

**SUBMISSION TO THE PRODUCTIVITY COMMISSION**  
**SAFEGUARDS INQUIRY INTO THE IMPORT OF PIGMEAT**

**NOVEMBER 2007**

# 1. INTRODUCTION

The Productivity Commission safeguard inquiry into the import of pigmeat has been initiated at a time when the Queensland industry is going through very tough times as a result of factors such as the drought and the resulting low stocks of grain, increasing cost of production due mainly to high grain prices, comparatively low production efficiency, low pigmeat prices, global competition, and the rising value of the Australian dollar. Under these circumstances, the recent increase in pig meat imports is adversely affecting domestic pigmeat prices and consequently large sections of the industry are struggling to survive. Pig growers are losing money and are destocking to reduce their costs; some producers are exiting the industry; and there are associated job losses occurring in the industry.

The Queensland Department of Primary Industries and Fisheries and the Department of Tourism, Regional Development and Industry make this submission with the aim of assisting the Commission in becoming more aware of the difficulties facing Queensland pig producers and the support being offered.

## 2. Overview of the Queensland Pig Industry

Queensland has over 600 pig establishments, 73,000 breeding sows and about 25% of the Australian pig population. The Queensland pig industry accounts for 26% of the gross value of Australia's pig production and employs more than 6000 people. In 2005-06, Queensland pig industry contributed \$230 million to the State's gross value of agricultural production.

Information from Australian Bureau of Statistics (ABS) indicates that pigmeat production in Queensland has increased from 78,500 tonnes in 2000-01 to 93,800 tonnes in 2006-07. The industry produces predominantly for the domestic market, with exports primarily to Singapore and Japan. Queensland's pigmeat exports as a proportion of production has declined from more than 12% in 2001-02 to less than 4% of production in 2006-07. This decline in exports is attributed to both the increasing value of the Australian dollar and to competition in the export market.

In recent years, the industry has concentrated into fewer but larger units to gain efficiencies of scale.

**Table 1 Number of Pig Establishments and Number of Pigs in Queensland and Australia**

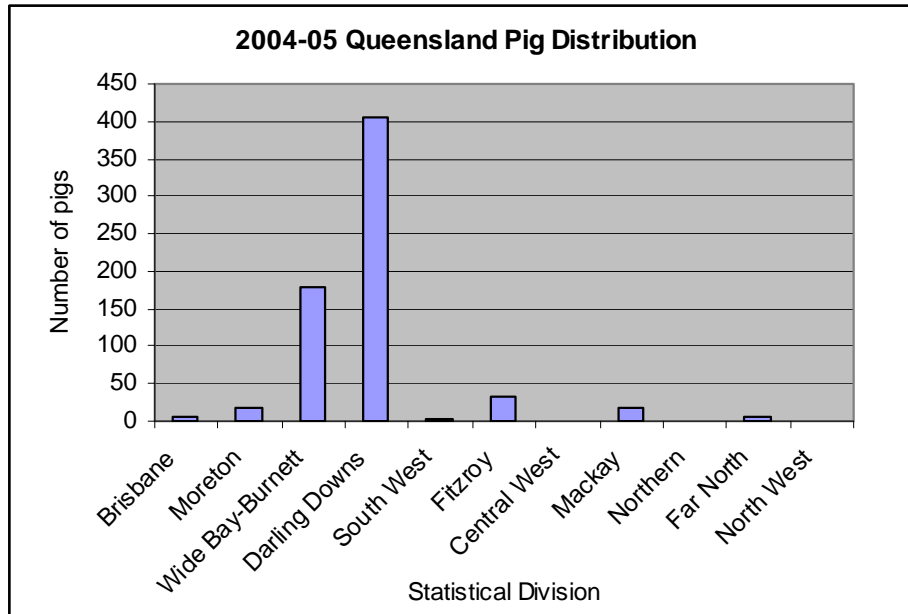
<b>Year ended 30 June</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006<sup>a</sup></b>
QLD No. of establishments	870	804	680	532	487	629	n/a
QLD Number of pigs	544,000	597,000	643,000	663,000	691,000	666,000	717,000
AUST No. of establishments	3446	3480	3242	2859	2505	2435	n/a
AUST Number of pigs	2,511,000	2,748,000	2,940,000	2,658,000	2,548,000	2,538,000	2,755,000

Source: ABS Agricultural Commodities cat. no. 7121.0;

<sup>a</sup>ABS Selected Agricultural Commodities, Preliminary cat. no. 7112.0, 2005-06.

