CONTAINS SOME COMMERICAL IN CONFIDENCE INFORMATION

SUBMISSION TO PRODUCTIVITY COMMISSION INQUIRY

PIG AND PIGMEAT INDUSTRIES

SAFEGUARD ACTION AGAINST IMPORTS

MIANDETTA FARMS is a medium to large sized pig producer of 1500 sows and operates an integrated farm near Warwick in Queensland. Miandetta has been owned by the Nielsen Family since 1979 when they purchased the land and a small piggery of 70 sows. Since that time the business has expanded and a crop of 100 ha of Asparagus utilizing the effluent has been planted. Product from this crop is exported into South East Asia. In 1983 the company established a smallgoods and boning operation in Toowoomba. The company sold the business after about one year. Experience gained from this business and a further 16 years in the production sector enabled the Directors to understand the price drivers for pigs and pigmeat in the Australian industry.

In 1990 small quantities of imported frozen pigmeat arrived in Australia for the first time from Canada. There was some pressure from processors for producers to reduce the price of pork however at that stage import volumes were relatively low and the largest retailer/processor took a decision not to use or sell any product with imported pork included in the manufacturing process.

From mid 1995 pork imports started to climb significantly. Simultaneously prices fell and producers were caught in a cost price squeeze. Feed prices were high at the time and with the price drop a number of producers left the industry. Imports continued to increase however the gap left by existing producers created a shortage for a time and prices recovered during 1996. In 1997 imports of legmeat increased to record levels and when this import level reached the equivalent of about 30% of Australia's leg production needs the Australian price of pigs collapsed. Traditionally pig farmers profits are made from processors competing for pig legs in the second half of each year. With this increased level of imports the competition for domestic pork legs was reduced and the pork market collapsed. Even though overall volume of both imports and local production did not show a major level of oversupply through increased stock levels, the fundamental price driver no longer existed.

It is important to note that the majority of pig farmers produce and sell pork. Nearly all pigs are sold at the end of the slaughter chain and remain the property of the pig farmer until the animal crosses the scales. It is eviscerated, trimmed de-haired and ready for chilling at this point. In fact it is a pork carcase. This carcase is made up of a number of standard cuts and to apply price pressure to any portion of that carcase is to alter the value of the entire carcase. Processors have told producers in general and me in particular that the price offered for the carcase has had to be reduced owing to the availability of cheaper leg cuts from Canada. **.........**

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For the industry it was catastrophic. For my business it created serious financial hardship. We extended our borrowings from the bank increasing our overdraft by $500,000. Our trade terms with creditors (particularly the feed suppliers) moved out into the 90 – 120 day bracket. The piggery division of the company, which is the most capital intensive, lost around $250,000 to the end of June 1998. This includes a reasonably profitable period from July 1997 to October 1997 at which time prices collapsed. The current period of July to October has prices at about 40c/kg less than those received in 1997. In other words, if we took a year commencing 1st October, 1997 to 30th September, 1998, the loss would be considerably greater. At the time of writing this submission, prices have not moved since reaching their lowest point almost 3 months ago. **...........** Currently, his price is $1.65/kg plus a 10c/kg freight allowance to deliver the pigs to Brisbane**...........**
With the cost of production in 1997/98 running at around $2.00/kg our company is losing 31c/kg. This translates into around $580,000 p.a. During the year staff numbers were reduced by 3 to help overcome cash shortages. Repairs and maintenance were drastically reduced and new environmental and quality assurance measures shelved. Given that the price is 30c-40cc/kg less than at the same time last year then if prices fall after Christmas as they usually do then 1999 looks like a repeat of heavy losses. Production gains and reduced feed costs are expected to lower production costs by 20c-25c/kg but this is small comfort at a time when we desperately need to make a profit. Some producers in the Warwick district have already been forced to close down their farms.
It is my belief that some processors have used the availability of cheaper imported pig legs to drive down the price of pigs in Australia. For this reason, I am of the opinion that a cap on imports would be the most effective measure in returning the industry to some level of profitability. It would allow the Canadians in particular continued access to the Australian market, but would negate the threat of increased levels of imports in prices for pigs is not reduced. This threat is constantly being held over producers and is a greater lever than the actual level of current imports. Until such a time as the industry can adjust and make the capital investment necessary to compete effectively in the export arena. A tariff on imports would also be of real assistance to the industry.
For its part industry will need to continue its export thrust into Asia. It will need to construct new efficient processing facilities. Pig producers will need to network into groups, adopt quality systems and continue to improve production efficiencies.

The industry is preparing a plan for an export company to facilitate exports, set and monitor standards and provide an opportunity for processors to co-brand products and jointly work together to fill orders. These processes all take time and the opportunity which has only recently made this possible will not last. However the production section of the industry has to survive or else any export investment will be in vain. If the critical mass needed to service such investment is not available, then the industry is surely doomed. The recent Pork Council survey demonstrated that unless some safety mechanism is put in place and prices stabilize then 53% of producers would consider leaving the industry. If half that number leave then it will be a disaster for the pig industry. For the sake of an important cog in the food chain and rural Australia, on behalf of the pig industry, I formally request that you recommend to the Government to implement safeguard measures to allow the pig industry the time that it needs to adjust to increasing levels of imports.

Ian Nielsen
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