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Tasmanian Island Pork Alliance Inc
"We make pigs fly"

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Andrea Coulter
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Dear Andrea

Please find attached a submission from Tasmanian Island Pork Alliance Inc., an incorporated association representing Tasmanian pig farmers.

Yours sincerely

A handwritten signature in black ink that reads "Malcolm Cowan". The script is cursive and fluid.

Malcolm Cowan

Secretary

Productivity Commission Pigmeat Safeguards Inquiry 2007

Tasmanian Island Pork Alliance Inc Submission

1. SUMMARY

Due to structural and market changes in the industry over the past 5 years, the Tasmanian industry has restructured from producing predominantly heavy pigs (for ham and bacon) to mainly fresh pork production to meet the local demand through supermarkets and independent butchers. The current production of bacon pigs for local manufacturers is estimated at around 15% of farm output.

Producers have in the past been in direct competition with imported pig meat when a major processing business was operating in the state. They are now competing against pig meat imported from the mainland where pig meat imported from overseas has set a ceiling on prices.

The ceiling on prices has compounded the cost/price squeeze that has been created by record feed grain prices due to the drought in Australia and worldwide crop failures. This cost price squeeze is leading to a retraction in the industry, stifling any expansion and prohibiting new entrants into an industry with an aging farmer base.

Relief is required from the pressure of low imported pig meat prices to allow the industry to readjust, possibly by re focussing on the fresh meat market and increasing returns there. The industry both in Tasmania and nationally, needs sufficient returns to allow the industry to generate sufficient profits for capital improvements, training and to attract new entrants into an industry where there is a generation of producers who are nearing retirement age.

There are around 2,500 sows in the State with 13 major pig producers and an annual local pig kill of around 41,000 pigs.

2. STRUCTURE

Since 2002 there have been a number of significant events affecting the long term structure and profitability of the Tasmanian pig production and processing industry. The collapse of the publicly listed company Blue Ribbon Meats in 2002 had significant repercussions through the Tasmanian production and processing industry, initiating a series of fundamental changes which shaped the future of the industry.

Until the closure of Blue Ribbon, the majority of Tasmania's pig production was the production of heavy bacon pigs with the fresh meat market as a secondary consideration. The fresh meat market was traditionally serviced through a number of wholesalers, including Blue Ribbon and a producer owned co-operative.

Following the collapse of Blue Ribbon, the Australian Food Group purchased the Blue Ribbon operations at Launceston as a specialised smallgoods profit centre trading on the goodwill of the well established "Blue Ribbon" brand. Australian Food Group sourced raw material from its associated North Laverton abattoir, Perfect

Pork, and imported primals from overseas. The Blue Ribbon operation was subsequently closed and the site dismantled in 2005.

After a period of re adjustment, local supermarkets increased the percentage of pigs that they purchase directly from farmers to nearly 100% with top up requirements provided from the mainland and local wholesalers. As a result of improved marketing and promotion campaigns run by Australian Pork Limited, demand for pigmeat has increased through both supermarkets and independent butchers.

Centralised purchasing systems operated by the supermarkets, in particular Woolworths, have resulted in Tasmanian ham, bacon and smallgoods coming under greater competition from mainland product. Central purchasing officers set prices which, according to Tasmanian processors, they are unable to match because of higher production and input costs in Tasmania.

Tasmania's processed meats sector has contracted to a number of smaller specialised meat processors and small goods manufacturers who have made strategic decisions not to compete in the price competitive and high volume supermarkets, unless on request from a supermarket. These smaller operations have developed relatively small quality and niche markets, both in Tasmania and interstate. The number of pigs supplied to these operators represents approximately 15% of pigs produced in the state. A number of producers have long term relationships for the supply of bacon pigs. Local processors have indicated that they import primals directly from overseas.

Improved transport between the state and the mainland has allowed the importation of meat and processed products from both interstate and overseas. There is also two way trade in live pigs for slaughter. There are regular imports of live pigs for slaughter and pigs have also moved to the mainland for processing on occasions.

With these globalisation effects, national and international markets now directly affect Tasmanian producers. Tasmanian pig producers are subject to a price ceiling of import parity plus the cost of shipment across Bass Strait. The prices Tasmanian producers receive are therefore under the same direct price pressure from imported product as their mainland colleagues.

Tasmanian pig producers compete indirectly with pig producers on the mainland and internationally. Cooked pig meat and meat for further processing is readily accessible from USA, Denmark and Canada. These products are specially selected for export to be of consistently high quality and processors are able to purchase to exact specification and quantity.