Pig production traditionally occurs close to grain growing areas because of the dependence of the industry on cereal grains. The Darling Downs and the Wide Bay-Burnett regions are important grain growing areas in Queensland and contain approximately 90% of all pigs in Queensland. The 2004-05 distribution of pigs, which clearly demonstrates the dominance of the Darling Downs and Wide Bay-Burnett region in Queensland's pig industry, is presented in Figure 1.

**Figure 1**



Source: Derived from ABS Agricultural State Profile, Queensland, 2004-05

Queensland's pig industry is serviced by two main abattoirs within Queensland, namely Swickers Bacon Factory, located in Kingaroy and Darling Downs Foods, in Toowoomba and by Cassino RSM Processing P/L in Booyong, northern NSW.

Swickers Kingaroy Bacon Factory is the largest processing plant in Queensland and the second largest in Australia. The factory currently slaughters approximately 15,000 pigs per week and employs approximately 400 people. Pork from the abattoir goes mainly into the fresh pork market. The company has a Meat Safety Enhancement Program (MSEP) based export licence for their pork production. The company operates a smallgoods manufacturing factory that uses imported pigmeat.

Darling Downs Foods, the other top pig slaughtering facility in Queensland has gone through many changes in its recent history. In 2006, change of ownership and restructuring resulted in the closure of its smallgoods section and a loss of 350 jobs. The facility currently operates an abattoir and distribution centre. The abattoir provides service kill to a variety of customers and processes carcasses weekly for airfreight to Singapore. The factory currently slaughters 7,500 pigs per week.

The Booyong abattoir in northern NSW currently slaughters 3,750 pigs from Queensland per week.

The current high grain prices and pigmeat imports is expected to result in reduced pig numbers and therefore reduced throughput at pig abattoirs. On current trends one abattoir in Queensland is estimating up to a 20% drop in production, translating to a loss of one shift and 40 jobs.

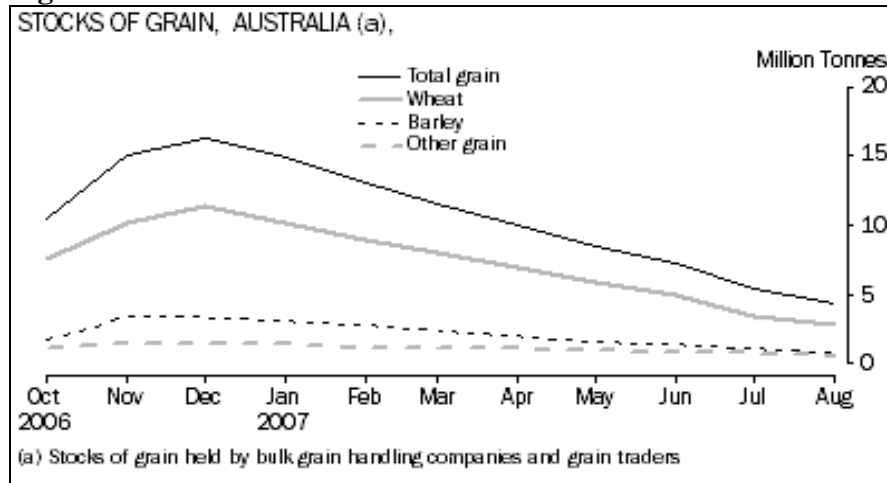
### 3. Key Factors Affecting Pig Industry Profitability

There are a number of factors affecting the profitability of the pig industry in Queensland, but the key factors include the long drought and its impact on grain supply; the high cost of grain; the relative production efficiency of Australian pork production; and increasing importation of pigmeat. At a time when the industry is suffering from the impact of the severe drought and high grain prices, the recent increases in imports of pig meat have affected the domestic industry.

#### i) The Drought and Grain Supply

Queensland has experienced drought conditions over the past six to eight years. As at 31 October 2007, 83 shires and 2 part shires in Queensland had been drought declared under State processes, which is equivalent to 62.4% of the land area of the State, including the grain growing areas of the State. The drought has resulted in decreased plantings, yields and supply of cereal grains and, therefore, declining stocks. Figure 2 shows the declining grain stocks in Australia.

