the extensive livestock industry do, and I think these are important things. Again it is about balance. If I may, Chair, I think you were about to touch on health. Dr Ray Kearney, a very eminent scientist and professor in this country, says that, unless you are using E85, you are only twinkling while Paris is burning. I think that is a point that you may well follow up on as well. That was stated here in your state at the ethanol conference held two months ago.

The CHAIR — Many thanks. We look forward to receiving your submission.

Mr SHAW — Thank you for the opportunity.

Mr ROBERTS — Thank you for the opportunity. You will receive it on time.

Witnesses withdrew.