

## SUBMISSION TO THE PRODUCTIVITY COMMISSION

### ENQUIRY INTO PIG FARMING AND PIGMEAT PROCESSING INDUSTRIES

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I make this submission on behalf of those within the pig industry that is currently world efficient or moving rapidly towards that position. I believe it is important that any action taken by the commission does not interfere with their ability to quickly build their businesses so that they can compete in the globalised industry now and in the future.

#### BACKGROUND

I am a new entrant to the pig industry. I have a degree in Economics and twenty-five years teaching Economics, Farm business management and pig husbandry. I loved teaching but wanted a career change.

I chose the pig industry for the following reasons:

- Asia has grown at 6-10% for past two decades
- Asians want to eat pork
- Traditional suppliers to Asia have been Asia and Europe
- Environmental implications of space and population prevent expansion of production in these continents
- Opportunity exists for countries with a comparative advantage to take up this opportunity
- USA and Canada have already recognised this opportunity and begun to exploit the opportunity
- Aust has a potential comparative advantage in pig production as great as both of these countries

Countries with a strong comparative advantage in pork production will have:

- Space
- Climate
- Cheap grain
- Close to markets
- Disease status
- Supportive governments
- Well educated workforce
- Efficient transport system
- Strong business management

SOCOM Pty Ltd commenced operations in Nov 1993 (5 years ago) with very little asset backing in an abandoned piggery. We cleaned, restocked and rebuilt the business and introduced 200 sows in a conventional farrow to finish operation. We knew from the very start that this size and style of business has no long-term future in the emerging world pattern of pig production. It is too small to obtain the huge economies of scale that are achievable in this industry and that are being achieved by our competitors in USA and Canada.

From the start we created a business plan and set a vision of becoming one of the top 5% of commercial pig producers in the world and every action from that time has been aimed at achieving that long term vision.

To achieve our vision we must:

- Have access to world's best practice
- Implement that best practice
- Achieve performance equal to the best in the world
- Not have any government-imposed constraints that limit structural change in the industry.

Socom has expanded to a 600-sow multi-site piggery using similar business practices to the best in North America. It is achieving world class performance in most aspects of production and has succeeded in lowering its unit cost of production per kilogram to

In order to compete with USA and Canada, Socom needs to build a world efficient herd size of 1500- 2000 sows by the year 2000. If it cannot reach that objective it will not survive the next decade. By inference it should be clear that I believe that the whole Australian pig industry has to restructure very rapidly and that many of the current players will not be able, for different reasons, to be part of the new arrangements. For those of us who survive our roles will be very different.

Those who have large, functional and well located facilities who are prepared to accept change and lock into contract growing arrangements with large breeding organisations, survival is likely. Those who do not have this type of facility and/or attitude will be forced to leave the industry.

New entrants, seeing the opportunities opening in the revitalised pig industry, will come to take their place. A new wave of investment will lead to modern grower sheds being built close to abattoir and feed mill and servicing breeder farms from more remote and isolated regions.

### **Has the industry suffered serious injury in the past 12 months?**

Clearly I believe it has. SOCOM Pty Ltd while a low cost producer, with considerable economies of scale compared to smaller producers, still suffered losses for a considerable part of 1998. I realise that if we were losing \$3000/week for four months (15-20c /kg) then most producers at that time would have been losing 60-70c /kg.

Furthermore, they would have been losing money long before we were even aware a problem existed and long after we were back in the black.

**What was the cause of the rise in Canadian imports?**

I believe the cause of excessive importation of Canadian of leg meat over the last period was due to a miscalculation by the processing sector as to the amount needed to maintain a sensible price within the local market. Everyone knew that too high a price was one the way and each processor independently arranged his or her own Canadian imports. Unfortunately the quantity imported was too great and unless a coordinated industry approach to imports is adopted we will repeat this catastrophe. I am suggesting that the reason for excessive imports is the lack of coordination and cooperation between processors and producers. The sad fact is that if there was cooperation much of the problem could have been avoided.

**How should the productivity commission respond?**

I am sure that any action taken by the commission should not jeopardise the long-term viability of producers like SOCOM Pty Ltd.

I do not want to see tariffs and/or quotas used at this or any other time. They will simply make the exportation of pork more difficult and I am sure I do not need to lecture the commissioner on this matter. With Australia on the threshold of developing its own export sector it will long regret any tariff action.

I want to see non- tariff assistance given to help assist the process of restructuring the pork industry to help it achieve the potential comparative advantage I believe I have shown that it has.

I believe the productivity commission should provide some real assistance to the industry in the following forms

- It should set up structures to facilitate discussion and cooperation between processors, producers and government in regard to an industry plan.
- It should set up structures to encourage cooperation between processors and processors in regard to amounts of imported product to keep Australian pork prices stable for all sectors in the industry.
- It should continue to breakdown tariff barriers and protectionism to other sectors of the Australian industry so that the efficient are not forced to support the inefficient. (Eg I should be able to buy all my steel and others building products at the world price so I can compete on building costs.)
- It should arrange with the feed supply industries that the pig industry be able to buy at the same price the pig industry can obtain their requirements overseas if the grain industry is to maintain its

quarantine embargo. I cannot see a reasonable reason for the grain industry to reject this proposition.

Finally I would like to remind the commissioner of my belief that the Australian pig industry has a huge potential comparative advantage, along with USA and Canada, over the rest of the world. To realise that potential advantage will require a rapid restructuring of the industry. If you were to impose tariffs I believe you would slow the rate of change to such a pace that we might fall so far behind the Canadians and Americans that we will never recover. You must use your brief to help bring rapid restructuring and sanity to the importation dilemma. Perhaps the ideas I have put together will help.

Yours truly,

Greg Ludvigsen