**Figure 2**

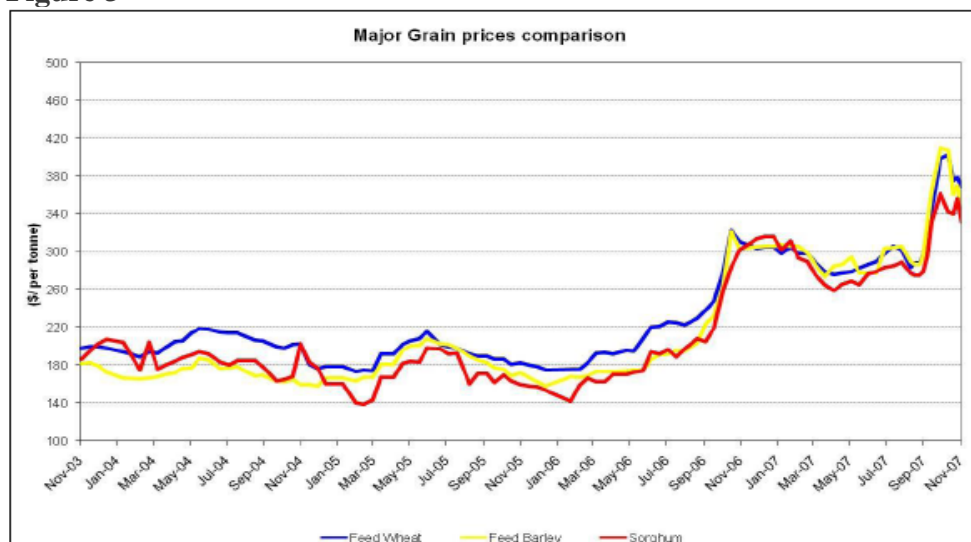


Source: ABS 7122.0.55.001, August 2007

#### ii) Feed Grain Prices

The pig industry depends heavily on cereal grains as a major input for their operations. Feed forms approximately 60 to 70% of the cost of production, with cost of grains being the biggest component of feed costs. The long drought in Australia, the increased global demand for grain and diversion of grain into ethanol production and declining grain stocks have resulted in increased grain prices to levels that are putting pressure on profit margins. Figure 3 shows the prices of three major feedgrains in Australia over the past four years.

**Figure 3**



Source: APL Ears and Eyes, 8<sup>th</sup> November 2007

### iii) Production Efficiency

Canada and Denmark appear to have a competitive advantage over Australia because they achieve higher productivity and production efficiency through apparently superior genetics, and pig husbandry techniques. It appears that productivity in the Australian pig industry does not benefit from superior breeds due to the ban on the importation of semen and ova on biosecurity grounds. Improved genetics will enable improved productivity through improved production and reduced mortality and improved uniformity of carcass weight for the slaughtering process. These improvements have potential to make the Australian pig industry more competitive.

A production efficiency comparison between Australia and Canada and Denmark appears in Table 2. Sections of the industry believe that the ban on the importation of semen and ova has contributed to the lower productivity and lower profitability in the Australian pig industry.

**Table 2 Comparison of Production Efficiencies for Australia and Countries Exporting Pigmeat to Australia**

	Australia <sup>a</sup>	Denmark	Canada
Feed Conversion Ratio (kg feed/kg wt gain)	2.65	2.69	2.96
Daily Live Weight gain (g/d)	820	835	826
Litters/year	2.27	2.25	2.2
Pigs born alive/litter	10.32	12.7	10.8
Pigs weaned/sow/year	21.05	24.7	21.4
Post weaning mortality %	3.13	4.0	2.0

Sources: Adapted from J Rasmussen, 2004, Danish Pig Production.