The national industry, through the representative body Australian Pork Limited, is constantly lobbying against any easing of the import restrictions on the basis of increased disease risks and the threat that imports pose to the clean health status of the Australian pig industry, particularly the potentially devastating Postweaning Multisystemic Wasting Syndrome (PMWS).

Increasing utilisation of boxed product from overseas and interstate is an issue as supermarkets reduce the number of butchers in store and local processors purchase on price with little or no local loyalty apart from smaller niche market manufacturers. Brand loyalty for local product is sensitive to price. However Tasmanian and Australian product is difficult to segregate from interstate and imported product in the production process and through confusion created by retail labelling and branding.

Much of the international competition is from subsidised production. OECD figures for 2000-2002 show that pig exporters in the EU received \$US5.7 billion in subsidy support, representing 24 per cent of their total production. Despite this, Danish pork still enters Australia tariff free, while the United States and Canada place a 100 per cent tariff on Danish pork

Without the option of heavy pig production there is underutilisation of production equipment such as feed mixing and effluent disposal and production facilities such as sheds and pens.

Pig production is a continuous production system with regular (usually weekly) output. There is no ability to hold stock in the hope of improved prices. Even holding pigs for a short period of days will result in significant price discounts as pigs fail to meet quality standards of backfat or weight, both of which are affected by age.

3. INDUSTRY STRUCTURE AND PARTICIPATION

The structure of the Tasmanian pig industry is a reflection of any other state or national agricultural industry structure with the 80:20 rule applying; approximately 80% of the production from 20% of the producers. DPIW reports that there were 41,341 pigs killed in the year 2006/079 (personal communication).

According to the 2006 ABS Ag Census preliminary figures, there were 2,000 sows in Tasmania. Anecdotal evidence suggests that the figure is closer to around 2400 sows, many on smaller (less than 50 sows) part time units. There are currently 13 herds where pigs make a major contribution to farm income.

Nationally, ABS reported 1500 producers in June 2006, a reduction of around 500 from the Australian Pork Limited's (APL) Australian Pig Annual reports of 1,999 herds in 2004.

It is estimated that there are between 65 and 70 full time equivalent (FTE's) employed directly on farms in Tasmania. Approximately 40 people are employed full time together with another 25 –30 deriving part time income from pig production. Using a conservative multiplier of 3.5:1 to estimate further supply chain employment, there are likely to be around 150 additional jobs dependent on the Tasmanian pig industry.

4. REPRESENTATION

With the continuing decline of herd numbers and the trend towards supermarket driven supply chains, funding for industry activities and representation is a major issue.

The industry has employed consultant Malcolm Cowan to co-ordinate the Tasmanian Island Pork Alliance Inc. (TIPA), an incorporated association of the major pig producers in the state. TIPA was established to progress strategic objectives for the industry that were developed from the Pig Industry Review commissioned by the then Department of Primary Industries, Water and Environment in 2002. These objectives include industry representation, improved productivity, co-ordination of industry training, promotion of local product and wider industry liaison.

Currently, nine specialist professional producers that run approximately 1800 sows are members of TIPA. There is a second group of four units that are not members of TIPA but are major producers. The third level of production (the balance of the productive sow numbers) includes those who are starting up or running a small

numbers of sows or growing pigs as part time supplementary or opportunistic operations.

The Department of Primary Industries and Water provides limited in kind support for this self-funding group.

5. INDUSTRY DEVELOPMENT AND INNOVATION

TIPA members have demonstrated that co-operative action and information sharing is possible amongst farmers when operating in a structured, facilitated group. As an example, Tasmanian pig farmers again ran their highly successful pork promotion catering site at Agfest 2007, co-operating with award winning butchers and smallgoods manufacturer Black Forest Smallgoods.

TIPA has partnered with the national representative body Australian Pork Limited and FarmBis to jointly fund Malcolm Cowan to provide a training brokering role for the Tasmanian industry. Following a skills need identification process, a training calendar for 2007/2008 has been developed and includes a wide range of business and production management skills training. For example, a workshop was held in October to educate farmers on the use of grain price risk management tools.

Further advances, such as group purchasing, marketing and supply chain management are being developed. Greater application of alliances and group support may be the only way for the relatively small Tasmanian farms to gain critical mass and leverage to survive.

Although prices had been relatively stable for the past 12 months, prices have not increased in real terms for over 15 years, forcing producers to continually strive for improved efficiency in feed, capital and labour.

6. OPERATING ENVIRONMENT AND PROFITABILITY

The industry is currently receiving around \$2.80/kg dead weight (\$224/80kg unit) for heavy bacon pigs and around \$3.20/kg dead weight (\$160/50kg unit) for pork pigs. The pork price reflects a degree of sharing of the wholesaler margins avoided by direct purchase on-farm.

