

Tasmanian Island Pork Alliance Inc
Submission to Productivity Commission
Inquiry into Bass Strait Freight Arrangements.
June 2006

1. CURRENT TASMANIAN SITUATION

Improved transport between Tasmania and the mainland has facilitated freer importation of meat and processed products from both interstate and overseas. It has also assisted the movements of live pigs for slaughter, both into the state and occasionally to the mainland. This free trade has meant that national and international markets now more directly affect Tasmanian pig producers.

With the collapse of the publicly listed processing and smallgoods operation Blue Ribbon Meats in 2002, a series of fundamental changes occurred in the Tasmanian industry.

Blue Ribbon is now a specialised smallgoods profit centre owned by the Australian Food Group, trading on the goodwill of the well established "Blue Ribbon" brand. Blue Ribbon now imports raw product for further processing from its associated abattoir and processing business Perfect Pork at Altona in Melbourne and from international suppliers.

With the demise of Blue Ribbon, the majority of local pig production has shifted to the provision of fresh pork for the local fresh market and limited heavier bacon pigs for smaller specialised smallgoods operations.

Australian fresh pigmeat consumption has increased from 9.4 Kgs per head to 9.85 Kgs per head in April 2006 (Australian Pork Limited). Consumption of fresh pork in Tasmania appears to be following this national trend and although supporting local production at present, supermarkets regularly import primals from interstate to top up stock and to provide product for special promotions.

South Pork is the major pigmeat wholesaler in the state. South Pork services butchers, smallgoods operators and supermarkets and provides top up supplies to other meat wholesalers. South Pork imports live pigs for slaughter from mainland livestock markets to supplement supply.

Centralised purchasing systems operated by Woolworths particularly have resulted in Tasmanian processed products coming under greater competition from mainland product as central purchasing officers set prices which, according to Tasmanian processors, they are unable to match because of higher production and input costs in Tasmania. Improved transport and logistics across Bass Strait have made mainland product more competitive in Tasmanian markets.

Smaller specialised smallgoods processors 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 quality and niche markets, both in Tasmania and interstate, where improved freight services have increased access to mainland markets.

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

2. NUMBER OF UNITS AND SOW NUMBERS

The structure of the Tasmanian pig industry is a reflection of other state or national industry structures with the 80:20 rule applying; approximately 80% of the production from 20% of the producers. According to the 2004 ABS Ag census there were 2,137 sows in Tasmania. Anecdotal evidence from TIPA members estimates that the figure is now around 2600 sows, many on smaller (less than 50 sows) part time units. There are currently around 30 herds of varying commercial scale and operation in the state. Nationally, Australian Pork Limited's (APL) Australian Pig Annual reports 318,000 sows on 1,999 herds in 2004.

Currently, there is a group of 10 specialist professional producers in the state that run approximately 2000 sows. There is a second group of 11 units that are either smaller family businesses in development or are run in conjunction with other enterprises or off-farm activities. 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.

3. VALUE OF PRODUCTION AND EMPLOYMENT

DPIW slaughter figures collected from all abattoirs report a total of 46,653 pigs slaughtered for the 12 months May 2005-April 2006. Assuming 46,500 of these are pork and bacon pigs (the balance being cull sows), with an average carcase weight of 57 kg (ABS) and an average farmgate price/kg of \$3 the farmgate gross value of production for the 12 months May 2005 – April 2006 was \$8 million.

These figures are summarised in Table 1.

Table 1
Value of Pig Production (May 2005- April 2006)

Pigs produced	Av dead wt	Av \$/kg	Gross value of production	Av value/pig
46,500	57 kg	\$3	\$8 million	\$171.26

It is estimated that there are between 50 and 55 full time equivalent (FTE's) employed directly on farms. Approximately 35 people are employed full time together with another 25–30 FTE's deriving part time income from pig production.

Using a conservative multiplier of 3:1 to estimate further supply chain employment, there are likely to be around 150 additional jobs dependent on the Tasmanian pig industry in ancillary industries such as transport, feed milling and feed services, grain production and supply, building services and maintenance, abattoirs, saleyards, animal health, consultancy services, meat processing, smallgoods production and wholesaling and retailing.