[http://www.danishpigproduction.dk/Research/Research\\_report/Production\\_economy/index.aspx?id=d99aa2f7-6a73-4c72-adf8-2b894765ecc1](http://www.danishpigproduction.dk/Research/Research_report/Production_economy/index.aspx?id=d99aa2f7-6a73-4c72-adf8-2b894765ecc1)

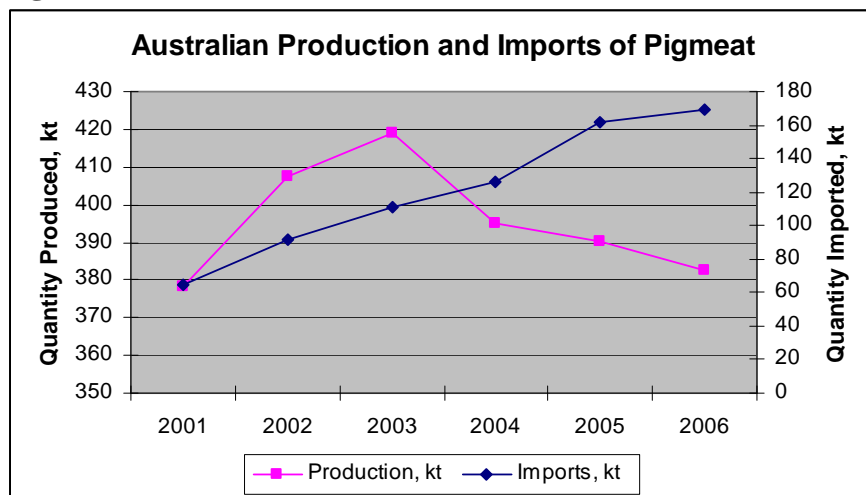
<sup>a</sup> Australian data was extracted from the Australian Pig annual 2005.

#### iv) Competition with Imports

Since the quarantine liberalisation in the early 1990s, Australian pig producers have had to compete with imported pigmeat. Imported frozen uncooked pigmeat from Canada has been allowed into Australia since 1990; from Demark since 1997; and from USA in 2004. The quantity of pig meat imports have continued to grow over the years. Figure 4 shows the growth of pigmeat imports into Australia since 2001 and decline in Australian pigmeat production.

Frozen pig meat is used only in the manufacturing sector to produce ham, bacon and smallgoods.

**Figure 4**



Source: ABARE (see Table 2)

Between 2001 and 2006 (Table 3), the volume of imported pigmeat increased by 163% while Australian production declined (Figure 4). Imported pig meat as a proportion of pigmeat production in Australia increased from 17% in 2001 to 44% in 2006. Pigmeat consumption increased by 32% during that period, however, this did not stimulate increased Australian production, as imported pigmeat supplied the increased demand.

**Table 3 Australian Supply and Use of Pig Meat (Calendar Year)**

	Unit	2001	2002	2003	2004	2005	2006 <sup>1</sup>
Production	kt	378.5	407.3	418.9	394.8	390.3	382.7
<b>Imports</b>	<b>kt</b>	<b>64.3</b>	<b>91.6</b>	<b>111.2</b>	<b>126.2</b>	<b>161.6</b>	<b>169.0</b>
<b>Import as % of production</b>	<b>%</b>	<b>17.0</b>	<b>22.5</b>	<b>26.5</b>	<b>32.0</b>	<b>41.4</b>	<b>44.2</b>
Total consumption	kt	365.9	407.8	442.9	451.9	488.2	484.4
Import as % of total consumption	%	17.6	22.5	25.1	27.9	33.1	34.9
Exports	kt	77.0	91.1	87.1	69.2	63.8	67.2
% of Production exported	%	20.3	22.4	20.8	17.5	16.3	17.6

