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Submission to Productivity Commission's

Safeguards Inquiry into the Import of Pigmeat.

November 2007



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Introduction

This submission has been prepared by the Victorian Farmers Federation Pig Group on behalf of its 45 members.

The submission focuses on state based issues in order to provide the Productivity Commission (PC) with an overview of conditions within Victoria.

The VFF Pig Group recognises that the Australian Pork Limited (APL) carries responsibility for providing a national perspective. It is clear to the VFF Pig Group that imports have grown substantially in a short period of time since September 06 (PC Issues Paper p 8, October 2007) when imports were 6.0 kilotonnes and were in March 07, 12 kilotonnes and this is the major reason producers and the industry have been suffering material injury in the most recent 6 months.

Individual VFF members have also been encouraged to prepare their own submissions.

1. The industry in Victoria

The Victorian Industry is characterised by the following demographics:

- 20% of production sows (65,098) are located in Victoria. 318,595 in Australia
- 350 farms/producers/establishments in Victoria. There are 1923 establishments or farms in Australia. (An estimated 70% of farms are located across Northern Victoria where grain/feed supplies are more easily sourced.)
- 99 producers in Victoria are contract growers and have no sows at all.
- 11 producers in Victoria breed from 36,285 sows
- Average herd size 159 sows but note the above: Industry is skewed to many contract growers and few large breeders
- In 1960 there were 49,000 producers.
- Net profit per sow has been up to \$375 in the past, however the industry reports losses currently. (Prices \$2.30/kg, costs \$2.70/kg)
- About 390,000 tonnes of pork product produced per annum in Aust. Approx 63,000 tonnes per annum in Victoria. (see Table 1 below)
- Around 5.3M pigs slaughtered annually in Australia In Victoria there are about 770,000 pigs slaughtered annually.

- \$153.1M production value per annum in Vic, \$924M in Australia.
- The VFF Pig Group represents 45 pig breeders and growers in Victoria.

Industry trends: Breeding establishments continue to concentrate and grow larger. Contract or specialist grow out facilities are also expanding in size and number. Smaller combined type facilities (breeding and grow out) also growing in size but reducing in number. Those establishments below 100 breeding sows are declining.

Table 1 Some key statistics

Fiscal Year	MAT Fresh Pork Consumption kgs	MAT Processed Pork Consumption kgs	MAT Total Pork consumption kgs	Imports CWE Tonnes	Export CWE Tonnes	Production CWE Tonnes	MAT Number of pigs slaughtered (000)	MAT Porker Prices	MAT Baconer Prices
2002-03	8.13	13.21	21.35	84,672	83,679	419,556	5,742	2.61	2.31
2003-04	9.19	12.96	22.15	107,764	69,798	405,900	5,591	2.57	2.21
2004-05	9.71	13.66	23.38	145,579	61,353	388,421	5,341	2.67	2.38
2005-06	9.77	12.59	22.35	128,985	63,469	388,863	5,370	2.65	2.29
2006-07	11.18	13.86	25.04	190,311	60,021	381,865	5,332	2.81	2.5

06/07 to previous financial years:

% Δ from 2002-03	37%	5%	17%	125%	-28%	-9%	-7%	8%	8%
% Δ from 2005-06	14%	10%	14%	12%	48%	-5%	-2%	-1%	6%

- It is important when the PC analyses the above statistics that Pig Equivalent data is established or extrapolated. For example it is estimated that 70,000 Australian Pig Equivalent (50,000 overseas) of imports is coming in to Australia from overseas.

2. Anecdotal evidence of material injury

Our members in Victoria have contributed to the following:

2.1 Breeding

*“Locally to me there are 3 units currently destocking, all are around 300 sows each **(List of names in confidential section)** Another close bigger unit of 3,500 sows are seriously considering closing down I have been informed, but not confirmed. With others who are QAF contract growers, I believe over 70% of (growers and breeders) within a 50km radius of me will be out of pigs within 6 months if the 3,500 sow unit does go.”* (Breeder, Northern Victoria)

“Job losses were inevitable given the situation with the drought, feed prices and the level of imports and the QAF decision to lay off 100 people came as no surprise to anyone in the industry.” he added. *“I think this action by the largest producer in the country is just “the tip of the iceberg”. More redundancies will have to occur throughout the industry if it is to survive this current crisis”* Aeger Kingma, President VFF Pig Group

Under normal circumstances the industry would be able to withstand the current drought and the cost burden it places on production facilities. This has been proven during droughts in the past. However the current level of imports does not allow the normal “stabilisers” in the industry to work. The level of imports it is estimated by the VFF Pig Group to have cost the production side of the industry in Victoria around \$50M in the last 12 months. Losses continue to mount with no end to the problem in the foreseeable future.

