

26th August, 1998

SUBMISSION FOR PRODUCTIVITY COMMISSION INQUIRY

From - The Bannockburn Quality Association

The effects of recent trade liberalization on the livelihoods of pork producers is imposing immense financial difficulties for many smaller non corporate producers.

Our Group - the Bannockburn Quality Association, having been involved with the industry for over thirty years, now has less than twenty individual members still producing for Chisholms, Scone Fresh Meats, Eastwell Holdings and others. We are all based in the Inverell, Bingara, Warialda, Horton Valley and Glen Innes areas of northern New South Wales. Over recent months five units have closed.

We feel that the Pork Industry is a unique core industry, with a quality world standard product, utilising all decentralised elements in our integrated production and marketing process.

Very important for the coming difficult grain trading situation the Pork Industry uses an immense amount of local grain and protein meal, coupled with the consistent usage of local labour, local transport to abattoirs who rely on our consistent support, makes our industry, up to recent times, one of the most productive and economically important ones in many parts of rural Australia.

Comparative Pricing

Case 1 Medium bacon - average 70kg head on (dressed)
 Period - January - August 1998 - averaged \$1.60/kg per month
 That average price is \$0.40 (forty) cents per kilogram dressed less than the average price received for all months over the last 11 years.

Case 2 Average farm gate price received per head.

<u>1996</u>	<u>1997</u>	<u>7 months 1998</u>
\$146	\$135	\$96

Our recent price increase to \$1.75 per kilogram is encouraging, but we note the record amount of pork received from Canada for any June totalling 864.972 kilograms so our important price boost before Christmas may not eventuate. As well we have Danish and USA product waiting to arrive. Much of the imports, of course, being very heavily subsidised.

../Most pork

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Most pork in our region is sold by direct consignment and price negotiations, contracts offered last year were for supply guarantees only, not price. PRIMO contracts now are up to Christmas, not after. There is talk of an industry alliance, where independent operators can offer reasonable contracts to producers. That will take time, good will and a few import policy decisions to actually eventuate.

Mention must be made of corrupt marketing practices. The recent milk industry situation, whereas all segments in the pipeline received reduced prices- except for big increases for the supermarket chains. Consumers did not receive any reduction in price. The same situation has been documented last year for the pork industry, where vast reductions in prices to producers were not reflected by lower prices for consumers.

As at 22nd April, 1998 our Bannockburn Quality Association had twenty two members with a total of nearly 1,600 sows, we were involved in the early stage of the Quality Assurance program through Rob Kelly at Booyong. That process is now in jeopardy with our policy makers lack of support for producers. We have lost members since that date and two more smaller units are to close soon, not a very productive situation.

All our members are in limbo, not willing to leave an industry they have invested heavily in, believed in for many years, and yet certainly are not able to stay in if the price we receive for our product is way under the cost of production for a protracted period. This year when prices dipped below \$1.50 per kilogram for months, was the straw which broke quite a few backs.

We formally submit this brief paper for your consideration, but also would like to indicate that we fully support the information paper on the Pig Industry Crisis submitted by the NSW Farmers Association.

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* Paper from Agribusiness

The Political Agenda for Australian Successfully Competing in the International Pig Industry

Australian free trade policy is in the early stages of development. This fact was demonstrated by the recent review of policy for the vehicle, clothing, and textile industries

The challenge facing our policy makers is to support free trade plus maintain Australian Sovereignty.

Important elements of Australian Sovereignty include *full employment* and the social safety net, particularly *aged care, education, health and welfare*. Rural Australia is also an important element of Australian Sovereignty. *Free trade policy is presenting a major challenge for rural Australia.*

The Australian pig industry is a classical case of the current challenge to maintain a free trade Policy plus maintain Australian Sovereignty.

The North Americans have greater knowledge and experience in playing international trade hard ball. The Canadians have learnt from many decades of competing with the United States. From this knowledge base the Canadian government has set the rules of engagement, Australia must adopt these same rules to survive in the international market place.

The Australian Government must review its current strategy of throwing the Australian pig industry into the international free trade pond, saying if you are good enough you will make it. This is extremely naive and the only possible result is that our industry will sink. Australian rural industries are not playing on a level playing field. Rural industries that are suffering at the hands of the Canadians include the potato, frozen vegetable and pork industries.

The AFL is an excellent role model for demonstrating how to establish rules of engagement so that new teams entering the competition can survive and succeed. Without salary caps and a national draft this situation would not be possible.

Since 1994 assistance to agriculture in Canada has undergone reform, moving away from government subsidies to *Income Stabilisation under the Whole Farm Safety New Programme*. This has been in operation since 1995. The net result for the Canadian pork industry is:

- A reduction in subsidies to 16%.
- Income stabilisation.
- The Canadian Government has adopted the role of the Risk Manager and Financial Guarantor.

If this scheme was currently in place in Australia the rural situation would be very different.

- *The current conflict between rural industries and the government would not exist. The problems resulting from imported products would impact on the government and the industry*
- *Government and industry would work together in solving problems and restructuring rural industries/*
- *The monopoly retail industry problem where two players dominate and control market prices, would be shared with government who have the capacity to regulate to fix this problem..*
- *The level of confidence in rural Australia would grow and fuel expansion creating jobs and investment in rural Australia.*
- *By contrast the current situation has seen a decimation of prices, financial ruin for some and a huge dent in confidence in rural Australia.*

The flow on effect of falling pork prices will impact on all meat industries. The damage of the current crisis in the pig industry is mounting at \$12 million per month.

The price of pigs in North America has fallen from \$60/cwt in 1997 to the current price of \$36/cwt. Thus Canadian pig producers would now be drawing on the Fund. Contrast this to the Australian situation where low priced Canadian pork has contributed to driving down domestic prices to \$26.60 per cwt and Australian producers are left swinging.

Urgent Federal Government action is required

- *Stabilise the current crisis*
- *Draft legislation to establish an Australian “Whole Farm Safety Net Programme.”*

Key elements of the Canadian programme are:

“Safety Net Programs

The primary legislative authority of the programs within the safety nets area is the *Farm Income Protection Act (FIPA)*. The FIPA authorises agreements between the Federal Government and the Provinces to provide a means for the protection of the income of producers of agricultural products and enables the Federal Government to take additional measures for that purpose."

"In 1997-98, total government expenditure for safety net programs is expected to approximate C\$ 1 billion (C\$600 million of Federal funding and C\$400 million of Provincial funding)."

"The Gross Revenue Insurance Plan (GRIP) offering a combination of market and production risk protection, the Net Income Stabilisation Account providing income protection."

"From August 1995, owners of prairie farm land will receive onceoff capital grants totalling C\$ 1.6 billion to compensate them for the expected fall in the value of farm land."

This situation has had an enormous impact on restructuring the Canadian pig industry.

Pig production particularly finisher barns have moved at a huge pace into the prairie provinces. This move has been driven by cheaper grain plus the \$1.6 billion plus injection of government funds into the region.

"Federal funding will be provided to assist farmers in areas such as farm management, and rural development and environmental protection. It will also assist the industry to adapt to economic realities, such as the new global trading environment."

"Farm Improvement and Marketing Cooperatives Loans Act (FIMCLA) facilitates the provision of intermediate and short-term credit to farmers to improve farm assets and to strengthen production, marketing and financial stability. The Federal Government provides a guarantee against loss for term loans made to farmers for farm improvement and farm marketing cooperative projects."

"CAFDI provides cost-sharing financial assistance for selected projects in market development."