Source: Extracted from Australian commodity statistics 2006, ABARE

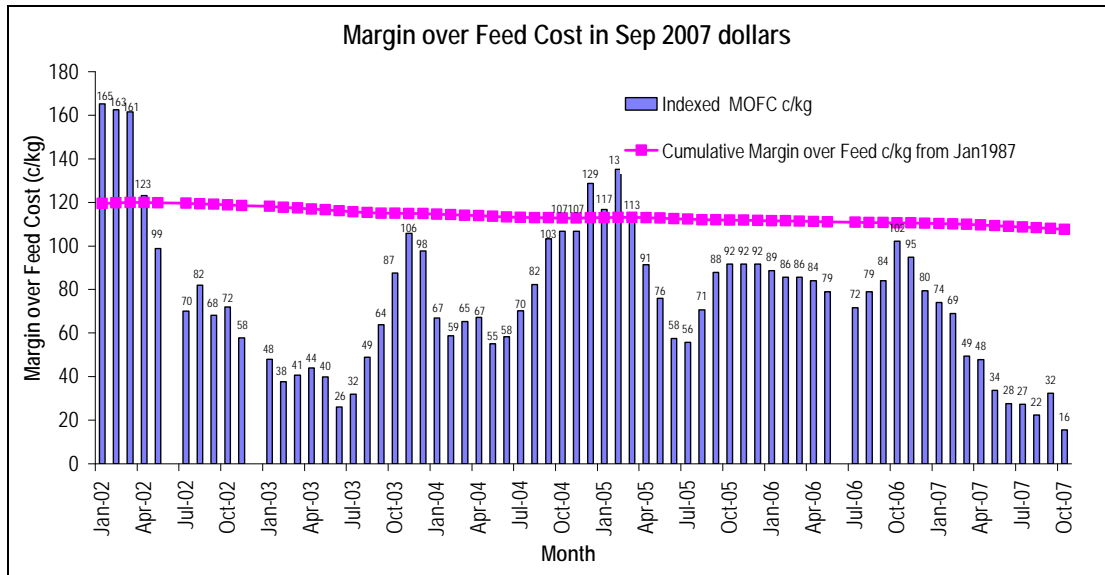
<sup>1</sup>Unpublished ABARE 2006 data obtained by phone from Geoff Armitage, ABARE contact.

## 4. Production Cost - Impact of Feedgrain Prices

The effect of increasing grain prices on the profitability of pig production is demonstrated by the margin over feed cost. Feed traditionally accounts for 60-70% of the total cost of production. Margin over feed cost is calculated by deducting the cost of feed to produce 1 kg of meat

(assuming a constant over-time herd feed conversion ratio of 4.25:1) from the average baconer price per kilogram. Feed and pig prices are in today's dollars. The margin is what is available to pay other costs such as veterinary, electricity before return to the owner. The low pigmeat prices mean that increasing feedgrain prices have eroded this margin to as low as 16 cents per kg of pigmeat produced (Figure 5), to pay for the remaining costs of production.