The VFF Pig Group through its membership network has identified that the number of sows that have stopped breeding in Victoria alone is in the vicinity of 17,000 representing around 28% of the industry in Victoria. (Some evidence of this is provided in the confidential section of this report.)

2.2 Contracting or grow out and other ancillary services industries

Contracting (or grow out of pigs) is a very successful risk management strategy (especially in biosecurity) and also capital leveraging strategy. It also facilitates the supply of specialist housing and infrastructure requirements which can be met directly. It also allows industry innovation costs to be met more quickly. The

Australian pig industry has over the last decade or more, seen the transfer of about 35% of the entire production stock in the industry into the hands of contractors. These are in every part of the system: breeders, weaners and grow out phases, right through to finishers for market.

Other sections of the industry affected by imports are the many businesses and people involved throughout the supply chain including veterinarians, abattoirs (lower volumes) feed suppliers and others right down to the local shop keeper. In fact it is estimated that the multiplier effect for agriculture may be in the vicinity of six.¹ So for every dollar lost on farm six dollars is taken from these communities overall. In that case and extrapolating from estimated losses above of \$50M per annum, the whole industry may be losing \$300M per annum.

These ancillary businesses are also the most exposed section of the industry in volatility, as contracts and input costs are easier to modify or wind down, than the dissolution of an entire enterprise.

Certainly in recent times we have seen that many contractors have been downsized or had their contracts terminated. Operators in the ancillary area also all report difficult trading conditions.

Contractors have been hit hard by the impact of imports over recent years, as they have not been eligible for Exceptional Circumstances (EC) drought relief as farmers, and hence have been ineligible to access the various State funded relief programs. Under the Commonwealth EC regulations, contractors are not deemed to be farmers or primary producers, but small businesses, servicing agriculture, like tractor dealerships.

Although the relief support in EC is the same for farmers and small business, all State supports, such as rate relief, are available only to farmers, and the Commonwealth definition specifically excludes small businesses from accessing the wide variety of just those State supports which the VFF has been largely instrumental in arguing for.

Contractors, and others, however, are even more exposed than producers where significant industry harm is occurring.

The maintenance of low prices in the Australian market where imports are unrestricted means that the actual commercial versatility and adaptability of the

¹ Young, RT, 1993, *The Importance of Agriculture and its Relationship to Land Use Planning*, Paper presented to RAPI (NSW) Conference, Penrith

whole industry is being harmed. This is not only a loss of production, but of expertise, including business management expertise and not just labour skills. These will be very hard to replace in a reconstruction phase if current conditions continue.

In the meantime, support for these sectors is both urgent and significant. Under significant import stress, the industry is experiencing very severe impacts on its contractors and other ancillary services to the industry. The production portion industry in Victoria is losing around \$1M per week the VFF estimates and this transmits into \$50M per annum. Using the identified multiplier as outlined above this has the effect of reducing economic contribution to these regions of \$6M per week and \$300M per year.

These industries and the production sector are at risk of losing their livelihoods. In addition many will have invested in their business as a form of superannuation and hence long term financial security is being eroded.

3. Productivity growth

The industry has made significant productivity gains in recent years in areas such as improved herd health, numbers of pigs born alive and improved management techniques. On the marketing side the industry has been able to obtain a 35% increase in fresh meat market share in Australia. For Victorian producers this represents an opportunity to grow their businesses in the future

Feed conversion ratios have improved in Australia during the last 2 years from 4.3:1 down to 4.13:1 and the aim is to achieve 3.5:1 over the longer term.² In addition the carcass weight sold per sow are also projected to rise to internationally competitive levels from the current 1500kg to 1700kg and beyond.

Big improvements in breeding techniques and other management initiatives will take the Australian industry to these levels in a very short period of time.

However the industry needs “breathing space” in order to reach these goals from the damage of current import volumes in order to realise the medium term efficiency gains.