4. PROFITABILITY

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

The industry is currently receiving around \$2.60/kg dead weight (\$195/75kg unit) for heavy bacon pigs and around \$3.10/kg dead weight (\$167/54kg unit) for pork pigs.

Margins over feed costs are approximately \$60 for pork pigs and \$80 for bacon pigs. Fixed and overhead costs are then deducted to produce net margins. The level of profitability will depend on the fixed cost structure of the business, variations in feed costs and productivity levels.

Feed is the major cost of pig production. Australian Pork Limited estimates that feed costs, including all ingredients account for approximately 65% - 75% of the total cost of on farm production of pig meat, depending on grain prices.

Diet ingredients for pigs are grain, protein meals and legumes (85%-90% of total ingredients) with only minor ingredients such as meat meal, vitamins and mineral supplements, synthetic amino acids and fats or oils used to complete the nutritional balance required to maximise efficient production.

Farmers now have access to sophisticated nutritional services to provide the appropriate diets for the pig's stage of production or growth. Producers may use 4 or 5 diets to meet nutritional requirements for the growth stages of the pig's life. Adult stock are fed separate diets for boars and dry sows and for sow lactation.

Feed costs, and consequently total production costs, are therefore highly sensitive to changes to grain and legumes prices.

Based on the figures above for the number and weight of pigs, the amount of pig feed utilised in the state was approximately 12,600 tonnes for the period. Assuming an inclusion rate of 85% grain/legume/protein meals, the amount of grain/legume/protein meal included in this amount of feed is estimated to be 10,750 tonnes. Local grain inclusion in pig diets is limited because of variable milling quality due to the late harvest conditions experienced in Tasmania. It is therefore estimated that 75% of Tasmania's pig feed grains are imported, approximately 8,000 tonnes.

Assuming that these ingredients are imported in containers attracting Tasmanian Freight Equalisation Scheme (TFES) freight support of \$855/6.1m container (TEU) and the loading is 24 tonne/TEU, (\$36/tonne of grain) the value of this assistance to the Tasmanian pig industry is calculated to be \$286,750. This is the equivalent of \$6.17 per pig produced or, 11 cents/kg DW (57kg average carcase weight (ABS)).

These figures are summarised in the Table 2.

Table 2
Value of TFES assistance

Total Feed Usage	Total Grain Content (85%)	Imported Content (75%)	Freight Assistance (\$36/T)	Assistance /pig	Assistance /kg	% of av. value of pig
12,600 tonnes	10,750 tonnes	8,000 tonnes	\$286,750	\$6.17	11 cents	3.6%

Feed grain prices vary significantly regionally across Australia, depending on seasonal conditions and local demand. However without this level of support, the Tasmanian industry would not be viable and would be vulnerable to competition from increased product from the mainland and from subsidised imported product solely because of our island status.

5. SUBMISSION

TIPA therefore submits that the current levels of Bass Strait freight support be continued to assist the continuing viability of the Tasmanian pig industry and the industries and employment that is dependent upon it.

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

Tasmanian pig producers do not have the capability to re-freight any product to the mainland thereby potentially increasing container use efficiency. Producers carry the full cost of container usage and therefore require the current level of support.

Because Tasmania is an island, there are no alternative freight systems for grain products, for example by rail or road. The level of handling at ports introduces an additional cost element to the provision of production inputs, in this case feed inputs, that imposes a cost disadvantage when compared with mainland producers.

The grain supply chain to Tasmania is relatively inflexible. Tasmanian producers are at a disadvantage compared with mainland producers who have access to grain spot markets and so can take advantage of seasonal or regional price opportunities. This lack of flexibility supports the need to continue the current schemes at the existing levels of support.

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

The current schemes, TFES and Tasmanian Wheat Freight Scheme (TWFS), are not sufficiently transparent for those not specialising in freight logistics and who are not regularly making claims. The majority of producers, the major beneficiaries of the scheme, understand the principles of the scheme but not the details or terminology. The schemes therefore need to become more transparent and have a simpler basis for calculation.

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