**Figure 5 Pig Price and Feed Price Trends**

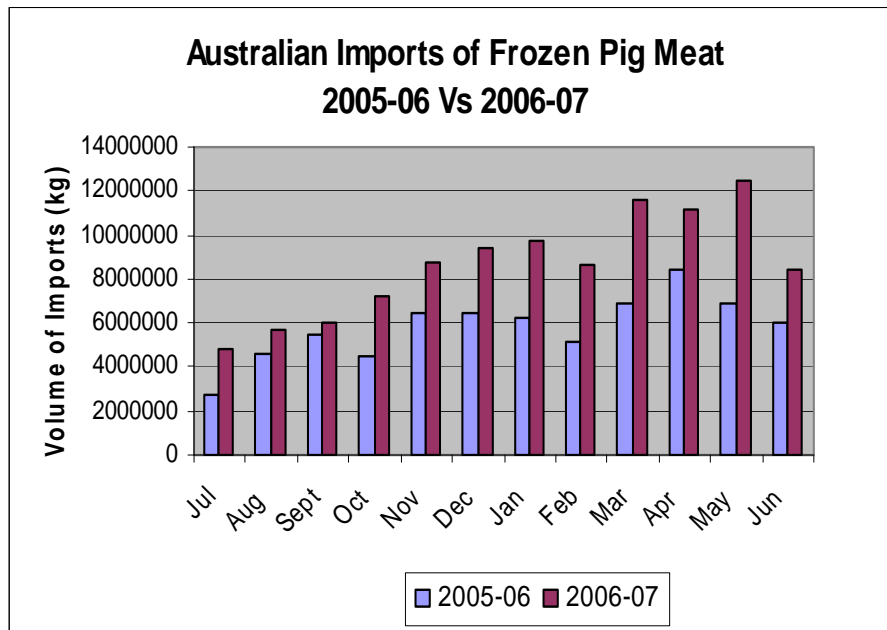


Source: DPI&F Pig and feed price trends

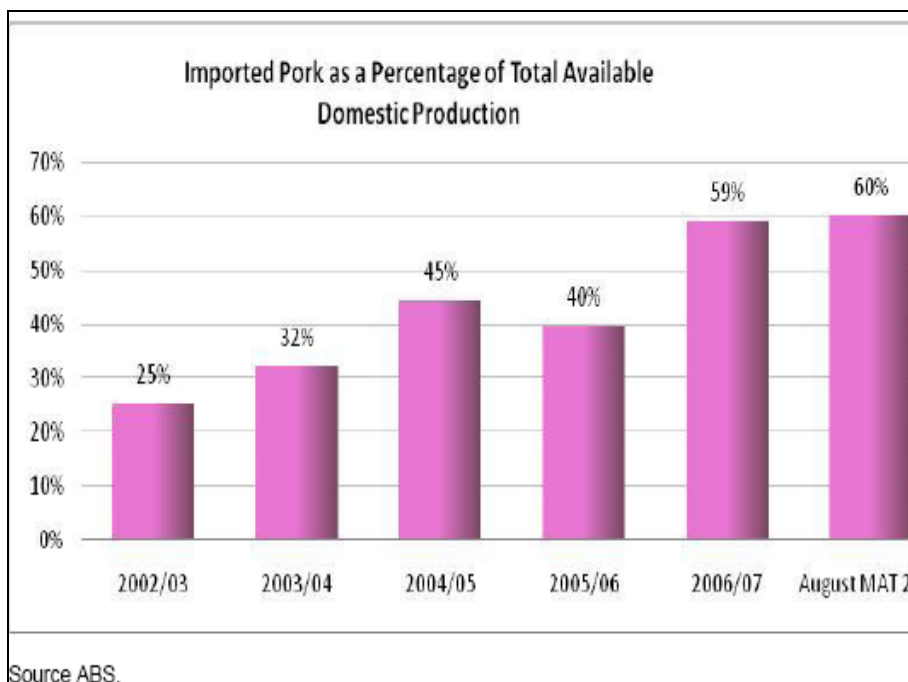
## 5. Recent Trends in Pigmeat Imports

The growth in pigmeat imports increased in 2006-07, when imported frozen pigmeat increased from approximately 70,000 kt in 2005-06 to 104,000 kt in 2006-07. Figure 6 shows the monthly frozen pigmeat imports over the last two financial years. Imported pigmeat as a proportion of Australian production has reached 60% (Figure 7).

**Figure 6**



**Figure 7**

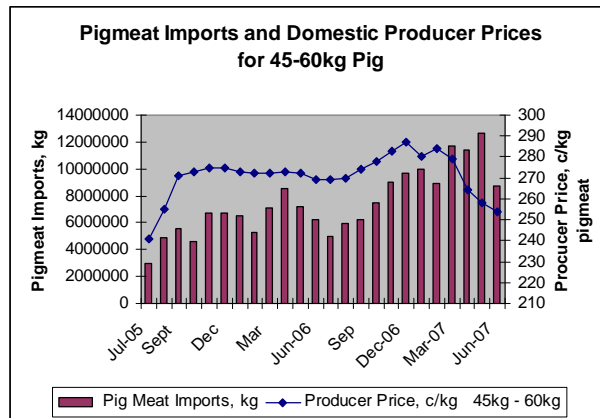




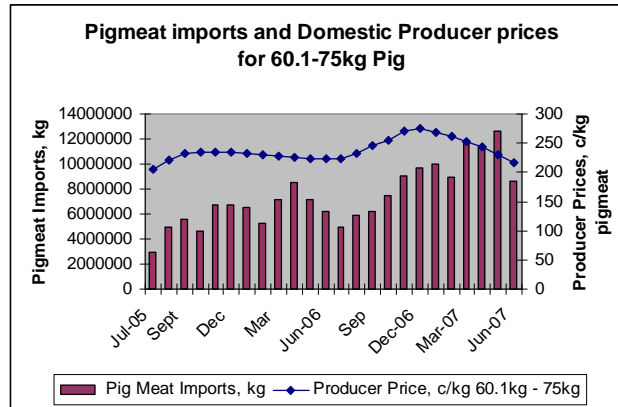
## 6. Pigmeat Imports and Domestic Producer Prices

Producer price for pigmeat has remained relatively flat or declined over the past two years even with increasing grain prices. The decline in pig meat prices coincides with the increase in imports in 2006-07 (Figure 6 & 7). It appears that increasing imports of pig meat have prevented the farm gate price of pigmeat from rising with feed cost and have indirectly contributed to the decline in domestic farm gate pigmeat prices. Figure 8a, b & c show relatively flat prices in 2005-06 and declining prices in 2006-07 for all classes of pigmeat relative to increased volume of imported pigmeat. These observations suggest that pigmeat imports are contributing to the decline in profitability of pigmeat production.