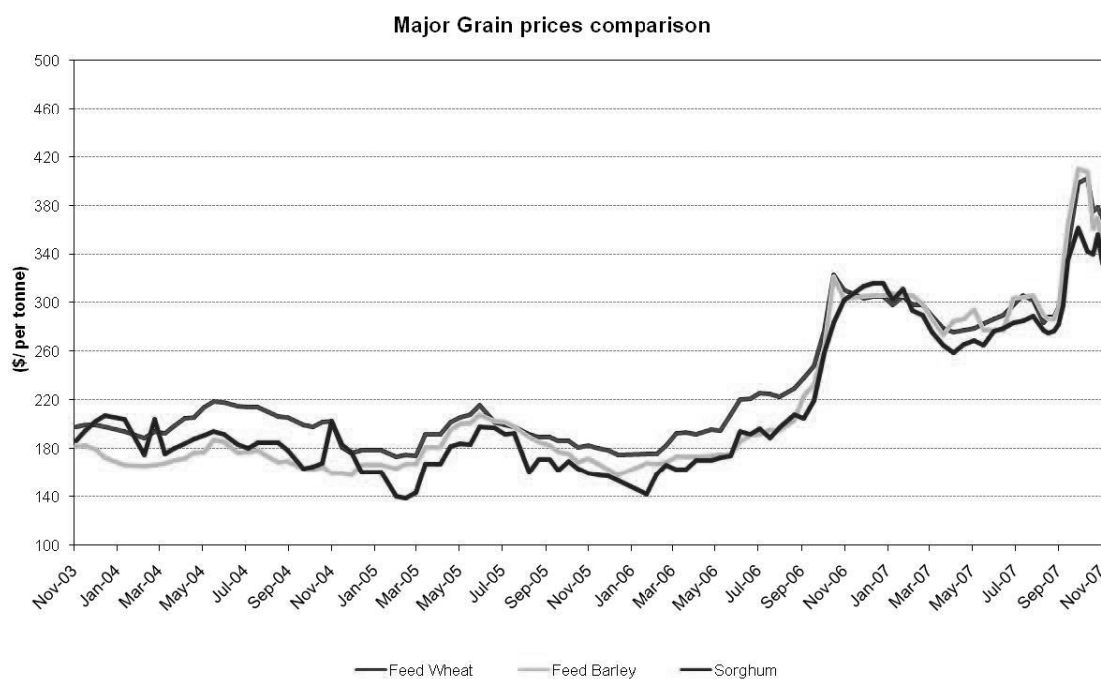
² Campbell, Dr R, “Feed Efficiency: Small Changes = big effect on bottom line,” Australian Pork Newspaper November 2007

4. Economics of production

The Pork Industry relies heavily on grain as the major input into the production process. Approximately 60% of production costs are grain related. Herd health (10%) Labour (20%) and finance and admin (10%) comprise the rest of the cost structure in the production side of the industry. This section of the industry is the topic for analysis in this paper.

The PC is no doubt aware of the movement in grain price over recent times and the following graph illustrates this clearly.

Figure 1 Grain price movements



Source: www.apl.au.com

During this time (since July 06) the effect of imports has depressed prices. Under normal conditions and a price around normal historical levels producers in Victoria would be in a position of break even. However, most would have been relying on processors to pay them prices at 2006 levels, which would normally be the “base” (see table 1 above). However the current average price of \$2.30 kg being experienced by our members, and other producers, as a result of cheap imports flooding the market, reduces their ability to adjust.

Basic economics tells us this “shock” is causing material injury from which this industry needs relief. The industry faces fixed costs that cannot be successfully managed in the short term. Whilst some variable costs can be managed (eg labour and sow numbers) feed prices and finance costs cannot.

APL has been leading a national re-structure of the industry, recognising it must adopt international competitive structures: *Australia while appearing competitive on a live cost of production basis, lacks scale, and does not have sufficient horizontal and vertical integration or modern processing plants running at high capacity utilization.* (Source: APL Industry Benchmarking Report 2004).

5. Conclusion

Material injury as a result of a surge in imports of Pork Product is clear. The VFF Pig Group vigorously supports a provisional and general safeguard action to allow the industry to adjust to this increase over the longer term.

Pig producers in Victoria recognise that variable feed prices are to be expected in times of drought. However the huge increase in imports over the last 3 to 5 years, in particular the last 12 months significantly reduces the industry’s capacity to under normal circumstances, manage this natural occurring business condition.

This submission supports the APL’s national approach to industry re-structure which is manageable and logical to ensure a viable and internationally competitive industry in Australia. Without safeguard action at this time, and immediately, this industry re-structure is at risk of stalling. In addition the financial and welfare effect on an industry that has made considerable progress on productivity (and will continue to make more) improvements to allow it to become internationally competitive will be catastrophic.