Assuming 35,000 pork pigs and 6,000 bacon pigs killed (15%) of the 41,000 pigs killed 2006/07, the value of farm gate production is \$6.84m.

The industry is currently operating at a loss following two years of modest returns which, while providing returns for management, did not provide returns relative to risk and capital employed. There is no incentive to expand production to meet the rising demand for fresh meat and there is no incentive for new entrants who will be needed to replace the existing farmers upon their retirement.

The current record high grain prices, as a result of the worldwide shortage of grain, have impacted on the viability of Tasmanian pig farmers as much as their mainland colleagues. Although feed prices have eased marginally in the middle of November, recent quotes for feed wheat have been in the range of \$450 - \$500/tonne delivered on farm.

Pig producers recognise that grain prices are a major factor in pig production and although they are to a large extent outside the control of industry, Tasmanian producers have the ability, to varying degrees, to deal with these factors through improved productivity and grain price risk management.

With regard to sale price however, farmers have little or no influence over the price they receive for pigs for which there is import substitution, i.e. processing product which has an import parity price ceiling imposed. One 300 sow units who is a member of TIPA has reported that he has been supplying around 1/3 of recent production as heavy pigs to a local bacon producer. This processor has now turned to importing product from the mainland where prices are lower because of the ceiling imposed by imports. Another 300 sow TIPA member confirms the same situation with his bacon pig outlet and that he is suffering a short term loss on these pigs in order to maintain the market.

Other cereal based industries such a baking and chicken meat and egg producers have been able to raise prices to compensate for increased feed costs. These have been justified by retailers at the national level and accepted by consumers as a consequence of the widespread effect of the drought. Pork producers have not been able to achieve a similar price rise due to the ceiling imposed by imported product.

The implementation of the revised Code of Practice for the Welfare of Pigs will commence in 2008/2009. This issue, if not sensibly managed, has the potential to force many pig farmers out of business if any changes are cannot be phased in over realistic time frames, bearing in mind the relatively long life of piggery infrastructure, the relatively low profitability of the industry and the fact that changes made for welfare reasons are unlikely to boost production or profitability. Without relieve from the pressure of low import prices, producers will be unable to invest in the infrastructure needed to comply with the Welfare Code.

Pig production is a specialised industry and buildings are only an “asset” when fully utilised for pig production. There are no alternative uses for buildings which have even been classified as “contaminated sites” in Tasmania, requiring significant reparation.

Members of TIPA have indicated that the current situation is forcing them to review production capacity. One of the largest producers in the State has indicated that he will reduce sow numbers down to around 240 sows (from over 400 sows), with subsequent under utilisation of capacity and staff reduction of three Full Time Equivalents.

The ability of producers to cope with the current price squeeze will depend on individual financial structures and credit facilities. However it must be stressed that the industry is at a critical decision point for long term sustainability and viability if there is no relief from the debilitating effects of imports.

These issues illustrate that the industry is under a wide range of pressures in the business, political and social environment, of which competition from subsidised pig meat imports is a major one. The rise in value of the Australian dollar, a factor totally out of the control of pig producers, has reduced the price competitiveness of pork exports and favoured the imports of competing pig meat.

7. REGIONAL FOOD PRODUCTION

There is a greater recognition that Australia needs to maintain and if possible increase our regional diversity in food production. Regional production should be supported as it is more efficient in terms of freight and distribution and, with the increased risk of exotic disease out breaks, assists in ensuring the continuing supply of food products nationally in the event of a quarantine breakdown.

Support for pig production ensures that the multiplier effect of the industry can be applied in Australia, rather than importing meat and pork products. Local production also ensures fresh meat supply.

8. LONG TERM NATIONAL AND LOCAL ISSUES

There are a range of issues that will impact on the long term viability of the Australian pork industry. These include

- Maintenance and growth of Asian export markets spring boarding through the success of the Singapore export program.
- Quarantine issues around the access to lower priced international grain supplies
- The removal of costs and restrictions flowing from increasing environmental control and management.
- Increased concentration of the industry in corporate and integrated pig operations.
- Positive effects of promotional campaigns to increase the market share of pig meat particularly targeted to younger consumers.
- Industry welfare education and response to animal activists.
- National and local shortage of skilled labour and
- Succession planning for the industry.

All these issues can be managed in a viable and vibrant industry. However, when there is such significant pressure on an industry as is currently being applied by the importation of pig meat, the long term viability and critical industry mass required to address these issues are placed under extreme pressure.

Australia runs the risk of losing one of its major regional employment industries, the pork industry, with no long term benefit to either consumers or the rest of the economy.

Malcolm Cowan
Secretary
Tasmanian Island Pork Alliance
November 2007