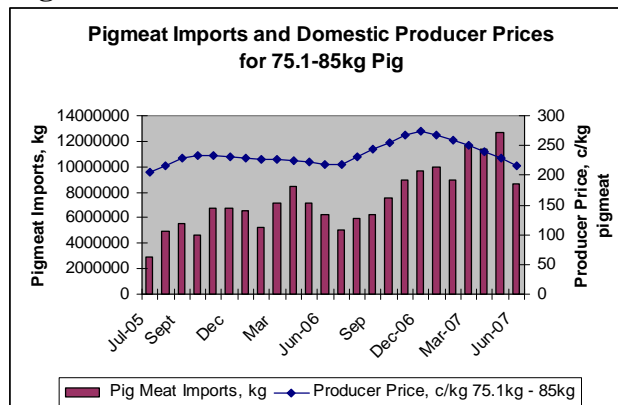
**Figure 8a**



**Figure 8b**



**Figure 8c**



Source: Unpublished Treasury & APL data

## 7. Queensland Government Support for the Pigmeat Industry

The Queensland Government is working proactively with the pork industry. Support is provided to assist the Queensland pork industry in the key areas of industry development, market development and biosecurity.

The Department of Primary Industries and Fisheries (DPI&F) industry development programs include:

- Extension and information on pig nutrition;
- provision of decision support tools such as the PrimePulse software and SmartDATA analysis service, the AUSPIG pig production model, the MEDLI effluent disposal using land irrigation model, and the PIGBAL effluent treatment design tool;
- skills enhancement;
- research and extension in the area of environmental management, and
- regulation of new piggery developments and environmental monitoring to ensure sustainability and to assist in market access.

DPI&F adjustment programs include:

- financial counselling; and
- drought programs including water transport subsidies, and partial funding of Exceptional Circumstances business assistance support.

DPI&F biosecurity programs include animal health (managing the risks presented by disease) and animal welfare (to maximise market access and community confidence in pork products).

DPI&F has established an Intensive Livestock Environmental Regulation Unit to administer and enforce the *Environmental Protection Act 1994* with respect to certain intensive livestock activities, including piggeries.

The Department of Tourism, Regional Development and Industry (DTRDI, formerly Department of State Development and Innovation) facilitated the formation of the supply chain group, the South Burnett Pork Alliance some years ago. In recent years, DTRDI has provided more than \$3 million in direct grants to the pork processing industry, assisting the industry to improve production processes, value add and improve supply chain management. Current services available to the pork processing industry include:

- project facilitation services for any expansion plans or major projects;
- linkage to relevant Commonwealth grants schemes and guidance on applications;
- the revision of an Eco-efficiency Manual for the Food Processing Industry;
- the development of a Skills Formation Strategy for the processed foods sector; and
- the opportunity to apply for the newly released Business and Industry Transformation Grants.

## Conclusion

Pigmeat imports into Australia have increased markedly, at a time when high grain prices were already putting pressure on profit margins. Competition from pigmeat imports appears to have limited the capacity for domestic pigmeat prices to rise to cover increased feed cost.

It is possible to improve productivity and profitability of Australian pork production through genetic improvements. Improved genetics may enable improved productivity through improved production and reduced mortality and improved uniformity of carcase weight for the slaughtering process. These improvements should make the Australian pig industry more competitive.

A review of the ban on the importation of semen and ova would be appropriate at this time, to determine the level of risk associated with such imports.

Industry may seek further government assistance to develop the pig supply chain to include further processing of pig meat. Further processing can convert raw pork into value-added products such as cooked, semi-cooked and pre-prepared pork products for consumer convenience. This is likely to increase pork consumption in Australia and thereby increase the demand for pigmeat, which in turn will lead to growth in the pig industry.